CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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January 10, 2014

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: January 15, 2014 Budget and Finance Committee Meeting

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Item 1 **File 13-1193** *(Continued from January 8, 2014)*	**Departments:** Real Estate War Memorial

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution authorizes the sale of up to 1,100,000 gross square feet of Transferable Development Rights (TDR) from the War Memorial Complex at no less than $25 per square foot, in accordance with City Planning Code 128.

Key Points

- Under Planning Code Section 128, owners of historic buildings located in C-3 Zoning Districts may ask the Planning Department to certify their unused potential, known as transferable development rights (TDR). Once certified, the TDR units may then be transferred via a sale to another property in any other C-3 District. Each TDR is equal to one square foot of floor area.
- The revenue generated from the TDR sale must be used to rehabilitate the historic building according to the U.S. Secretary of the Interior's Standards for Treatment of Historic Properties.
- On July 1, 2013, the City began renovation of the War Memorial Veterans Building, including seismic upgrades, accessibility, life safety and building code improvements, and replacement or improvements to building systems, at a current projected budget of $154.3 million.

Fiscal Impacts

- A March 2013 appraisal by Carneghi-Blum & Partners, Inc. of TDRs at the War Memorial Veterans Building determined a market value of $24 per square foot. The proposed resolution authorizes the Real Estate Division to sell TDRs for not less than $25 per square foot, or $1 more than the recent appraisal based on more recent market activity.
- Assuming sale of all 1,100,000 at $25 per square foot results in total revenues of $27,500,000.
- Staff administrative costs of $10,000 and $25,000 per transaction, and title company fees of $3,000 per transaction, are estimated based on number of transactions and level of complexity.
- Net proceeds from the sale of up to 1,100,000 TDRs would be used for the War Memorial renovation project, which is currently projected to have a $14.5 million funding shortfall.

Policy Considerations

- Given that this would be only the second offering of public TDRs, amend the proposed resolution for the Director of Property to submit a future resolution to the Board of Supervisors reauthorizing such TDR sales upon reaching sales of 550,000 gross square feet of TDRs.

Recommendations

- Amend the proposed resolution on page 2, line 20 to add (iii) the Director of Property shall submit enabling legislation to the Board of Supervisors to reauthorize such TDR sales immediately upon reaching sales of 550,000 gross square feet (such legislation to adjust the minimum sales price of TDRs as necessary).
- Approve the proposed resolution as amended.

MANDATE STATEMENT AND BACKGROUND

Mandate Statement

According to Charter Section 9.118(c), the sale or other transfer of real property owned by the City and County of San Francisco shall first be approved by resolution of the Board of Supervisors. In addition, Planning Code Section 128 specifies the definitions, requirements and procedures for determining and cancelling Transfer of Development Rights (TDR) as well as the preservation, rehabilitation and maintenance requirements.

Background

In the mid-1980s, the City established the Transfer of Development Rights program to allow the sale of unused development potential from preservation properties to development properties. The goal was to generate income for the maintenance and preservation of historic buildings, while allowing new developments to build higher. Under Planning Code Section 128, owners of historic buildings located in C-3 Zoning Districts[1] may ask the Planning Department to certify their unused potential, known as transferable development rights (TDR).

Once certified, the TDR units may then be transferred via a sale to another property in any other C-3 District. As of 2007, TDRs may also be transferred from any lot zoned P (public), provided that the other conditions for transfer outlined in Section 128(a)(4) are met. The revenue generated from the TDR sale must be used to rehabilitate the historic building according to the U.S. Secretary of the Interior's Standards for Treatment of Historic Properties.

Each TDR unit is equal to one square foot of gross floor area. To calculate the TDR available from a preservation property, the difference between the building's existing floor area ratio (FAR) and that allowed under zoning limits is determined. Attachment I to this report, provided by Mr. John Updike, Director of Real Estate, graphically depicts how the unused development rights from a landmarked building would be transferred for use by another development parcel. Development properties may obtain TDR to build beyond what is allowed under FAR limits and up to zoned height limits. They may not, however, use TDR to exceed or disregard height, bulk, and setback limits, sunlight access requirements, or other restrictions.

Based on a recent study[2], the City has certified approximately 5.3 million square feet of TDR originating from 112 buildings downtown. Of the total certified TDRs, approximately 2.8 million square feet has been used for 34 projects, leaving a remaining balance of approximately 2.5

[1] C-3 Zoning Districts are defined as downtown commercial districts and include Support (S), General (G), Office (O) or Retail (R) uses. In accordance with Section 128 of the Planning Code, any C-3 District parcel may be the recipient parcels for a TDR transaction.

[2] San Francisco's Transfer of Development Rights Program report dated June, 2013, completed by the Seifel Consulting Inc. and C.H. Elliott & Associates for the San Francisco Planning Department.

million square feet. The average amount of TDR used on each receiving site is 84,000 square feet, with half of the parcels requiring less than 40,000 square feet.

Average annual demand for TDR since the program's inception in 1985 has been approximately 100,000 square feet. However, the demand for TDRs generally varies with market conditions and the development cycle, such that when development is active, TDRs tend to be in greatest demand. An estimated total of 1.3 million TDR square feet is needed for projects that are currently in the development pipeline. Mr. Updike also notes that the market conditions are very favorable now given the current real estate market.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the Director of Real Estate to:

(1) sell up to 1,100,000 gross square feet of Transferable Development Rights (TDR) from the War Memorial Complex, at no less than $25 per square foot,

(2) execute and record the Certificates of Transfer and negotiate and execute the related agreements as necessary,

(3) make sure the agreements are acceptable to the Managing Director of the War Memorial,

(4) place funds from the sale of the TDRs into an account solely for the rehabilitation and restoration of the War Memorial Complex in accordance with the Secretary of the Interior's Standards,

(5) take such additional actions as may be necessary to effectuate one or more TDR transfers in accordance with Planning Code Section 128, and

(6) report to the Capital Planning Committee and the Board of Supervisors' Budget and Finance Committee at the end of each quarter on the results of the sales of City-owned TDRs.

War Memorial Complex

The San Francisco War Memorial complex includes two buildings, the War Memorial Opera House and the War Memorial Veterans Building at 301 and 401 Van Ness Avenue respectively, and the adjoining outdoor Memorial Court, all of which were completed in 1932. The complex is designated as both a City Landmark and State Landmark.

The War Memorial is a charitable trust department, in which the Board of Trustees has exclusive charge over its assets. In 2007, the Board of Trustees approved a resolution, authorizing the Director of Real Estate to obtain City Zoning Administrator approval for the transferable development rights of the War Memorial complex.

According to the Board of Trustees resolution, the Director of Real Estate, with approval from the Managing Director of the War Memorial, could negotiate and award agreements for the sale of TDR for the War Memorial complex. Proceeds from the sale, net of transaction costs, are to be deposited into a segregated, interest-bearing account solely for use by the War Memorial, subject to appropriation approval by the Board of Supervisors.

War Memorial Veterans Building Project

The City has begun renovation of the War Memorial Veterans Building, including seismic upgrades, accessibility, life safety and building code improvements, and replacement or improvements to building systems. The construction of the Veterans Building improvements began on July 1, 2013 and is scheduled to be completed by July 2015.

Total construction costs are currently estimated at approximately $104 million. The total War Memorial Seismic Upgrade and Improvement Project current projected budget is $154.3 million, which includes project management, designs and permits; construction costs; hazardous material abatement; relocation costs for existing tenants; and interest and debt service reserves. The funding sources for the War Memorial Seismic Upgrade and Improvement Project include: (a) $132,455,590 from Certificates of Participation proceeds[3]; (b) $6,300,000 of War Memorial Department capital funds; and (c) $1,000,000 of Arts Commission capital funds, as summarized in Attachment II to this report.

FISCAL IMPACTS

Amount of TDRs Available

To determine the available TDRs, the difference between the building's existing floor area ratio and the amount of square footage allowed under zoning limits is calculated. Mr. Updike advises that the TDR available at the War Memorial is estimated to be 1,222,280 square feet. However, Mr. Updike notes that the Planning Department has just begun the formal certification of the total TDR available at the War Memorial, which is anticipated to be completed by February 1, 2014. Mr. Updike advises that the proposed resolution would sell up to 1,100,000 square feet of TDR, or 122,280 square feet less than the current estimated total available, in order to leave some margin for error and allow the War Memorial some modest expansion potential for future improvements.

Fair Market Value for TDR

The Real Estate Division authorized an appraisal, which was conducted in March 2013 by Carneghi-Blum & Partners, Inc., a private real estate appraisal firm, of the market value price per square foot of the TDRs at the War Memorial Veterans Building. Mr. Updike advises that this appraisal was commissioned for a specific request to transfer 151,545 square feet of TDR from the War Memorial for use by the Transbay Tower. Mr. Updike notes that this transfer of TDR from the War Memorial did not occur because the Transbay Tower selected two private sector sellers who could complete their TDR transactions more quickly than the City.

According to this March 2013 appraisal, between 2000 and 2012, the market value of TDRs generally fluctuated between $18 and $38 per square foot, with such pricing reflecting both the available supply and demand to purchase TDRs, which generally reflect real estate and economic development demands. This appraisal found that the March 15, 2013 market value[4]

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[3] As approved by the Board of Supervisors on July 26, 2011 (Ordinance 149-11).
[4] Market value is defined as the most probable price which the property should bring in a competitive and open sale.

of the 151,454 square feet of TDR at the War Memorial Veterans Building was $24 per square foot or a total value of approximately $3,640,000.

Sale of TDRs

Although the March 2013 market value appraisal was for $24 per square foot, the proposed resolution authorizes the Real Estate Division to sell up to 1,100,000 square feet of TDRs for not less than $25 per square foot, or $1 more than the recent appraisal. Mr. Updike advises that the proposed minimum of $25 per square foot is based on more recent discussions with real estate brokers and is reflective of recent market activity. Assuming sale of all 1,100,000 square feet at $25 per square foot would result in total revenues of $27,500,000.

However, Mr. Updike advises that the proposed sale of the War Memorial TDRs would likely be conducted on a rolling basis, of first come-first served, such that there are likely to be various purchasers of the 1,100,000 TDRs over a period of several years. According to Mr. Updike, due to the nature of the market, a party offering to sell TDRs must wait for prospective developers to approach the City with a desire to purchase these TDRs. Mr. Updike notes that he has had inquiries regarding the proposed TDRs, but cannot comment on the specifics at this time.

