

CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292
FAX (415) 252-0461

January 31, 2014


TO: Budget and Finance Committee
FROM: Budget and Legislative Analyst 
SUBJECT: February 5, 2014 Budget and Finance Committee Meeting

TABLE OF CONTENTS

Item	File		Page
4	14-0008	Appropriating \$2,515,000 for Nonprofit Rent Stabilization Program – Mayor’s Office of Housing – FY 2013-14	1
5	14-0066	Lease – Coit Tower, LLC - \$662,400 Annual Base Rent.....	8

Item 4
File 14-0008

Department:
Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would appropriate \$2,515,000 of General Fund Reserve monies in the Mayor's Office of Housing and Community Development to establish a new Nonprofit Rent Stabilization Program.

Key Points

- In 2000, the Board of Supervisors approved ordinances appropriating \$1,500,000 from the General Fund Reserve and establishing conditions for such expenditures to provide rent subsidies to nonprofit arts organizations in immediate danger of being evicted or displaced by rent increases. In 2000, the Board of Supervisors approved another ordinance to appropriate \$3,000,000 from the General Fund Reserve for (a) an additional \$500,000 for rent subsidies to nonprofit organizations at risk of being displaced by rent increases, and (b) \$2,500,000 to fund capital improvements and real property acquisitions by nonprofit organizations, specifying the criteria for such organizations to receive these City funds.
- On October 8, 2013, the Budget and Legislative Analyst issued a report on the impact of increasing rents in San Francisco on local nonprofits, identifying 6,005 San Francisco nonprofits, of which 1,425 or 23.7% currently contract with the City. This report found that commercial vacancy rates decreased Citywide from 12.4% in 2011 to 9.3% in 2013, while average commercial rents increased from \$39.67 per square foot per year to \$52.69 per square foot per year, a 32.8% increase during this same period.
- On November 5, 2013, the Board of Supervisors approved a resolution to convene a work group to develop a series of recommendations on how the City can address the issue of nonprofit displacement. In response, a Nonprofit Displacement Work Group was created, which plans to present a report with their recommendations to the Board of Supervisors by April 11, 2014.

Fiscal Impacts

- The proposed \$2,515,000 represents an estimate by the Controller's Office of the General Fund Property Tax revenue growth in the Central Market Street and Tenderloin exclusion zone since the Payroll Expense Tax Credit was established in FY 2010-2011.
- The amount of funding for the new Nonprofit Rent Stabilization Program, whether this would be a one-time appropriation or require ongoing appropriations, the specific use of the requested \$2,515,000, criteria for awarding rent stabilization funds to individual nonprofit organizations, any limits on the amount of funds awarded and administrative and selection procedures have not yet been decided.

Recommendations

- Amend the proposed ordinance to place all of the \$2,515,000 General Funds on Budget and Finance Committee reserve, pending issuance of the April 2014 report from the Nonprofit Displacement Work Group to the Board of Supervisors, to provide more specific details on how such funds would be allocated.
- Approval of the proposed ordinance, as amended, is a policy decision for the Board of Supervisors.

MANDATE STATEMENT

In accordance with Charter Section 9.105, amendments to the Annual Appropriation Ordinance are subject to Board of Supervisors approval by ordinance, subject to the Controller certifying the availability of funds.

BACKGROUND

Nonprofit Arts Organizations in 2000 Needed Rental Assistance

In late October and early November of 2000, the Board of Supervisors approved two ordinances (Files 00-1810 and 00-1811; Ordinances 266-00 and 267-00) to (a) appropriate \$1,500,000 from the City's General Fund Reserve and (b) establish the terms and conditions for the expenditure of these funds by the California Lawyers for the Arts, a nonprofit organization. California Lawyers for the Arts was to allocate such funds to provide rent subsidies to nonprofit arts organizations that were in immediate danger of being evicted or displaced by rent increases in San Francisco. One of the ordinances (File 00-1811) included specific (a) criteria for nonprofit organizations to be eligible to receive these City funds, (b) limits on the amount of grant funds to be awarded, (c) administrative and selection processes for distributing the rental assistance funds, and (d) reporting requirements.