Mr. Updike notes that the Real Estate Division will monitor the TDR market and at appropriate times over the next several years, will secure additional appraisals of the TDR market to ensure that the City is securing a fair market price for any remaining balance of TDR square footage. Mr. Updike estimates that occasional appraisals over the next two to three years will cost approximately $15,000.

Administrative Costs of TDRs

The City's administrative costs to execute and complete the TDR sales transactions would be deducted from the gross revenues received. Mr. Updike anticipates City staff costs to negotiate each TDR transaction of between $10,000 and $25,000, depending on how many transactions are required to exhaust the 1,100,000 square feet of TDRs at the War Memorial, and the level of complexity of each transaction. In addition, Mr. Updike estimates that the title company costs will be approximately $3,000 per transaction. Mr. Updike advises that the Real Estate Division anticipates using a boilerplate sales agreement to limit the legal transaction costs to execute and record the TDR certificates of transfer and negotiate and execute the related agreements.

Given that the number of transactions cannot be specified at this time, the total administrative costs to sell all 1,100,000 TDRs cannot be estimated. In addition, the timing for sale of all 1,100,000 cannot be determined. Therefore, the timing for the receipt of all of the TDR sale proceeds and the total net proceeds to be realized by the War Memorial cannot be calculated at this time.

Use of TDR Revenues

Under the proposed resolution, the net proceeds from the sale of up to 1,100,000 TDR by the War Memorial would be used solely for the rehabilitation and restoration of the War Memorial Complex, which may include payment of debt service, in accordance with the Secretary of the Interior Standards. According to Ms. Beth Murray, the Managing Director of the War Memorial and Performing Arts Center, and as summarized in the War Memorial Budget Status Report included as Attachment II to this report, the current projected costs for the War Memorial renovation project of approximately $154.3 million is approximately $14.5 million greater than the current budgeted funding sources totaling $139.8 million. Ms. Murray advises that the projected $14.5 million deficit is primarily due to higher construction bids than anticipated and the potential need for a higher 18% contingency due to the complexity of the seismic upgrades and historic restoration. Ms. Murray advises that the net revenues received from the proposed TDR sales would be used to address the shortfall in the War Memorial capital improvement project. Appropriation of all revenues received from the sale of such TDRs would be subject to appropriation approval by the Board of Supervisors.

POLICY CONSIDERATION

The proposed resolution would authorize the Director of the Real Estate Division to negotiate, execute and record the necessary documents for the sale of up to 1,100,000 square feet of TDR from the War Memorial Complex over several years, at a sales price of at least $25 per square feet, without subsequent Board of Supervisors approval. All revenues from the sales, less the administrative and transaction costs, would be placed in a separate account to be used to fund the shortfall to rehabilitate and restore the War Memorial Complex, subject to Board of Supervisors appropriation approval. However, the actual price of each TDR sale is not currently known, the specified developers and/or parcels for the sale to be transferred have not been identified and the total value of the sale and the related administrative costs are not currently known such that the net value of the transactions cannot be estimated at this time.

Under the proposed resolution, the Director of the Real Estate Division would be required to report to the Capital Planning Committee (CPC) and the Board of Supervisors' Budget and Finance Committee at the end of each quarter on the results of the sales of City-owned TDRs. In accordance with the proposed resolution, if no TDR sales occurred in the previous quarter, then this quarterly reporting requirement would be waived.

In addition to the proposed sale of up to 1,100,000 square feet of TDR from the War Memorial Complex, Mr. Updike advises that the Real Estate Division has identified approximately 2,500,000 square feet of TDRs that may potentially be available, or a total of approximately 3,600,000 square feet of TDRs. Such additional TDRs are potentially available from City Hall, Asian Art Museum, Bill Graham Auditorium and 101 Grove Street (Public Health Building).

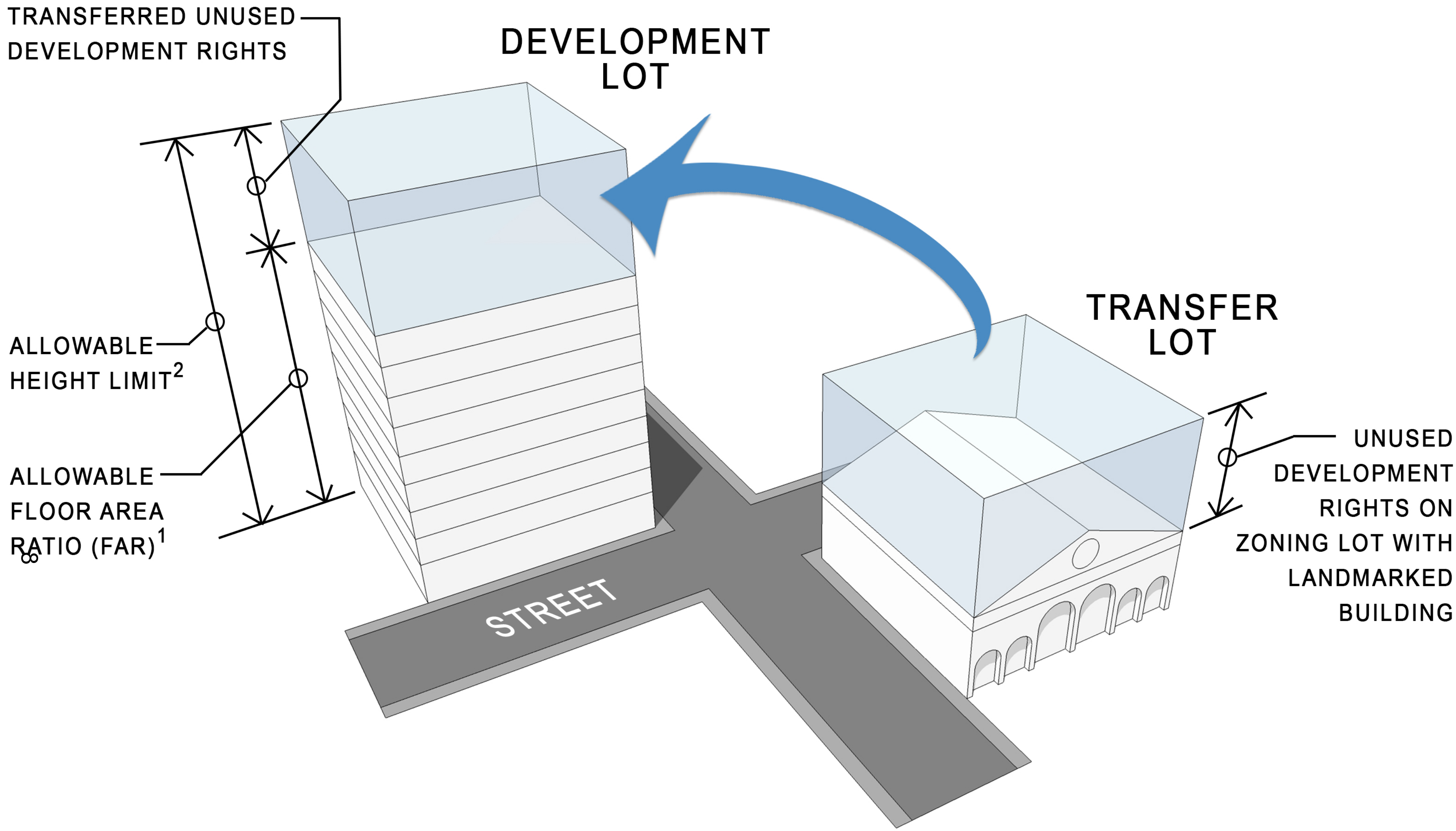
Given that this would be the second[5] offering of such public TDRs, the Budget and Legislative Analyst recommends that the proposed resolution be amended to require the Director of Property to submit a future resolution to the Board of Supervisors reauthorizing such TDR sales immediately upon reaching projected sales of 550,000 gross square feet of TDRs. This amendment would enable the Board of Supervisors to review and analyze the history of the TDR sales and potentially adjust the minimum sales price of TDRs once the City has experience in initially selling 550,000 square feet, or approximately one-half of the available TDRs from the War Memorial. At the same time, the proposed amendment would enable the full certification of the requested up to 1,100,000 TDRs and provide sufficient capacity of 550,000 square feet of TDRs to be sold at a minimum of $25 per square foot to provide immediate revenues for the War Memorial Complex capital improvement project. Mr. Updike concurs with the proposed recommendation.

RECOMMENDATIONS

1. Amend the proposed resolution on page 2, line 20 to add (iii) the Director of Property shall submit enabling legislation to the Board of Supervisors to reauthorize such TDR sales immediately upon reaching sales of 550,000 gross square feet (such legislation to adjust the minimum sales price of TDRs as necessary).
2. Approve the proposed resolution as amended.

[5] The first City offering of TDRs occurred in the early 2000s when Continental Development Corporation San Francisco LLC (CDC) approached the City about purchasing TDRs from the Old Mint property for development of the InterContinental San Francisco Hotel. This offering resulted in the modification of the City's Planning Code to make Public (P) zoned lots eligible to transfer TDRs. In 2003, the City certified 267,728 TDRs from the Old Mint and in 2005 CDC bought 253,195 TDRs at $5.51 per TDR, for $1,395,000. This $5.51 per TDR sales price from the Old Mint is the lowest known sales price for TDRs. The remaining 14,533 TDRs were sold for $18 per TDR or $261,954. The TDR sale proceeds totaling $1.7 million are a revenue source to rehabilitate and restore the Old Mint.

Attachment I



TRANSFER OF UNUSED DEVELOPMENT POTENTIAL

SAN FRANCISCO TRANSFER OF DEVELOPMENT RIGHTS (TDR) PROGRAM

1: FLOOR AREA RATIO (FAR) IS THE RATIO OF A BUILDING'S MAXIMUM AREA POTENTIAL TO THE SIZE OF THE SITE IT IS BUILT ON. FOR EXAMPLE, AN FAR OF 5 ON A 10,000 SF SITE LIMITS DEVELOPMENT TO A 50,000 SF BUILDING ON THIS SITE.