Detailed information on overall expenditures, including administrative costs, for this nonprofit arts rental assistance program is not currently available. Mr. Brian Cheu, the Director of Community Development for the Mayor's Office of Housing and Community Development advises that approximately 12 grants for rental subsidies were provided under this nonprofit arts rental assistance program. The requests for nonprofit arts rental subsidies ranged from a maximum of \$80,000 which was the limit specified by the legislation, to a minimum of \$7,000, with average grant requests of approximately \$35,000.

Other Nonprofit Organizations in 2000 Needed Rental and Capital Improvement Assistance

In addition, on November 20, 2000, the Board of Supervisors approved another ordinance (File 00-1809; Ordinance 283-00) to appropriate \$3,000,000 from the City's General Fund Reserve for the Mayor's Office of Community Development to fund (a) a \$500,000 grant program for rent subsidies to nonprofit service and advocacy organizations at risk of being evicted or displaced by rent increases and (b) \$2,500,000 to fund capital improvements and real property acquisitions by nonprofit organizations. This ordinance also specified (a) criteria for nonprofit organizations to be eligible to receive these City funds, (b) limits on the amount of funds to be awarded to individual organizations and (c) individual administrative and selection processes. This ordinance also specified that the \$2,500,000 capital improvement and real property acquisition funds would be allocated by the Partnership for Affordable Nonprofit Space¹ and administered by the Northern California Community Loan Fund (NCCLF), a nonprofit

¹ A coalition that included the City and County of San Francisco, the Evelyn and Walter Haas Jr. Fund, the San Francisco Foundation and the United Way.

intermediary. This ordinance specified that funding priorities would be given to (a) applications that benefit more than one nonprofit organization and result in long-term affordable space, (b) organizations that currently receive funding for operating expenses under a City grant or contract, and are in good standing, and (c) organizations primarily serving San Francisco citizens.

Mr. Cheu advises that there is no information on the \$500,000 portion of the grant program for rent subsidies to nonprofit service and advocacy organizations, such that it appears that the City may have never implemented this portion of the program. Regarding the \$2,500,000 City capital improvement and real property acquisition funds portion of the grant program, which was allocated by the Partnership for Affordable Nonprofit Space, Table 1 below identifies each of the nonprofit organizations, the address or location of their facility and the amount of funding received by each organization.

Table 1: Nonprofit Organizations that Received Capital Improvement and Real Property Acquisition Funds Appropriated in 2000

Name of Nonprofit Organization	Address/Location	Amount of Funding*
Ark of Refuge, Inc.	1025 Howard/30 Harriet	\$171,000
Chinatown Community Development Corp	1525 Grant Avenue	19,647
Coleman Advocates for Children and Youth	459 Vienna Street	30,000
Filipino American Development Foundation	1010 Mission Street	100,000
Mercy Housing California	Mission Creek at 4 th Street	100,000
Nihonmachi Little Friends	1830 Sutter Street	200,000
9th Street Media Consortium	145 Ninth Street	200,000
North of Market Senior Services	315 Turk Street	355,000
ODC Theater/San Francisco	3153 17 th Street	400,000
Portola Family Connections	25634 San Bruno Avenue	50,000
Raphael House	1045-1049 and 1065 Sutter	300,000
SF Museum & Historical Society	88 Fifth Street	100,000
SF Housing Development Corporation	4439 Third Street	100,000
Tenants and Owners Development Corp	328 Tehama Street	65,330
Tenderloin Neighborhood Development Corp	3145 Taylor Street	50,000
Bindlestiff Studio (Planning grant)	185 Sixth Street	10,000
Museum of the Africa Diaspora (Planning grant)	685 Mission Street	10,000
Subtotal		\$2,260,977
Title Recording Fees and Administrative Costs		297,000
Total		\$2,557,977

* Reflects amount of funding provided by the City and County of San Francisco to each nonprofit organization. These organizations may have received additional funding from the other funders, such as the Evelyn and Walter Haas Jr. Fund, the San Francisco Foundation and the United Way, who participated in this program.

Recent 2013 Report on the Impact of Increasing Rents in San Francisco on Local Nonprofits

On October 8, 2013, the Budget and Legislative Analyst issued a report to Supervisor Jane Kim on the impact of increasing rents in San Francisco on local nonprofits. As part of this report, the Budget and Legislative Analyst surveyed nonprofit organizations to identify rents being paid by these organizations and to determine how they are being affected by current commercial real estate market conditions.