2: HEIGHT, BULK, SETBACK, SUNLIGHT ACCESS, SEPARATION BETWEEN TOWERS, OR ANY OTHER RULES OR LIMITATIONS APPLICABLE TO THE DEVELOPMENT LOT REMAIN UNCHANGED.

WAR MEMORIAL VETERANS BUILDING SEISMIC UPGRADE & IMPROVEMENTS

Budget Status Report - November 14, 2013

Description	CCSF-COPs	War Memorial	SF Arts Commission	TOTAL BUDGET	Current Projection	Variance
Construction	$ 91,018,571					
Hazardous Materials Abatement	1,650,000					
Construction Total	$ 92,668,571	$ 4,666,447	$ 892,240	$ 98,227,258	$ 103,984,866	$ (5,757,608)
Construction Contingency	9,422,229	466,643	90,000	9,978,872	18,717,276	(8,738,404)
CM/GC Contingency	1,820,371	93,329	17,760	1,931,460	1,931,460	-
Soft Costs (A/E, Design, Project Management)	25,663,829	603,581	-	26,267,410	26,267,410	-
Post-Construction Site Work	500,000	-	-	500,000	500,000	-
Relocation	1,225,000	-	-	1,225,000	1,225,000	-
Fixtures/Furnishings & Equipment	-	470,000	-	470,000	470,000	-
Finance Costs	1,155,590	-	-	1,155,590	1,155,590	-
TOTAL PROJECT BUDGET	**$ 132,455,590**	**$ 6,300,000**	**$ 1,000,000**	**$ 139,755,590**	**$ 154,251,602**	**$ (14,496,012)**

Items 3 and 4 **Files 13-1230 and 13-1231**	**Department:** Port

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution (File 13-1230) would approve a new 58-month lease (Port Commission Lease No. L-15690), with options to extend an additional 60 months, with Affordable Self Storage, Inc. for 74,742 square feet of paved vacant land located within Seawall Lot 349 in the Southern Waterfront at an initial monthly rent of $24,665.
- The proposed resolution (File 13-1231) would approve a new 31-month lease (Port Commission Lease No. L-15691) with Affordable Self Storage, Inc. for 144,818 square feet of paved vacant land located within Seawall Lot 349 in the Southern Waterfront.

Key Points

- The Port previously entered into two leases (Lease Nos. 12867 and 12871) with Affordable Self Storage Inc. to provide 116,099 square feet of storage facilities for the public on vacant Port property at the southeast corner of 20th and Illinois Streets. The Port also entered into two separate agreements (License-14092 and Lease-14574) with Affordable Self Storage to provide 28,000 square feet of trailer storage and parking for trucks, buses and trailers at Pier 70, which were terminated on November 30, 2013 and replaced with a month-to-month license agreement (L-15753) for trailer storage and parking.
- As a result of the phasing requirements of the Pier 70 Development Project, all three of the existing Port agreements with Affordable Self Storage would terminate upon approval of the two leases that are the subject of the proposed two resolutions.

Fiscal Impacts

- From 2000 through January 31, 2014, Affordable Self Storage paid the Port $4,460,753 in rent, including annual rent payments of $413,368 in 2013.
- Under the initial terms of the proposed two leases, the Port would receive total rent of $2,911,540. During the first year of the new leases, the Port would receive total rent of $747,584, an increase of $334,216 or approximately 81% from 2013 rent payments.

Policy Considerations

- There was not a competitive bid for either of the proposed leases because such bids were impractical and may have resulted in less revenue than the proposed leases due primarily to the Pier 70 development phasing and the need for shorter-term leases that provide for termination at the Port’s option. Furthermore, the proposed rental rates are consistent with Port FY 2013-14 rates.

Recommendation

- Approve the two proposed resolutions (Files 13-1230 and 13-1231).

MANDATE STATEMENT

City Charter Section 9.118(c) requires that any lease that has a term of ten years or more, including options to extend, or that has anticipated revenues of $1 million or more be subject to Board of Supervisors approval.

BACKGROUND

Existing Leases and Licenses between the Port and Affordable Self Storage

The Port entered into two leases (Lease Nos. 12867 and 12871) with Affordable Self Storage Inc. to provide storage facilities for the public on vacant Port property at the southeast corner of 20th and Illinois Streets (901 Illinois Street), as shown in the attached aerial map, for an initial five-year period from March of 2000 through February 2005. Since March 1, 2005, these two Port leases have continued on a month-to-month hold-over basis. As shown in Table 1 below, under these two leases, Affordable Self Storage Inc. currently pays the Port $0.22 per square foot per month for a total of 116,099 square feet (75,263 plus 40,836), for a total of $305,051 annually ($199,694 plus $105,357).

Table 1: Recent Port leases and license agreements with Affordable Self Storage

Reference	Location	Effective Date	Termination Date	Square Feet	Monthly Rent Paid to Port (per square ft./month)	Annual Rent
L-12867	901 Illinois at 20th Street	3/1/2000	Ongoing	75,263	$16,641 ($0.22/sf)	$199,694
L-12871	901 Illinois at 20th Street	1/1/2001	Ongoing	40,836	$8,780 ($0.22/sf)	$105,357
L-14092	Pier 70 (SWL 349)	3/1/2006	11/30/2013	8,000 land; 1,638 office	$3,156 ($0.20/sf land; $0.95/sf office)	$37,873
L-14574	Pier 70 (SWL 349)	8/8/2008	11/30/2013	20,000	$5,800 ($0.29/sf)	$69,600
L-15753	Pier 70 (SWL 349)	12/1/2013	Estimated 1/31/2014	28,000	$9,800 ($0.35/sf)	Not Applicable

In addition, as shown in Table 1 above, in 2006 and 2008, the Port entered into two separate agreements (License-14092 and Lease-14574) with Affordable Self Storage for a total of 28,000 square feet of paved vacant land on Pier 70 (Seawall Lot 349) to provide trailer storage and parking for trucks, buses and tractor trailers, as well as 1,638 square feet of office space in the adjacent Noonan Building. Both of these agreements were terminated as of November 30, 2013 and replaced with one month-to-month license agreement (L-15753) for a total of 28,000 square feet of paved vacant land for trailer storage and parking for various trucks. The 1,638 square feet of office space was not included in this month-to-month existing license agreement. This month-to-month existing license agreement is estimated to terminate on January 31, 2014, with the commencement of the proposed two leases that are the subject of the proposed two resolutions. Table 1 above summarizes the rents paid to the Port under each of these previous and current lease and license agreements.

Pier 70 Development Project

The Pier 70 Development Project would be a 69-acre mixed-use development between the Southern Waterfront and Mariposa, Illinois and 22nd Streets that includes commercial office, retail, arts, and residential uses, as well as seven acres of open space and three parking facilities. Forest City Development California, Inc. was selected through a competitive process and has entered an exclusive negotiating agreement with the Port to complete this project. The Pier 70 Development Project would be completed in four phases over multiple years.

According to Mr. Brad Benson, the Port's Special Projects Manager, as a result of the phasing requirements of the Pier 70 Development Project, the two existing Affordable Self Storage leases at 901 Illinois Street cannot be renewed, as the Illinois Street location at 20th Street is planned to be competitively bid in the near future to provide upfront pre-development proceeds for Forest City, the Pier 70 developer, and for temporary vehicle parking.

Mr. Jerry Romani, Commercial Property Manager at the Port, also advises that as part of the Pier 70 Development Project, the current L-14092 license and L-14574 lease were needed for a new Port vehicle parking lease with San Francisco Honda (SF Honda). This 31-month lease with SF Honda to park vehicles commenced on December 1, 2013 and provides 61,409 square feet of paved vacant land at a monthly rent of $21,493 or $0.35 per square foot per month.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution (File 13-1230) would approve a new 58-month lease (Port Commission Lease No. L-15690), with an option to extend up to an additional 60 months, with Affordable Self Storage, Inc. for approximately 74,742 square feet of paved vacant land located within Seawall Lot 349 in the Southern Waterfront for operation of a storage facility and office trailer, at an initial monthly rent of $24,665.

The proposed resolution (File 13-1231) would approve a new 31-month lease (Port Commission Lease-15691) with Affordable Self Storage, Inc. for approximately 144,818 square feet of paved vacant land located within Seawall Lot 349 in the Southern Waterfront for operation of storage facilities and parking for trucks, buses and tractor trailers at an initial monthly rent of $47,789.

Both of the proposed resolutions authorize the Port's Executive Director to execute these two leases (a) in substantially the form of the lease on file with the Clerk of the Board of Supervisors, and (b) any amendments or modifications that the Executive Director in consultation with the City Attorney determines to be in the best interest of the Port, that do not materially increase the obligations or liabilities of the Port or the City, or materially decrease the public benefits to the Port. On November 12, 2013, the Port Commission approved the proposed two leases between the Port and Affordable Self Storage. Table 2 below summarizes the major provisions in the two proposed leases.

Table 2: Major Provisions of Proposed Leases

	Proposed Lease (L-15690)	**Proposed Lease (L-15691)**
Area	Approximately 74,742 square feet of paved vacant land	Approximately 144,818 square feet of paved vacant land
Use	Operation of a storage facility including temporary placement of portable storage containers, administrative offices and related vehicle parking.	Storage of motorized and non-motorized vehicles, including boats, recreational vehicles, trucks, buses and self-storage containers and an office trailer.
Term	February 1, 2014–November 30, 2018 (58 months; four years, ten months)	February 1, 2014-August 31, 2016 (31 months; two years, seven months)
Options to Extend	Five 12-month options (60 months)	None
Termination Rights	Port can terminate if premises needed for development purposes	Port can terminate if premises needed for development purposes
Initial Monthly Rent **Per Square Foot**	$24,665 per month $0.33 per square foot per month	$47,789 per month $0.33 per square foot per month
Initial One-time Rent Offsets	No rent in first 3 months due to tenant costs to bring utilities to site, complete repairs to surface, fence and lights and to move storage container onto site.	No rent in first month due to tenant costs to bring utilities to site and to complete repairs to surface, fence and lights.
Annual Rent Adjustments	Increase of $0.01 per square foot per month each year	Increase of $0.01 per square foot per month each year
Security Deposit	$55,309	$101,373
Utilities, Maintenance and Repairs	Tenant's sole cost and responsibility	Tenant's sole cost and responsibility

The proposed resolutions state that because there would be no change or substantial intensification of the existing uses or any substantial construction on the premises, the environmental effects of the proposed leases were determined to be exempt from the California Environmental Quality Act (CEQA) by the City Planning Department on August 23, 2013.

FISCAL IMPACTS

Prior Rent Payments

Table 3 below summarizes the annual rent payments made to the Port by Affordable Self Storage Inc. from March 1, 2000 through January 31, 2014, reflecting total payments of $4,460,751 over the past 14 years, including annual 2013 rent payments of $413,368.

Table 3: Annual Rent Payments under the Existing Port Leases and Licenses

Calendar Years	L-12867	L-12871	Lic-14092	L-14574	Lic-15753	Total
2000	$89,412	$0	$0	$0	$0	$89,412
2001	165,355	84,823	0	0	0	250,178
2002	168,419	88,051	0	0	0	256,470
2003	173,635	89,244	0	0	0	262,879
2004	174,862	90,472	0	0	0	265,334
2005	177,218	91,862	0	0	0	269,080
2006	182,001	93,174	29,794	0	0	304,969
2007	187,732	97,889	37,873	0	0	323,494
2008	196,053	100,024	37,873	23,871	0	357,821
2009	195,806	104,948	37,873	62,000	0	400,627
2010	199,108	103,641	37,873	66,800	0	407,422
2011	199,694	104,785	37,873	69,600	0	411,952
2012	199,694	105,357	37,873	69,600	0	412,524
2013	199,694	105,357	34,717	63,800	9,800	413,368
2014*	16,641	8,780	0	0	9,800	35,221
Total	**$2,525,324**	**$1,268,407**	**$291,749**	**$355,671**	**$19,600**	**$4,460,751**

*For January of 2014 only.

Mr. Romani advises that the annual rent payments stayed the same for a number of the last years in the various leases and licenses, shown in Table 3 above because (a) all of the lease and license areas are within a development project area; (b) lease negotiations have been ongoing between the Port and Affordable Self Storage since early 2012 to relocate the tenant to alternate Port property; and (c) the rental rates were within the Port Commission's approved minimum monthly rent schedule through FY 2011-2012, when lease negotiations commenced.

Proposed Rent Payments

Table 4 below shows the projected annual rent payments totaling $2,911,540 to the Port based on the proposed two leases, including $1,440,203 from L-15690 and $1,471,337 from L-15691. If all 60 months to extend L-15690 are exercised, the Port is projected to receive an additional $1,794,048 in annual rent, or a total of $4,705,588, as summarized in Table 4 below.

Table 4: Projected Rent Payments from Affordable Self Storage to the Port

		L-15690		L-15691		
Lease Years	**Monthly Base Rent**	**Proposed Lease Monthly Rent**	**Proposed Lease Annual Rent**	**Proposed Lease Monthly Rent**	**Proposed Lease Annual Rent**	**Total Projected Annual Rent Revenue to the Port from Both Leases**
1	$0.33/sf	$24,665	$221,905**	$47,789	$525,679**	$747,584
2	0.34	25,412	304,944	49,238	590,856	895,800
3	0.35	26,160	313,920	50,686	354,802***	668,722
4	0.36	26,907	322,884			322,884
5	0.37	27,655	276,550***			276,550
Total			**$1,440,203**		**$1,471,337**	**$2,911,540**
6*	0.38	28,402	340,824			340,824
7*	0.39	29,149	349,788			349,788
8*	0.40	29,897	358,764			358,764
9*	0.41	30,664	367,968			367,968
10*	0.42	31,392	376,704			376,704
Total			**$1,794,048**			**$4,705,588**

*Years 6 through 10 reflect the optional lease extension period, solely at the discretion of the Port, and may be offered in periods of four to 12 month extension periods.

**Assumes initial three months of free rent for L-15690 and one month of free rent for L-15691.

***Assumes 31 months for L-15691 such that in Lease Year 3 there would only be seven months of rent and 58 months for L-15690 such that in Lease Year 5 there would only be ten months of rent.

The Port Commission approves minimum monthly rent schedules each fiscal year for various types of leases. In FY 2013-14, the Port Commission approved $0.35 per square foot per month rate for paved vacant land. Mr. Romani notes that the Port applies a five percent discount for land leases that exceed one acre. The proposed Lease-15690 is approximately 1.72 acres and the proposed Lease-15691 is approximately 3.32 acres[1]. Applying a five percent discount to the Port's approved $0.35 per square foot per month rate results in the proposed initial rental rate of $0.33 per square foot per month. As shown in Table 4 above, under the proposed two new leases, the initial $0.33 per square foot per month rental rate would increase by $0.01 per year, a 3% annual increase.

As shown in Table 3 above, in 2013 the Port received total rent payments of $413,368 from Affordable Self Storage. If the proposed two leases are approved, as shown in Table 4 above, the Port would receive total rent payments of $747,584 during the first year of the two new leases, an increase of $334,216 or approximately 81%.

All of the rent revenues received from Affordable Self Storage would be deposited into the Port's Operating Fund, which is used to support the Port's operations, maintenance, debt service and capital needs, subject to appropriation approval by the Board of Supervisors.

POLICY CONSIDERATIONS

Competitive Bid of City Leases

In accordance with Section 23.33 of the City's Administrative Code, it is City policy that all leases expected to produce more than $2,500 per month in revenue be awarded in accordance with the City's competitive bidding procedures, unless such competitive bidding procedures are determined to be impractical or impossible. Furthermore, if a lease is awarded without undertaking a competitive bid, then such leased property cannot be leased for less than the fair market value of the leased property. If any City department wishes to award a lease of City-owned property for less than fair market value, then a finding of the public purpose to be served by such lease must also be made.

Mr. Romani advises that there was no competitive bid for either of the proposed leases because it was impractical and might have resulted in generating less revenue than the proposed leases. According to Mr. Romani, the proposed relocation of Affordable Self Storage from their current Port leased sites at 20th and Illinois (901 Illinois Street) and on Pier 70 is at the Port's request due to the Port's Pier 70 development needs. In addition, the proposed relocation of Affordable Self Storage is to another site on Pier 70 which is slated for significant development in a few years, such that Affordable Storage will be required to vacate the majority of the premises (144,818 square feet for L-15691 or 66% of the total 219,560 square feet of proposed lease space for both L-15690 and L-15691) after 31 months. The remaining

[1] Based on 43,560 square feet in an acre.

lease may be terminated after 58 months, or extended, at the Port's option, depending on the status of the Pier 70 development project. Furthermore, Mr. Romani notes that the proposed rental rates are consistent with Port FY 2013-14 fair market rental rates, and Affordable Self Storage Inc. has been a Port tenant in good standing.

RECOMMENDATION

Approve the two proposed resolutions (Files 13-1230 and 13-1231).

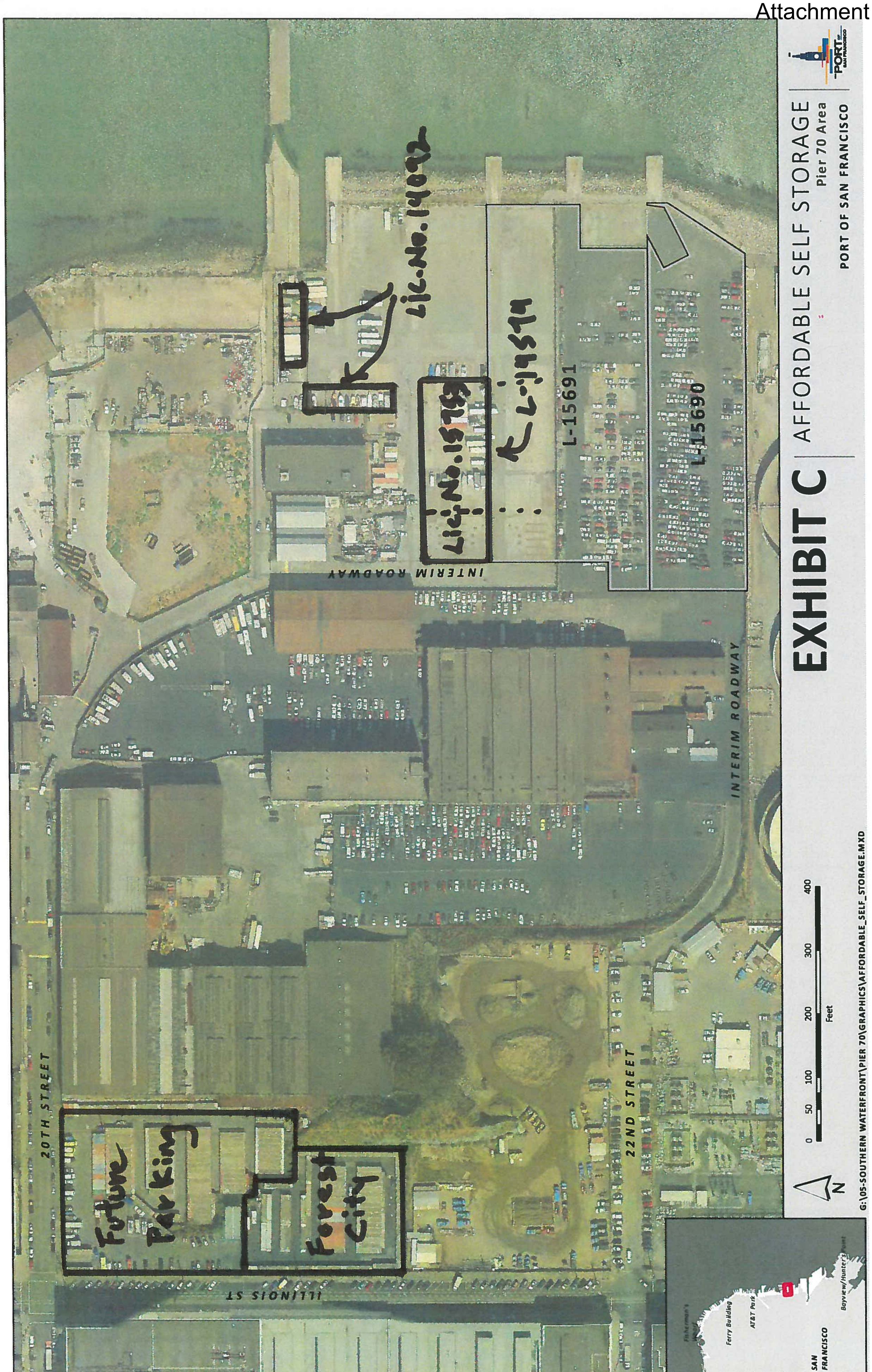


EXHIBIT C
AFFORDABLE SELF STORAGE
Pier 70 Area
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INTERIM ROADWAY
INTERIM ROADWAY
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SAN FRANCISCO
Ferry Building
AT&T Park
Bayview/Hunter's Point

Item 5 **File 13-1218**	**Department:** San Francisco Employees' Retirement System (SFERS)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a lease between the City and 1145 Market St, LP to provide office space for the San Francisco Employees' Retirement System (SFERS) staff for an initial term of 10 years.