This report identified that as of July 2013, there were 6,005 nonprofit organizations in San Francisco, of which 1,425 nonprofits or 23.7% currently contract with the City and County of San Francisco. In addition, this report found that commercial vacancy rates decreased Citywide from 12.4% in 2011 to 9.3% in 2013, reflecting the reduction in available commercial space in the City. At the same time, average City commercial rental rates increased between 2011 and 2013 from \$39.67 per square foot per year to \$52.69 per square foot per year, a 32.8% increase.

This report notes that the financial burden of renting in San Francisco may require nonprofit organizations to devote a greater proportion of resources to renting, taking away from resources that could go to providing services to San Francisco residents. As a result, this report identified various policy options that the Board of Supervisors could consider to address the issue of escalating commercial rents impacting nonprofit organizations. Such policy options include:

- (1) evaluate development impact fees to be charged to commercial developers to be expended for renovating or acquiring facilities for nonprofit organizations, at controlled rents;
- (2) expand inclusionary zoning, to include incentives for commercial developers to provide (a) space for nonprofit organizations in their developments at below-market rates, or (b) pay fees in-lieu of providing space to be expended by nonprofit organizations to acquire or rehabilitate buildings and occupied by one or more nonprofits at controlled rents;
- (3) create City incentives for commercial landlords to offer below market rents for specified nonprofits;
- (4) enhance existing City programs or create new programs to provide loans and/or grants to nonprofits to acquire or rehabilitate facilities with controlled rents;
- (5) identify unutilized or underutilized City properties for occupancy by nonprofit organizations at controlled rents; and
- (6) collaborate with foundations, private donors and others to pool property and financial resources to provide ownership or leased facilities for nonprofits at controlled rents.

Current Work Group

On November 5, 2013, the Board of Supervisors approved a resolution (File 13-1072; Resolution 395-13) urging the Director of the Mayor's Office of Housing and Community Development to

convene a work group to develop a series of recommendations on how the City can address the issue of nonprofit displacement. In accordance with this resolution, this work group would include staff from the Mayor's Office of Housing and Community Development, Mayor's Office of Public Policy and Finance, Arts Commission, Office of Economic and Workforce Development, the Human Services Agency, the Department of Public Health, Department of Children, Youth and their Families, Real Estate Division and the Planning Department as well as a broad representation of nonprofit organizations, neighborhood advocates and impacted clients. As specified in the resolution, this work group would convene within 30 days and present a report to the Board of Supervisors within 120 days from its first meeting that includes a series of recommendations and action items.

Mr. Cheu advises that a Nonprofit Displacement Work Group was created and convened its first meeting on December 13, 2013. According to Mr. Cheu, the Nonprofit Displacement Work Group plans to meet monthly and to present a report to the Board of Supervisors by April 11, 2014, as required by Resolution 395-13. Mr. Cheu notes that in addition to the resolution's specified representatives, the Nonprofit Displacement Work Group includes representatives from two Board of Supervisors offices², the Office of the City Administrator, the Controller's Office and specified nonprofit and other interested organizations³.

Based on the Controller's Office data from the past three years, the City funds approximately 500 nonprofit organizations with at least \$25,000 per agency each year. The Work Group distributed a survey to more than 300 such City-funded agencies and to date, has received responses from 84 nonprofit organizations, describing their needs at 102 different service locations. Based on this initial survey data:

1. 54% of the nonprofit respondents would benefit from technical assistance relating to real estate transactions;
2. 68% of the nonprofit respondents are interested in potentially sharing space with other nonprofit organizations;
3. 51% of the nonprofit respondents are interested in potentially sharing back office duties; and
4. 25% of the nonprofit respondents have leases expiring by 2017.

² Representatives from President Chiu and Supervisor Kim's offices.

³ Such nonprofit and interested organizations include Catholic Charities, Positive Resource, Lutheran Social Services, Council of Community Housing Organizations, Tenderloin Neighborhood Development Corporation, Northern Community Loan Fund, Legal Assistance for the Elderly, Hospitality House, San Francisco Foundation, YMCA of San Francisco, Yerba Buena Center for the Arts, and In-Home Supportive Services.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would appropriate \$2,515,000 of General Fund Reserve monies in the FY 2013-14 Mayor's Office of Housing and Community Development budget to establish a new Nonprofit Rent Stabilization Program, as shown in Table 2 below.

Table 2: Proposed Source and Use of \$2,515,000 General Fund Reserve

Source of Funds General Fund Reserve	\$2,515,000
Use of Funds Mayor's Office of Housing Nonprofit Rent Stabilization Program	\$2,515,000

FISCAL IMPACTS

Source of Funds

The proposed \$2,515,000 supplemental appropriation would be funded from the City's General Fund Reserve. According to Ms. Risa Sandler, Citywide Budget Manager in the Controller's Office, the City's General Fund Reserve has a current balance of \$44,613,143. If the proposed \$2,515,000 supplemental appropriation is approved, the General Fund Reserve balance would be \$42,098,143.

According to Ms. Michelle Allersma of the Controller's Budget & Analysis Division, the requested \$2,515,000 represents an estimate by the Controller's Office of the General Fund Property Tax revenue growth in the Central Market Street and Tenderloin exclusion zone since the Payroll Expense Tax Credit was established in FY 2010-2011, based on information provided by the Assessor's Office.

Use of Funds

According to Mr. Cheu, the Nonprofit Displacement Work Group has identified 28 possible options for addressing nonprofit organizations potential displacement, which have been divided into the following four programmatic areas:

1. Options that involve the City and/or an intermediary agency to provide real estate-related technical assistance for City-funded agencies;
2. Options that involve potential policy decisions or legislative changes;
3. Options that involve the expansion of private/public partnerships; and
4. Options that require the provision of City funds, provided either directly by the City or through an intermediary agency, to non-profit organizations facing the possibility of displacement.

As the final report of the Work Group will not be completed until April 2014, the specific amount of funding needed for the new Nonprofit Rent Stabilization Program is not yet known,

and whether this would be a one-time appropriation or require ongoing appropriations has not yet been decided. In addition, the specific use of the requested \$2,515,000 within each of the above-noted programmatic areas has not yet been determined. Specified criteria for awarding rent stabilization funds to individual nonprofit organizations, any limits on the amount of funds to be awarded to individual organizations and required administrative and selection procedures have also not yet been decided.

However, Mr. Cheu notes that the award of such General Fund monies to nonprofit organizations would be subject to a competitive Request for Proposal (RFP) process. Based on the number of responses received, the number of grants awarded and the level of City administration and oversight required, Mr. Cheu estimates that implementation of a new Nonprofit Rent Stabilization Program would require approximately 1.25 FTE positions in the Mayor's Office. Mr. Cheu also notes that the specifics of the funding needs, ongoing requirements, criteria for award of the funds and recommended uses of the funds would be provided in the Nonprofit Displacement Work Group report to be presented to the Board of Supervisors by April 11, 2014.

Although there is an identified need to address the issue of escalating commercial rents impacting nonprofit organizations in San Francisco, given that (a) the amount of funding needed for a new Nonprofit Rent Stabilization Program has not yet been determined, (b) whether this Program would require only this one-time appropriation or require ongoing appropriations is not known, (c) the specific uses of the subject \$2,515,000 has not yet been decided, and (d) specified criteria for equitable allocation of the proposed funding has not been determined, approval of the proposed supplemental appropriation is a policy decision for the Board of Supervisors.

RECOMMENDATIONS

1. Amend the proposed ordinance to place all of the \$2,515,000 General Funds on Budget and Finance Committee reserve, pending issuance of the April 2014 report from the Nonprofit Displacement Work Group to the Board of Supervisors, to provide more specific details on how such funds would be allocated.
2. Approval of the proposed ordinance, as amended, is a policy decision for the Board of Supervisors.