Key Points

- The SFERS staff has occupied 23,241 square feet of office space at 30 Van Ness Ave, a City-owned building, since 1999.
- Since 1999, SFERS staff numbers have increased from 61 to 97 budgeted positions and the current space at 30 Van Ness Ave is insufficient to accommodate the number of employees.
- The current leased space also does not provide adequate room to: offer private retirement counseling, conduct retirement seminars to groups greater than 30, or accommodate full public participation in monthly Retirement Board meetings.
- The proposed resolution would approve a new lease for 37,289 square feet of space at 1145 Market Street for SFERS office space, which would accommodate current staff as well as the activities listed above.
- Certain terms and provisions of the proposed lease differ from the draft lease on file with the Board of Supervisors. These terms and provisions will be updated to reflect the terms and provisions in the resolution after approval by the Board of Supervisors.

Fiscal Impact

- The proposed lease includes a first-year rent amount of $1,311,510.31, or $119,228.21 per month for 11 months. Per the provisions of the lease, SFERS will not pay rent in the first month.
- The proposed lease requires that the landlord pay $2,040,335 toward tenant improvements. In addition, the landlord will pay up to $1,112,910, for a total amount of $3,153,245, toward the tenant improvements, which SFERS will reimburse to the landlord in monthly installments over the initial 10-year term of the lease at 8 percent annual interest for a total of $1,620,320.32.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

San Francisco Administrative Code Section 23.27 requires Board of Supervisors approval by resolution for all leases on behalf of the City as tenant.

Background

The San Francisco Employees' Retirement System (SFERS) has occupied 23,241 square feet of space at 30 Van Ness Ave, a City-owned building, since 1999. Mr. John Updike, Director of Real Estate, advises that the current space at 30 Van Ness is insufficient to accommodate:

- Current and future staffing levels: In 1999, when SFERS first moved into the current space at 30 Van Ness Ave, SFERS employed 61.00[1] Full-Time Equivalent (FTE) staff. The FY 2013-14 Annual Salary Ordinance shows that the number of FTE staff increased by 59.8 percent, or 36.46 FTE, from 61.00 in FY 1998-99 to 97.46[2] in FY 2013-14.
- Private retirement counseling: SFERS staff currently conducts retirement counseling in the general working area with little to no privacy for the clients receiving counseling.
- Seminars: SFERS staff currently conducts seminars for clients in the boardroom, which limits the number of attendees to no more than 30.
- Board meetings: The Retirement Board meets in the boardroom, which is not always large enough to accommodate the Board and members of the public.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a ten-year lease between the City (the tenant) and 1145 Market Street, LP (the landlord) for SFERS to lease office space at 1145 Market Street. The lease terms and provisions are shown in Table 1 below.

Table 1: Summary of Lease Terms and Provisions

Term	Ten-years
Premises	37,289 square feet at 1145 Market St
Commencement Date	July 1, 2014
Option to Terminate	At City discretion after July 1, 2017
Option to Extend	One City option to extend the lease by five years
Monthly Rent	$119,228.21
First Year Total Rent (First month abated)	$1,311,510.31
Rent Increase	Three percent annual increase

[1] The 1998-99 Annual Salary Ordinance lists 61.00 permanent staff and 5.19 temporary staff.
[2] The 2013-14 Annual Salary Ordinance lists 97.46 permanent staff and 6.67 temporary staff.

Table 1 above includes the first-year rent amount of $1,311,510.31, which represents 11 months of rent. Per the provisions of the lease, SFERS will not pay first-month rent to the landlord.

The subject lease includes provisions that require the landlord to make tenant improvements. Mr. Updike advises that the tenant improvements will include improvements to: the HVAC system, the electrical system, the fire and life-safety systems, and other improvements to make space usable for the SFERS staff. Additionally, the lease states that the improvements must be up to a LEED Gold standard[3].

Mr. Updike advises that that the proposed 37,289 square feet at 1145 Market St is large enough for SFERS to: accommodate current staffing levels, conduct client retirement counseling in private, offer seminars to 60 people at a time, and to accommodate attendance at Retirement Board meetings.

Lease Will Be Updated After Board Approval

Several of the provisions included in the proposed resolution are different from provisions in the draft lease submitted by the Real Estate Division. Mr. Updike confirms that the provisions of the lease will be updated to reflect the terms and provisions approved by the Board in the proposed resolution. The Budget and Legislative Analyst's report is based on the provisions in the proposed resolution.

FISCAL IMPACT

Rent Payments

Currently, SFERS pays $524,317 in annual rent for the City-owned building at 30 Van Ness Avenue. As shown in Table 2 below, under the proposed lease, SFERS will increase their office space by 60 percent and their rent by 173 percent.

Table 2: Comparison of Current and Proposed Lease

	Current Lease at 30 Van Ness	Proposed Lease at 1145 Market Street	Increase	Percent
Annual Rent	$524,317	$1,430,739	$906,422	173%
Square Feet	23,241	37,289	14,048	60%
Annual Rent/ Square Foot	$22.56	$38.37	$15.81	70%

According to Mr. Updike, the increase in square footage is necessary to accommodate the increase in SFERS staff between 1999 and 2014, and the services provided to SFERS members, as noted above. Additionally, according to Mr. Updike, SFERS pays less than market rate for the

[3] The LEED (Leadership in Energy and Environmental Design) program provides third party verification of the environmental efficiency of buildings, which includes access to public transit, water efficiency, lighting and energy efficiency and other standards.

City-owned building at 30 Van Ness because the City's costs to operate and maintain City owned buildings are less than commercial buildings.

Mr. Updike advises that staff from the Recreation and Park Department (RPD) and the Department of Public Works (DPW) will occupy the space at 30 Van Ness Ave being vacated by SFERS. Currently, the RPD staff share office space with DPW staff at 30 Van Ness Avenue but RPD and DPW require the additional space as new, bond-funded positions are being hired.

The proposed resolution would approve a new ten-year lease between SFERS and 1145 Market Street, LP, in which SFERS will pay to 1145 Market Street, LP, first-year rent of $1,311,510.31, or $119,228 per month for 11 months. Per the provisions of the lease, the rent amount will increase annually by three percent, resulting in total estimated rent paid by SFERS to 1145 Market Street, LP of $16,282,525.51 over the 10-year term of the lease as shown in Table 3 below.

Table 3: Total Rent to be Paid by SFERS to 1145 Market Street, LP
Includes Three Percent Annual Increase

	Monthly Rent	Annual Rent
Year 1 *(11 Months)*	$119,228.21	$1,311,510.31
Year 2	122,805.06	1,473,660.68
Year 3	126,489.21	1,517,870.50
Year 4	130,283.88	1,563,406.61
Year 5	134,192.40	1,610,308.81
Year 6	138,218.17	1,658,618.07
Year 7	142,364.72	1,708,376.62
Year 8	146,635.66	1,759,627.91
Year 9	151,034.73	1,812,416.75
Year 10	$155,565.77	$1,866,789.25
Total Rent to be Paid		**$16,282,585.51**

Tenant Improvement Costs

The estimated costs of tenant improvements under the proposed lease are up to $3,153,245, of which $2,040,335 are the landlord's responsibility and up to $1,112,910 are SFERS responsibility. The estimated costs for the tenant improvements are shown in Table 4 below.

Table 4: Estimated Tenant Improvement Costs

Tenant Improvement	Estimated Cost (Rounded)
HVAC, Electrical, Fire/Life Safety, and General Improvements	$2,200,000
Architect, Engineer, Project Manager, LEED Fees and Permits	300,000
Data and Telecommunication Infrastructure	600,000
Total	**$3,100,000**

Under the proposed lease, the landlord will make all tenant improvements and SFERS will reimburse the landlord for the City's share of tenant improvement costs up to $1,112,910.

These reimbursements will be made over the ten-year term of the lease at 8 percent annual interest. Based on tenant improvement costs of $1,112,910, reimbursable by SFERS to the landlord at 8 percent annual interest, the Budget and Legislative Analyst calculates that SFERS will pay the landlord $1,620,320.32 over the initial 10-year term of the lease. According to Mr. Updike, the Real Estate Division evaluated the use of Certificates of Participation (COPS) to pay for the tenant improvements, rather than reimbursing the landlord for tenant improvements at 8 percent annual interest, but the Controller's Office determined that the use of COPS for this purpose is constrained by City's debt limit. The Real Estate Division also evaluated a one-time budget appropriation but determined that annual payments of $162,032 per year distributed over ten years ($1,620,320 over ten years) was preferable to a one-time, upfront appropriation of $1,112,910.

Mr. Updike advises that the tenant improvements should be completed prior to the lease commencement date of July 1, 2014. As such, SFERS should know the full cost of the tenant improvements as well as the amortized amount to include in the SFERS FY 2014-15 budget subject to Board of Supervisors approval.

Additional Costs

SFERS will also be responsible for the following variable costs:

- 100 percent of the electricity used by SFERS at the premises,
- 115 percent (includes a 15 percent administrative fee) of the cost of lighting and HVAC use on Saturdays,
- 27.5 percent of any annual increase in costs required to operate the building, and
- 27.5 percent of any annual increase in real estate taxes.