Item 5 File No. 14-0066	Department: Recreation and Park
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <p>The proposed resolution would authorize the Recreation and Park Department (RPD) General Manager to execute a five-year lease, with one three-year option to extend, with Coit Tower, LLC for the operation and management of Coit Tower.</p> <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • Coit Tower is listed on the National Register of Historic Places and houses murals funded by the federal Public Works of Art Project in 1933. The Board of Supervisors appropriated \$1.75 million for the renovation of Coit Tower and the murals, which are expected to be completed in April 2014, when Coit Tower will re-open to the public. • Coit Tower, LLC, was selected through a competitive Request for Proposals (RFP) process, and will operate the elevator to the Tower's observation deck, provide tours, and maintain a "first-class" gift shop. • Coit Tower, LLC is required to make tenant improvements that include new lighting, interior painting, and other improvements, and receive rent credits up to \$65,000. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • Under the proposed lease, Coit Tower, LLC will pay the greater of the Minimum Annual Guarantee (MAG) of \$662,400 or percentage rent. RPD estimates that Coit Tower, LLC will pay rent of \$1,224,500 in the first lease year and \$6,558,872 over the five-year term. <p style="text-align: center;">Policy Consideration</p> <ul style="list-style-type: none"> • The proposed resolution reaffirms the commitment of the Board of Supervisors to preservation of Coit Tower in accordance with Proposition B, which made it City policy to (1) strictly limit commercial activities and private events at Coit Tower; and (2) use funds the City receives from Coit Tower concession operations for preserving Coit Tower murals and maintaining the Coit Tower building. • The proposed lease prohibits special events at Coit Tower, consistent with the policy statement of Proposition B. Also, the proposed resolution states that the Recreation and Park Commission "intends to propose that one percent of annual revenues from the Lease be allocated to the Arts Commission to provide an ongoing dedicated funding source for the maintenance and protection of the Coit Tower murals". One percent of the estimated Coit Tower revenues would equal \$12,245 in the first year of the lease. • Because the City is responsible for maintenance of Coit Tower under the proposed lease, including access roads, elevator, utilities, HVAC system, sewerage system and other infrastructure, the Budget and Legislative Analyst recommends amending the proposed resolution to state that the maintenance needs of Coit Tower will be included in the City's 10-year capital plan. <p style="text-align: center;">Recommendations</p> <ul style="list-style-type: none"> • Amend the proposed resolution to state that the maintenance needs of Coit Tower will be included in the City's 10-year capital plan. • Approve the proposed resolution as amended. 	

MANDATE STATEMENT / BACKGROUND**Mandate Statement**

City Charter Section 9.118 states that leases, which would result in revenues to the City in excess of \$1,000,000, are subject to Board of Supervisors approval.

Coit Tower

Coit Tower is located in the City's Pioneer Park adjacent to Lombard and Montgomery Streets and is under the jurisdiction of the Recreation and Park Department (RPD). Coit Tower, which was constructed in 1933, contains murals painted by artists funded by the federal Public Works of Art Project, the first of the New Deal federal employment programs for artists in the 1930s, and was listed on the National Register of Historic Places in 2008.

RPD is conducting a two-phase \$1.75 million renovation of Coit Tower. The first phase was the replacement of the roof. Coit Tower closed in November 2013 for the five-month second phase of the renovation, which includes (1) cleaning and repair of the concrete tower and tower base as well as repair of damaged stucco, (2) window and door rehabilitation, (2) interior finish repair, (3) signage and barriers to meet accessibility guidelines, and (4) mechanical, electrical and accessibility upgrades. The Art Commission will restore the murals. RPD plans to re-open Coit Tower in April 2014.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the Recreation and Park Department General Manager to execute a five-year lease with Coit Tower, LLC for the operation and management of Coit Tower.

Request for Proposals Process

In October of 2011, RPD issued a Request for Proposals (RFP) for a vendor to manage the elevator and concessions at Coit Tower. RPD listed several project objectives in the RFP which included (1) a food and beverage concession of premium quality, (2) a gift shop that offers a variety of unique, high-quality merchandise relating directly to Coit Tower, (3) upgrade of the merchandise display and traffic flow within the concession, (4) staffing levels in sufficient numbers to perform all expected duties, (5) regular operation and maintenance of telescopic viewing machines, (6) an aesthetic environment free from overt advertisements, (7) establishment and maintenance of a good relationship with residents surrounding the park, (8) allowance for a limited number of special events throughout the year, and (9) development and implementation of a paid audio tour.