POLICY CONSIDERATION

The proposed lease for 1145 Market Street increases the square footage of leased space for SFERS by 60 percent, from 23,241 square feet under lease to 37,289 square feet under the proposed lease, which increases the square footage per employee from 238 square feet to 383 square feet as shown in Table 4 below.

Table 4: Allocated Space per Employee Current vs. Proposed Office Space [1]

	Current Lease at 30 Van Ness	Proposed Lease at 1145 Market Street	Increase	Percent
Total Square Feet	23,241	37,289	14,048	60%
Number of Employees	97.46	97.46	0	0%
Square Feet per Employee	238	383	144	60%

[1] Numbers in the table may not add due to rounding.

Mr. Updike advises that the Real Estate Division works with client departments to achieve a square footage to employee ratio of 250 square feet, but accepts rates as high as 350 square feet. According to Mr. Updike, the Real Estate Division considers 383 square feet per employee at 1145 Market Street to be reasonable because the space will be used for member counseling, seminars and Retirement Board meetings, all of which are space-intensive activities.

Mr. Updike states that DPW and RPD do not currently have sufficient space to accommodate the hire of new bond-funded employees. Mr. Updike advises that allowing DPW and RPD to expand into the space being vacated by SFERS and other available space at 30 Van Ness Avenue will provide sufficient space to accommodate these new employees for DPW and RPD, as shown in Table 5 below.

Table 5: RPD and DPW Office Space Expansion at 30 Van Ness Avenue

Department	Current Employees	Current Square Footage	Current Square Feet per Employee	Proposed Square Footage	Proposed Square Feet per Employee
Recreation and Park	26.00	4,420.00	170.00	7,750.00	298.08
Public Works	327.00	84,000.00	256.88	110,571.00	338.14
Combined	**353.00**	**88,420.00**	**250.48**	**118,321.00**	**335.19**

RECOMMENDATION

Approve the proposed resolution.

Item 6 **File 13-0713**	**Department:** San Francisco Municipal Transportation Agency (SFMTA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve an agreement between the City, on behalf of the SFMTA, and New Flyer of America, Inc. (New Flyer), through assignment from King County, Washington, for the purchase of 60 articulated trolley buses and the associated equipment and spare parts for an amount not to exceed $94,950,444.

Key Points

- Administrative Code Section 21.16 provides that the SFMTA may use the competitive procurement process of another public agency to procure buses, upon making a determination that (a) the other public agency's procurement process was competitive or the result of a sole source award, and (b) is in the best interests of the City. In March of 2011, the SFMTA staff began collaborating with King County Metro Transit's staff in Seattle, Washington to develop specifications for standard and articulated trolley buses.
- Based on a competitive Request for Proposal (RFP) process, King County selected New Flyer and on July 31, 2013, King County entered into an agreement with New Flyer to purchase 141 buses, including 86 standard trolley buses and 55 articulated trolley buses at a total cost of $146,405,255. King County's average cost for the 55 articulated trolley buses is $1,265,649, including $24,149 of optional equipment.
- On December 6, 2013, SFMTA, King County and New Flyer executed a Bus Options Assignment Agreement, which assigned SFMTA the option to purchase from New Flyer (a) an initial 60 articulated trolley buses, (b) up to 33 additional articulated trolley buses, or a total of up to 93 articulated trolley buses, and (c) up to 240 standard trolley buses, or an overall total of 333 buses, under the terms of the King County agreement with New Flyer.

Fiscal Impacts

- The $94,950,444 proposed cost for 60 articulated trolley buses, includes spare parts, tools, equipment, training, manuals and related radio components. Bus base costs are $89,348,558 for the 60 articulated trolley buses or $1,489,143 per bus. Without sales tax, the SFMTA cost per vehicle is $1,374,653, which is $109,004 or 8.6% more than the $1,265,649 King County base cost per vehicle. SFMTA provided Attachment II, which explains the policy, maintenance, safety, disability access, operational and maintenance cost rationale for each of the major (over $1,000 per bus) optional equipment items.
- Federal grants, local Proposition K funds and local grants will fund the purchase, with $66,642,057 received to date, and $28,308,387 to be received by SFMTA by Fall 2014.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT/BACKGROUND

Mandate Statement

In accordance with Charter Section 9.118(b), City agreements with anticipated expenditures of $10,000,000 or more, or amendments to such City agreements with $500,000 or more of anticipated expenditures, are subject to approval by the Board of Supervisors.

City Administrative Code Section 21.16 authorizes the City to use the competitive procurement process of any other public agency to make purchases of commodities or services for use by the City under the terms established by that other public agency's competitive procurement process, upon determining that (a) the other agency's procurement process was competitive or the result of a sole source award, and (b) the use of the other agency's procurement would be in the City's best interests.

Background

In 1992, based on a competitive Request for Proposal (RFP) process, the San Francisco Municipal Transportation Agency (SFMTA) purchased 60 articulated trolley buses[1] from New Flyer, Inc. (New Flyer). These 60 articulated trolley buses have been in operation by the SFMTA since 1994, or 19 years, which is four years beyond their stated useful life of 15 years. In addition, in 1997, based on another competitive RFP process, SFMTA purchased an additional 33 articulated trolley buses from Electric Transit, Inc. (ETI).

As noted above, in accordance with Administrative Code Section 21.16, the SFMTA may use the competitive procurement process of another public agency to procure commodities for the City, upon making a determination that (a) the other public agency's procurement process was competitive or the result of a sole source award, and (b) is in the best interests of the City. In March of 2011, the SFMTA staff began collaborating with King County Metro Transit's staff in Seattle, Washington to develop specifications for both standard and articulated trolley buses. According to a July 2, 2013 memorandum from Mr. Edward Reiskin, SFMTA Director of Transportation to the Board of Supervisors, the SFMTA was looking at alternative procurement procedures to purchase replacement vehicles for the SFMTA to (a) reduce the time required to purchase vehicles and (b) take advantage of the economies of scale with larger procurement of vehicles and larger requirements for stocking parts for vendors to supply more than one transit agency under a single procurement.

[1] Articulated trolley buses are 100% electric and battery powered buses that operate on 615 volts of electricity while connected to a network of overhead wires via trolley poles. Articulated vehicles are 60-feet in length as compared to standard vehicles which are 40-feet in length.

On May 15, 2012, King County Metro issued a Request for Proposal (RFP) to purchase up to 530 standard and articulated trolley buses and the associated equipment and spare parts for these buses, as shown in Table 1 below.

Table 1: Total Number and Types of Trolley Buses to be Purchased under the RFP

Vehicle Type	Base Number of Vehicles	Option To Purchase Additional Vehicles	Total Potential Number of Vehicles
Standard Trolley Buses	100	250	350
Articulated Trolley Buses	55	125	180
Total	155	375	530

King County received three responses from (a) New Flyer of America (New Flyer), (b) Nova Bus and (c) Design Line, Inc. King County determined that only New Flyer and Nova Bus were responsive proposers based on financial resources, satisfactory past performance, industry reputation of satisfactory business ethics and performance, and ability to meet delivery requirements. King County then formed an in-house evaluation committee, to review the specific vehicle characteristics, price, responsibility, support and documentation criteria. Mr. Reiskin advises that SFMTA staff worked with King County Metro staff throughout the RFP process by providing technical support in the evaluation of the proposals.

On June 4, 2013, prior to the selection of a preferred vendor, the SFMTA Board of Directors authorized the Director of Transportation to execute a bus options assignment agreement with King County and its selected vendor to purchase 60 articulated trolley buses, including related equipment, training, manuals and spare parts for a not to exceed $98,717,875, including sales taxes, and a term not to exceed six years (SFMTA Resolution 13-066). On June 17, 2013, King County selected New Flyer as the successful proposal. On July 31, 2013, King County entered into an agreement with New Flyer (King County Bus Procurement Contract) to purchase 141 buses, including 86 standard trolley buses and 55 articulated trolley buses at a total cost of $146,405,255. King County's average cost for the 86 standard trolley buses was $892,960, including $20,321 of optional equipment. King County's average cost for the 55 articulated trolley buses was $1,265,649, including $24,149 of optional equipment.

On December 6, 2013, SFMTA, King County and New Flyer executed a Bus Options Assignment Agreement, which assigned to SFMTA the option to purchase from New Flyer (a) an initial 60 articulated trolley buses, (b) up to 33 additional articulated trolley buses, or a total of up to 93 articulated trolley buses, and (c) up to 240 standard trolley buses, or an overall total of 333 buses, under the terms of the King County Bus Procurement Contract. As shown in Table 1 above, the total option of 333 buses for SFMTA is within the original RFP option to purchase up to 375 additional vehicles. The Bus Options Assignment Agreement acknowledges that there would be separate agreement(s) between SFMTA and New Flyer for the purchase of the additional buses, which would be subject to future approval by the SFMTA Board of Directors and the Board of Supervisors. SFMTA plans to return to the Board of Supervisors in the future for approval of the additional trolley bus procurements from New Flyer, when funding for these additional purchases is secured. SFMTA anticipates securing the funds to purchase the up to 240 standard trolley buses in FY 2016-17 and the up to 33 additional articulated trolley buses in FY 2018-19.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve an agreement between the City, on behalf of the SFMTA, and New Flyer of America, Inc. (New Flyer), through assignment from King County, Washington, for the purchase of an initial 60 articulated trolley buses and the associated training, special tools, manuals and spare parts for an amount not to exceed $94,950,444. The proposed agreement would extend for six years, from approximately February 1, 2014 through January 31, 2020.

According to Mr. Elson Hao, Principal Engineer at the SFMTA, under the City Charter, SFMTA has exclusive authority over its contracts and to act as the purchaser for the subject contract. In compliance with the City's Administrative Code Section 21.16, Mr. Hao advises that the SFMTA determined that King County's procurement process was competitive as King County received bids from three manufacturers and followed the Federal Transit Administration's guidelines in evaluating the technical and price proposals received from the three manufacturers. The proposed resolution states that the use of King County's procurement would be in the City's best interests by (a) allowing SFMTA to acquire new vehicles at the best price by minimizing the necessary supplier engineering investment and taking advantage of economies of scale, (b) reducing operating costs of the agencies, (c) improving the reliability of service, (d) avoiding unnecessary and considerable expenditure of federal and local funds for two separate yet identical procurement processes with the same vendor, and (e) assuring that environmental policy goals at the local, state and federal levels are exceeded through the purchase of zero-emission vehicles.

According to Mr. Hao, if the Board of Supervisors approves the subject resolution, the SFMTA anticipates issuing a notice to proceed to New Flyer by the end of January 2014, such that New Flyer would deliver one initial prototype articulated trolley bus to the SFMTA by the end of February 2015, or approximately one year later. SFMTA would then fully test the prototype vehicle for three months and allow for subsequent design changes through July 2015. Mr. Hao advises that the SFMTA anticipates that New Flyer would commence production of the remaining 59 articulated trolley buses by the end of July 2015, and that the first new articulated trolley buses could be placed in operation by the SFMTA by the beginning of October 2015.

FISCAL ANALYSIS

The proposed resolution would approve an agreement to purchase 60 articulated trolley buses, spare parts, tools, equipment, training, manuals and related radio components for a total a not-to-exceed $94,950,444, as summarized in Table 2 below. As shown in Table 2, the base costs for the 60 articulated trolley buses would total $89,348,558 or $1,489,143 per bus.

Table 2: Estimated Cost to Purchase 60 Articulated Trolley Buses

Vehicle and Related Costs	Amount
60 Articulated Trolley Buses-Base Cost	$89,348,558
Spare Parts	3,262,500
Customized Manuals	139,452
Training	456,558
Special Tools & Test Equipment	1,305,548
Harris/ACS Radio Cable Harness	437,828
Total Vehicle and Related Costs	**$94,950,444**

As shown in Table 2 above, $437,828 is for a Harris/ACS[2] Radio Cable Harness, which reflects the cost to wire each of the 60 new articulated buses, at an average cost of $7,297 per vehicle, to accept the new radio system hardware which will replace SFMTA's existing Motorola radio system. However, Mr. Hao notes that the design and testing of the new Harris/ACS radio system has not yet been completed[3]. Therefore, the SFMTA is also including an additional $55,645, or an average cost of $927 per vehicle, to equip the new buses with the existing Motorola radio system. Mr. Hao advises that if the 60 proposed new vehicles are manufactured after the final design and successful testing of the new Harris/ACS radio system is completed, New Flyer will be instructed to delete the $55,645 for the Motorola radio system components.

Table 3 below identifies the funding sources, amounts, funds received to date and the remaining amounts to be received for the proposed total purchase cost of $94,950,444 for the 60 articulated trolley buses and related equipment.

Table 3: Funding Sources

Source	Total Amount	Received to Date	Remaining Amount to be Received
Federal Grants	$75,960,355	$66,442,057	$9,518,298
Local Grants (Proposition K)	18,790,089	0	18,790,089
Local Grants (AB664)	200,000	200,000	0
Total Sources	**$94,950,444**	**$66,642,057**	**$28,308,387**

[2] Harris/ACS Transportation Management System is the full name of the vendor providing the new radio system.
[3] Mr. Hao advises that a prototype of the new radio system is anticipated to be submitted to the SFMTA during the last quarter of 2014 for testing and refinement. However, Mr. Hao cannot estimate when testing and final design of the radio system will be completed.

Mr. Hao advises that the remaining $9,518,298 of Federal grant funds are anticipated to be received in October 2014. The Proposition K funds will be received approximately three months after the SFMTA submits a request for these funds from the San Francisco County Transportation Authority, which is anticipated to be requested in July 2014.

Comparison of Costs with King County

Although the proposed resolution states that the requested purchase is through an assignment agreement with King County, in order to allow SFMTA to acquire new vehicles at the best price by minimizing the necessary supplier engineering investment and taking advantage of economies of scale, the costs to be paid by King County for each articulated trolley bus as compared to the proposed costs to be paid by SFMTA reflect significant differences.

As shown in Table 2 above, the SFMTA's base costs for the proposed 60 articulated trolley buses would total $89,348,558 or $1,489,143 per vehicle. As shown in Table 4 below, the SFMTA cost per vehicle of $1,489,143 includes $114,490 of sales taxes, or a cost before sales taxes of $1,374,653 per vehicle. King County recently entered into an agreement with New Flyer to purchase 55 articulated trolley buses at an average cost of $1,265,649 per vehicle[4], including $24,149 of optional equipment. In comparison, SFMTA is requesting $134,845 per vehicle in optional equipment[5], or $110,696 more than King County. As shown in Table 4 below, without sales tax, the cost per vehicle for SFMTA would be $1,374,653, which is $109,004 or 8.6% more than the cost per vehicle of $1,265,649 for King County.

Table 4: Comparison of Costs per Vehicle and Optional Equipment

	King County	SFMTA	Difference
Base Price/Vehicle	$1,241,500	$1,239,808	$1,692
Optional Equipment	24,149	134,845	110,696
Subtotal Price/Vehicle	$1,265,649	$1,374,653	$109,004
Sales Tax	Not applicable	114,490	Not applicable
Total Price/Vehicle	Not applicable	$1,489,143	Not applicable

Overall, the SFMTA would therefore expend a total of $6,540,240 more ($109,004 x 60 buses) than King County for the New Flyer articulated trolley buses.

Attachment I to this report identifies each of the additional SFMTA optional equipment items that would be included and the cost for each. Mr. Hao advises that the additional optional equipment is required by SFMTA as they are necessary to operate and maintain the buses more effectively. Attachment II, provided by the SFMTA, explains the policy, maintenance, safety,

[4] King County's agreement with New Flyer specifies that the agreed upon prices does not include the State of Washington's sales taxes.
[5] This net amount for SFMTA's optional equipment subtracts options included for the Seattle Metro vehicles, including $18,766 cost for air conditioning.

disability access, operational and maintenance cost rationale for each of the major (over $1,000 per bus) optional equipment items.

RECOMMENDATION

Approve the proposed resolution.

EXHIBIT A

TECHNICAL CHANGES AND PRICE DIFFERENTIALS

Ref No.	Option No.	Option Group	Description	Total
2	205	Tires	Add E-strokes per 5-3 (Included in Bus Procurement Contract ("BPC")).	$ 0.0
3	205		Change wheels to Aluminum Polished with Durabright.	$ 3,148.20
6	246	Air, Brake & Lev System	Add Automatic traction control per 5-3	$ 293.41
7	423	Advertising Frames	Delete Ext Advertising Frames per BPC.	$(1,147.19)
10	280	Passenger Signal	Change passenger signals at wheelchair positions to pushbuttons per 3-9.	$ 3.06
11	280	Passenger Signal	Add pushbuttons on all vertical stanchions per 3-9.	$ 284.71
13	304	Paint & Decal	Change paint to Silver with Red Decals and Anti Graffiti Clearcoat per 2-3 and attachment.	$14,470.41
14	422	Body A/P After Paint	Change visors per SR1794 (Hybrid Procurement).	$150.00
15	423	Advertising Frames	Add two interior ad frames 17" x 11" per 3-19.	$ 35.48
17	450	Flooring A/P	Change floor covering to Altro D25-421 "Midnight" per 2-4.	$ 357.75
18	460	Windows	Change windows to include window protection sheet (specific glazing), scratch resistant per 3-1 and attachment	$ 2,726.76
19	600	Customer Options	Add Sportworks with indicator light per 2-2.	$ 1,250.85
20	600	Customer Options	Add Motorola Radio system cable harness only per 3-15. Note: This option item will be deleted if SFMTA radio project team has deemed that the Harris/AVS radio system is ready prior to line entry of the pilot bus.	$ 927.42
21	600	Customer Options	Add dash panel rack (2 compartments) per 3-19.	$ 109.05
22	600	Customer Options	Add Emergency Warning light system (activated when silent alarm is tripped)	$ 172.62

Ref No.	Option No.	Option Group	Description	Total
			per sec 3-21.	
23	600	Customer Options	Add S1 guard per 3-22.	$ 2,930.42
24	600	Customer Options	Add NEXTBUS system per 3-23.	$ 2,400.55
25	600	Customer Options	Add trash receptacle per 4-9.	$ 11.66
26	600	Customer Options	Add storage locker behind operator seat per 4-12.	$ 90.51
27	600	Customer Options	Add fleet management system per 5-8.	$ 1,151.01
28	600	Customer Options	Add fire suppression per BPC.	$ 9,955.00
29	549	HVAC System	Remove floor heating system and auxiliary heater per BPC.	$ (4,200.00)
30	470	Destination Signs	Change destination signs to TwinVision Color Destination Signs (Front, C/side, S/side) per 3-10. Add amber rear.	$ 13,180.53
31	600	Customer Options	DTI Camera System per 3-13.	$ 25,970.43
32	600	Customer Options	Add On-Board AVAS per 3-12 to 3-13.	$ 20,972.78
33	526	Seating & Stanchions	Re-quote to American Seating 6468, 47 passenger seats (perimeter in the L/D and forward facing in upper deck), staggered forward facing Q'Straint W/C restraint, with blue push button, BC55 flip seats per 3-7.	$ 8,266.11
34	526	Seating & Stanchions	Change driver seat to USSC 9100ALX non-D90 per 4-2.	$ 389.55
35	600	Customer Options	Add APC per 3-18.	$ 12,396.60
37	280	Passenger Signal	Add Stop request sign on destination sign compartment door per 3-8.	$ 336.29
41	246	Air, Brake & Lev System	Add rapid recover and equip with raise feature for steep inclines, 1" at 3 MPH is preferred to prevent chances of damaging front shocks per 5-1.	$ 723.02