In selecting a qualified vendor for the project, RPD listed the following qualifications which respondents would be required to meet in order to be competitive for the RFP:

- (1) five (5) years of experience in fully managing a business of the nature of this opportunity, with a background in tourist site management, food service, catering, retail services or similar field,
- (2) sufficient financial capital to undertake this concession opportunity including the ability to upgrade the interior gift store space, deal effectively with community issues and act as effective caretaker of an iconic landmark; and
- (3) the ability to obtain all required insurance policies as listed in the sample lease and all necessary permits and licenses required by the City.

Vendor proposals were to be evaluation by specific criteria stated in the RFP, as shown in the table below.

Table 1: RFP Selection Criteria

Evaluation Criteria	Points
Experience, Qualifications, and Financial Capability	35
Business and Marketing Plan	35
Proposed Financial Terms	30
Total Points	100

The selection committee consisted of five members, which included a RPD property manager, a RPD capital project manager, an Art Commission representative, one Office of Economic and Workforce Development (OEWD) representative, and one community member.

As shown in the table below, Coit Tower, LLC submitted the highest scoring proposal of the three submitted proposals. Coit Tower, LLC was formed by Terry Grimm, a Bay Area business owner who owns several businesses throughout the region, including the Anchor Oyster Bar in San Francisco’s Castro Neighborhood.

Table 2: Scores for Respondents to RFP

Proposer	Total Score ¹
Coit Tower, LLC	440
AMD Trading Company	216
U-Pick Marketing	183

¹ Each of the 5 panelists assigned a score of up to 100 points, for up to 500 total points per proposal.

The Recreation and Park Commission approved selection of Coit Tower, LLC as the preferred operator for Coit Tower in June 2012, and approved the proposed lease on January 23, 2014.

The Proposed Lease and Key Lease Terms

The following table summarizes the major terms of the proposed lease.

Table 3: Summary of the Major Lease Terms

Lease Term	<ul style="list-style-type: none"> Five (5) years, commencing on April 1, 2014 												
Option to Extend	<ul style="list-style-type: none"> One three-year option, subject to approval of the Recreation and Park Commission Should extension be granted, lease will terminate in 2022 												
Minimum Annual Guarantee (MAG) Rent	<ul style="list-style-type: none"> MAG will be \$662,400 Rent will be paid in monthly installments at the rate of: <ul style="list-style-type: none"> \$66,950 April – October \$38,750 November – March 												
Rent Increases	<ul style="list-style-type: none"> MAG will be adjusted annually based on the Consumer Price Index (CPI) MAG adjustment will not be less than or more than 5% higher than the current MAG 												
Percentage Rent	<p>Tenant shall pay the greater of the MAG or percentage rent as follows:</p> <table border="1"> <thead> <tr> <th>Type of Sale</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Admission Receipts</td> <td>90%</td> </tr> <tr> <td>Audio Tours and binocular rentals</td> <td>10%</td> </tr> <tr> <td>Telescopic Viewers</td> <td>50%</td> </tr> <tr> <td>Student or Docent led tours</td> <td>10%</td> </tr> <tr> <td>Bookstore Sales</td> <td>20%</td> </tr> </tbody> </table>	Type of Sale	Percentage	Admission Receipts	90%	Audio Tours and binocular rentals	10%	Telescopic Viewers	50%	Student or Docent led tours	10%	Bookstore Sales	20%
Type of Sale	Percentage												
Admission Receipts	90%												
Audio Tours and binocular rentals	10%												
Telescopic Viewers	50%												
Student or Docent led tours	10%												
Bookstore Sales	20%												
Rent Credits	<ul style="list-style-type: none"> No monthly base rent for the first three months One-time credit of \$65,000 against the rent payable upon completion of agreed upon tenant improvements (listed below) Rent credits up to \$40,000 per year or \$3,333 per month) for each month in which the tenant provides docent services at Coit Tower. 												
Late payments	Late payments will be charged at five (5) percent of the amount due.												

According to Ms. Cassandra Costello, RPD Property Manager, the lease is expected to begin on April 15, 2014 when Coit Tower reopens. RPD has proposed a three-month base rent abatement from April 15, 2014 through June 30, 2014 in order to offset start-up costs and uncertainties of reopening the attraction after an extensive renovation and closure. Percentage rent will still be applied during this period.