Ref No.	Option No.	Option Group	Description	Total
42	600	Customer Options	Add beeper exterior sound when buses are turning via footswitch. Note, the volume of the exterior beeper will not be adjustable by the driver per 4-1.	$ 5.32
44	600	Customer Options	Add additional feature for exterior announcement as passenger exit the bus "Do not walk in front of bus". No additional cost, feature is standard in AVAS system per SR1794.	$ 0.0
45	491	Door Exit	Re-quote Vapor Class system to include Activair baseplate with locking mechanism per 3-2.	$ 3,761.99
46	526	Seating & Stanchions	Add 10" seat belt extender, to change seat belt length per 4-2.	$ 81.59
49	600	Customer Options	Add transfer mounting bracket, farebox mounting support plate and wiring per 3-16.	$ 109.53
50	526	Seating & Stanchions	Add qty 36 Nylon grab straps. Change stanchions to cast fittings for use with metal grab straps per 3-9. Note: Metal grab straps not useable with bonded stanchions.	$ 810.93
51	.	Customer Options	Add customer specific farebox pedestal (in the event a 41" farebox is installed) per 3-16.	$ 562.23
53	273	Exterior Lamp	Change to two 18"x 1"LED center stop/deceleration light above the engine door in lieu of flashing decel system per Section 3-3.	$ 68.88
54	600	Customer Options	Add four (4) external recessed buttons (elevator switches) per 3-2.	$ 582.92
55	600	Customer Options	Clipper cable harnesses per 3-17.	$ 483.08
57	422	Body A/P After Paint	Add bi-fold drivers enclosure per4-8.	$ 2,579.55
59	600	Customer Options	Add DriveCam with event recorder per 3-14.	$ 662.50
60	422	Body A/P After Paint	Add two more for a total of four Equipment Trays per SR1794.	$ 366.39
63	Bonding	Deliverable	Add 20% Performance Bond and 2 year,10% Warranty Bond per Agreement Section B5.02.	$ 6,381.20

Ref No.	Option No.	Option Group	Description	Total
65	526	Seating & Stanchions	Driver's park brake alarm from seat cushion to seat belt activation per 4-2.	$ (70.00)
67	273	Exterior Lamp	Add cornering lamp to curbside rear per 3-3.	$ 320.83
68	422	Body A/P After Paint	Add keyed paddle latches to the SDS enclosure door per BPC.	$ (8.65)
71	600	Customer Options	Add Equipment Box to Curbside Luggage Rack per BPC.	$ 467.40
77	284	Elect - Side/Console	Add guard to hill switch per 5-3.	$ 25.93
80	246	Air, Brake & Lev System	Add front tow & change air connect fitting tags per 5-5.	$ 24.60
81	304	Paint & Decal	Add ramp decal below kneeling light per 3-6.	$ 29.17
83	549	HVAC System	Change to ball valves on coolant lines per BPC.	$ 121.56
84	203	Suspension Front	Add splash apron behind front wheels per 2-2.	$ 205.64
85	480	Mirrors	Replace driver's exterior mirror and arm per4-5.	$ 85.10
86	600	Customer Options	Add exterior camera above driver's window per 3-13.	$ 834.44
87	491	Door Exit	Add retaining screw to exit door frangible cover box per BPC.	$ 11.45
89	470	Destination Signs	Add CONNECT software per BPC.	$ 2,480.40
90	290	Wiring Diagrams	Change delay on pressure sensor on driver's seat from 5 seconds to 1 second per 4-2.	$ 0.0
91	Warranty	Deliverable	Additional warranty (Basic Body Structure, Brake system, Ramp, ATG Joints).	$ 4,826.00
92	Warranty	Steering Wheel	Change Steering wheel to 18" / 2 Spokes per 4-1.	$ 0.0
93	549	HVAC System	Delete cost of AC per Seattle contract. AC is provided at no charge per BPC.	$(18,766.00)
94	600	Customer Options	Vossloh Kiepe Adjustments for line voltage per 6-3.	$ 1,937.52
95	219	Engine	Vossloh Kiepe Circuit Diagrams per 6-3.	$ 312.00
96	219	Engine	Vossloh Kiepe Bus Type Test per 6-3.	$ 1,268.10
97	Warranty	Deliverable	Vossloh Kiepe Additional warranty Spares for San Francisco per Agreement Section B4.05	$ 1,188.00

Ref No.	Option No.	Option Group	Description	Total
99	219	Engine	Vossloh Kiepe O & M Manuals per BPC.	$ 780.00
100	219	Engine	Vossloh Kiepe Operator interface and Project Management per BPC.	$ 925.60
101	219	Engine	Vossloh Kiepe Software adjustments in general per 6-3.	$ 665.60
102	219	Engine	Vossloh Kiepe Duty cycle and route profile, wire heights, and OSA adjustments per 6-3.	$ 665.60
103	219	Engine	Vossloh Kiepe Enhanced Performance Mode per 6-3.	$ 1,040.60
104	219	Engine	Vossloh Kiepe ESS Change over Control per 6-3.	$ 509.60
105	219	Engine	Vossloh Kiepe Hot coach adjustment per 6-3.	$ 322.40
106	219	Engine	Vossloh Kiepe Radio Box: Integration of the VK equipment into the radio box per BPC.	$ 104.00
			Base Bus Price Change Total	**134,160.00**
38	705	Contract Spares	One Spare Wheel per bus	$ 684.90

Original Contract Price Base Coach	$	1,239,808.00
Base Bus Price Change Total	$	134,160.00
Spare Wheel	$	684.90
Revised Price Base Bus (including ADA & delivery)	$	1,374,652.90
California Tax 8.75%	$	114,489.73
Total Bus price (Including ADA, Delivery and Taxes)	$	1,489,142.63

Rationale for Major Cost Items

Reference No.	Option No.	Option Group	Description	Total	Rationale
3	205		Change tires to Aluminum Polished with Durabright	$ 3,148.20	The item reduces maintenance cost because Aluminum polished wheels are easier to clean than regular steel rims, while enhancing customers' experience of riding in nicer looking buses.
13	304	Paint & Decal	Change paint to Silver with Red Decals and Anti Graffiti Clearcoat per 2-3 and attachment.	$ 14,470.41	This is Muni's brand and color scheme. The anti-graffitte Clearcoat paint on the buses allows for easier removal of graffiti and therefore reduces maintenance cost.
18	460	Windows	Change windows to include window protection sheet (specific glazing), scratch resistant per 3-1 and attachment	$ 2,726.76	This item reduces maintenance cost because the protective sheet is a sacrifical piece that protects the window from being etched. The protective sheet can be removed and replace when etched instead of replacing the actual window..
19	600	Customer Options	Add Sportworks with indicator light per 2-3	$ 1,250.85	This item enhances customers' experience by allowing riders to transport their bicycle when riding the bus.
23	600	Customer Options	Add S1 guard per 3-23	$ 2,930.42	This is a safety item that prevents people from being run over by the rear wheels of the bus in the event they trip and fall between the front rear wheels of the bus when exiting.
24	600	Customer Options	Add NEXTBUS system per 3-23	$ 2,400.55	This item enhances customers' experience when riding the bus because it allows patrons the ability to determine when the next bus is arriving either at the bus stop or via the internet.
27	600	Customer Options	Add Fleetmanagement	$ 1,151.01	This item is a maintenance tool that automatically keeps track of milleage, fuel and other fluids used on the bus.
28	600	Customer Options	Add fire suppression per Seattle Spec	$ 9,955.00	This item is a safety feature that will automatically put out fires if it should occur inside the equipment compartments of the bus.
30	470	Destination Signs	Change destination signs to TwinVision Color Destination Signs (Front, C/side, S/side). Add amber rear.	$ 13,180.53	This item enhances customers' experience when riding the bus because it allows customers to easily read the destination of the bus. The colored signs are especially useful for the disabled community.
31	600	Customer Options	DTI Camera System	$ 25,970.43	This item is a safety feature that allows for the recording of events inside the bus. This items is especially useful to law enforement to obtain records of altercations, robberies and other event that require review by authorities.
32	600	Customer Options	Add On-Board AVAS per 3-12 to 3-13	$ 20,972.78	For the convenience of Muni patron's, especially the disabled community, tt is Muni's policy to have automatic voice announcements of all stop request, current bus stop location and the next bus stop.
33	526	Seating & Stanchions	Re-quote to American Seating 6468, 47 passenger seats (perimeter in the L/D and forward facing in upper deck), staggered forward facing Q'Straint W/C restraint, with blue push button, BC55 flip seats	$ 8,266.11	For the convenience of Muni patron's, especially the disabled community, tt is Muni's policy to use this type of restraint on all new bus procurement.
35	600	Customer Options	Add APC per 3-20 to 3-22	$ 12,396.60	This item is an operational tool that will allow SFMTA staff planner to determine the number of passengers that use the system. Information obtain by system can be use to adjust the service needed in the various lines within the system.
45	491	Door Exit	Re-quote Vapor Class system to include Activair baseplate with locking mechanism.	$ 3,761.99	This item improves the maintainability of the door system because it does not require the passengers to activate an electro-mechanical system to open the doors from inside the bus. This system also includes a positive lock on the doors to prevent passengers from forcing open the doors and jumping off the bus.
57	422	Body A/P After Paint	Add byfold drivers enclosure.	$ 2,579.55	It is Muni policy to install a protective enclosure for the drivers on all new bus procurements.
63	Bonding	Deliverable	Add 20% Performance Bond and 2 year,10% Warranty Bond	$ 6,381.20	The performance bond will ensure that the City is protected from claims in case the vendor does not pay its sub-contractors. The Warranty Bond will ensure that the vendor meet their warranty obligations on the equipment.
89	470	Destination Signs	Add CONNECT software	$ 2,480.40	This is a maintenance tool that will enhance the maintenability and service reliability of its buses. The CONNECT system provides real time data on the condition of any bus through the internet and all trouble can be recorded and accessed for future troubleshooting and repair.

Rationale for Major Cost Items

Reference No.	Option No.	Option Group	Description	Total	Rationale
91	Warranty	Deliverable	Additional warranty (Basic Body Structure, Brake system, Ramp, ATG Joints)	$ 4,826.00	This item will reduce maintenance cost because the vendor will be required to cover the maintenance cost of major systems for an extended period of time.
94	600	Customer Options	Vossloh Kiepe Adjustments for line voltage	$ 1,937.52	This is an operational requirement because adjustments have to made on the propulsion sytem of the bus in order to accormodate the lower operating voltage that Muni's buses will be using. KCM uses 700 VDC and Muni uses 600VDC
96	219	Engine	Vossloh Kiepe Bus Type Test	$ 1,268.10	Same reason for item #94.
97	Warranty	Deliverable	Vossloh Kiepe Additional warranty Spares for San Francisco	$ 1,188.00	This will improve maintenance of the vehicle by having spare part readily available when needed.
103	219	Engine	Vossloh Kiepe Enhanced Performance Mode	$ 1,040.60	Same reason for item #94.