Tenant Improvements

Under the proposed lease, Coit Tower, LLC is required to make capital improvements to Coit Tower, including (1) installing new lighting, painting, installing new custom display cabinets and custom shelving units with lights in the Bookstore, (2) installing new, strategically placed Point of Sale systems which will also help the gallery flow, installing a wireless security camera

system, (3) painting the tower viewing area with slip resistant paint, (4) painting the handrails in tower viewing area with slip resistant paint, (5) cleaning and seal the main gallery flooring, and (6) steam cleaning all exterior walkways and staircase. As noted above, Coit Tower, LLC will receive rent credits up to \$65,000 to offset the costs of the improvements.

Under the proposed lease, no improvements or permit alterations on the premises may be made without approval of the Department's General Manager and must be in keeping with the historic character of the building.

Coit Tower Operations

Elevator Operation

Under the proposed lease, Coit Tower, LLC will sell tickets for and operate the elevator with uniformed, knowledgeable and professional attendants. The attendants shall be trained on the Mural Protection Guidelines (see below) and be able to answer questions about the murals and the history of Coit Tower. Ticket rates for elevator rides are established the San Francisco Park Code, Sec. 12.06, subject to approval by the Board of Supervisorsⁱ. Current ticket rates are shown in the following table:

Table 4: Current Coit Tower Elevator Ticket Rates

Age Category	San Francisco Resident	Non-Resident
Adult	\$5.00	\$7.00
Senior (65+)	\$3.00	\$5.00
Youth (12 – 17 years)	\$3.00	\$5.00
Child (5-11 years)	\$1.50	\$2.00
Child (4 years and under)	\$0.00	\$0.00

Mural Protection Guidelines

Coit Tower's murals are located on the first and second floors, and according to the lease are "internationally recognized cultural assets". The proposed lease requires Coit Tower, LLC to ensure that the murals are adequately protected at all times and to comply with Mural Protection Guidelines developed by the San Francisco Arts Commission and included as an exhibit to the proposed lease.

Docents and Tours

The proposed lease requires Coit Tower, LLC to employ one or more employees in addition to volunteers to act as a docent in the lobby of Coit Tower. According to the lease, docents shall be professional and knowledgeable about the history of Coit Tower, the murals, and the muralists and shall be uniformed or otherwise readily identifiable by the public. Docents on duty will greet visitors, inform guests about rules governing mural viewing (backpacks and other items to be carried in front, no food or drink, no touching, etc.) as required.

Gift Shop

The proposed lease provides for Coit Tower, LLC to operate a gift shop that “shall be maintained in a first-class manner in keeping with the character” and history of Coit Tower. The gift shop will sell items that are designed for Coit Tower and depict Coit Tower, its historical murals, and the history of the Tower and the San Francisco.

Food and Beverage Service

The proposed lease does not currently allow for food and beverage service due to a number of difficulties that arose in locating such service at the venue. Should this lease be approved and executed, a plan for future food and beverage service may be developed by RPD through consultation with the selected vendor, relevant stakeholders and additional City departments. According to the proposed lease, any amendment to the lease to allow food and beverage service at Coit Tower requires Board of Supervisors approval.

Maintenance

Coit Tower, LLC will be responsible for keeping Coit Tower in clean, safe, attractive and sanitary conditions. To fulfill this requirement, Coit Tower, LLC will provide janitorial services to interior areas of Coit Tower, and conduct regular cleaning of public restrooms at the main floor of Coit Tower, providing all necessary items. The City is responsible for maintenance, repair, landscaping and cleaning of premises and any permitted alterations (including access roads, elevator, utilities, HVAC system, sewerage system and other infrastructure).

Special Events

According to Section 7.1(f) of the proposed lease, no special events will be permitted at Coit Tower.

Lease Amendments

The proposed resolution authorizes the RPD General Manager to enter into additions, amendments, or other modifications to the lease that the General Manager, in consultation with the City Attorney, determines are in the best interest of the City, do not materially decrease the benefits to or increase the obligations and liabilities of the City, and do not authorize activities without undergoing required regulatory reviews and approvals.

However, as noted above, any future lease amendment allowing food and beverage service at Coit Tower requires Board of Supervisors approval.

FISCAL IMPACT

According to Ms. Costello, Coit Tower, LLC is estimated to pay percentage rent to RPD of \$1,224,500 in its first year of operation, which is \$328,432 or 26.8 percent more than rent of \$896,068 paid to RPD in FY 2012-13 under the prior lease. Revenue is projected to increase to \$1,508,272 in the fifth and final year of this lease agreement, as shown in the table below.

According to Ms. Costello, the revenue projections over the five-year term of the proposed lease exceed actual revenue under the prior lease due to several factors. First, Coit Tower is expected to receive additional visitors due to the mural restoration and site renovation. RPD experienced similar revenue increases following the renovations of other City attractions, including the Japanese Tea Garden and Stow Lake, which generated additional admissions. Second, the new tenant will be taking a number of steps to improve visitor flow and reduce waiting times for the elevator. Additionally, RPD has observed that a significant number of visitors to Coit Tower do not pay admission and ride the elevator to the observation platform. Coit Tower, LLC will implement procedures to ensure more efficient processing of admissions resulting in more visitors to the observation platform and higher overall revenue.

The table below shows the estimated annual rent to be paid by Coit Tower, LLC to RPD over the initial five-year term of the proposed lease.

Table 5: 5 Year Revenue Projections Under the Proposed Lease

	Year 1	Year 2	Year 3	Year 4	Year 5	Projected 5-year total
Concessions	\$167,000	\$170,000	\$175,000	\$180,000	\$185,000	\$877,000
Admissions	\$1,057,500	\$1,078,650	\$1,100,223	\$1,122,227	\$1,323,272	\$5,681,872
Total	\$1,224,500	\$1,248,650	\$1,275,223	\$1,302,227	\$1,508,272	\$6,558,872

Source: Department of Recreation and Parks

POLICY CONSIDERATION

The Proposed Resolution Reaffirms the Commitment of the Board of Supervisors to Preservation of Coit Tower in Accordance with Proposition B

San Francisco voters approved Proposition B on June 5, 2012, made it City policy to:

- Strictly limit commercial activities and private events at Coit Tower; and
- Use funds the City receives from Coit Tower concession operations for preserving the Coit Tower murals, protecting and maintaining the Coit Tower building, and beautifying Pioneer Park around Coit Tower.

City Charter Section 2.113 states that upon approval of a declaration of policy by the voters, the Board of Supervisors has the authority to carry such declarations into effect.

The proposed resolution reaffirms “the commitment of the Board of Supervisors to protect and preserve Coit Tower and its murals in accordance with Proposition B passed by voters on June 5, 2012”.

Prohibition of Special Events at Coit Tower

As noted above, the proposed lease does not allow for special events at Coit Tower.

Use of Coit Tower Revenues to Maintain Coit Tower and the Murals

The proposed resolution does not specifically require that Coit Tower revenues be allocated to maintenance of Coit Tower and the murals. However, the proposed resolution states that the Recreation and Park Commission “intends to propose that one percent of annual revenues from the Lease be allocated to the Arts Commission to provide an ongoing dedicated funding source for the maintenance and protection of the Coit Tower murals”. One percent of the estimated annual Coit Tower revenues would equal \$12,245 in year one of the lease and increase to \$15,082 in year five.

The proposed lease requires Coit Tower, LLC to make improvements to Coit Tower, that include lighting, painting, steam cleaning and other improvements as noted above. The City is responsible for maintenance, repair, landscaping and cleaning of premises and any permitted alterations (including access roads, elevator, utilities, HVAC system, sewerage system and other infrastructure).

Because the City is responsible for maintenance of Coit Tower under the proposed lease, including access roads, elevator, utilities, HVAC system, sewerage system and other infrastructure, the Budget and Legislative Analyst recommends amending the proposed resolution to state that the maintenance needs of Coit Tower will be included in the City’s 10-year capital plan.

RECOMMENDATIONS

1. Amend the proposed resolution to state that the maintenance needs of Coit Tower will be included in the City’s 10-year capital plan.
2. Approve the proposed resolution as amended.

ⁱ San Francisco Charter, Sec. 4.102 Boards and Commissions – Powers and Duties “4. Recommend to the Mayor for submission to the Board of Supervisors rates, fees and similar charges with respect to appropriate items coming within their respective jurisdictions.”