

CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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February 7, 2014

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst



SUBJECT: February 12, 2014 Budget and Finance Committee Meeting

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Item 2
File 14-0014

Department:
City Planning Department

EXECUTIVE SUMMARY

Legislative Objectives

- Under the proposed resolution, the Board of Supervisors would authorize the San Francisco Planning Department to apply for, accept and expend funds from the State Strategic Growth Council (SGC) Sustainable Communities Planning grant for the implementation of Green Connections: Oakdale Avenue.

Key Points

- Grant funds are made available by the Strategic Growth Council, established in 2008 by California Senate Bill 732. The Strategic Growth Council is required to manage and award grants and loans to support the planning and implementation of urban greening plans.
- This grant will implement Green Connections: Oakdale Avenue, the first capital project from the 2011 Green Connections plan. The plan envisions streets as ‘green connectors’ that enhance pedestrian and bicycle mobility and green neighborhoods, reduce stormwater runoff, and provide habitat corridors.
- The project would make improvements on Oakdale Avenue between Quint Street and Lane Street in the Bayview neighborhood by providing (1) 4 community greening workshops, (2) 8 community work days, (3) 64 new trees, (4) removal of 7,500 square feet of impermeable paving, (5) creation of 7,500 square feet of hearty drought-tolerant sidewalk gardens, (6) 4 new corner gardens, which will add greening and improve pedestrian safety at intersections, (7) new pedestrian scale lighting – a community safety priority, particularly when walking between community facilities and city transit stations, (8) improved bike lanes.

Fiscal Impact

- San Francisco Planning Department has applied for \$975,659 in grant funds to implement the first segment of Green Connections.
- The Planning Department is providing \$344,489 in local matching funds to the \$975,659 in State funds for a total project cost of \$1,320,148. Sources of matching funds are (1) Proposition B Road Repaving and Street Safety Bonds (\$300,000), (2) in-kind contributions (\$16,436), and (3) Planning Department funds (\$28,053). Matching funds are not required in this program; however, SGC encourages leveraging all resources, including other sources of funds.

Recommendation

- Approve the proposed resolution

MANDATE STATEMENT

Procedures established by the California Strategic Growth Council require a resolution certifying the approval of grant applications by the applicant's governing board before submission of the application to the State.

City Administrative Code Section 10.170-1 states that accepting Federal, State, or third-party grant funds in the amount of \$100,000 or more, including any City matching funds required by the grant, is subject to Board of Supervisors' approval.

BACKGROUND

California Strategic Growth Council Grant

The State of California's Strategic Growth Council (SGC) was authorized by Senate Bill (SB) 732, which requires the SGC to coordinate programs of member state agencies to improve air and water quality, improve natural resource protection, increase the availability of affordable housing, improve transportation, meet the goals of the California Global Warming Solutions Act of 2006, encourage sustainable land use planning, and revitalize urban and community centers in a sustainable manner. SGC manages and awards grants and loans to (a) support the planning and development of sustainable communities; (b) prepare, adopt and implement general plans, general plan elements, regional plans, or other planning instruments; and (c) prepare, adopt and implement urban greening plans.

Because of the built-out nature of California's urban areas, the SGC's Urban Greening for Sustainable Communities Program provides funds to preserve, enhance, increase or establish community green areas such as urban forests, open spaces, wetlands and community spaces (e.g., sidewalk gardens). The goal is for these greening projects to incrementally create more viable and sustainable communities throughout the State.

There is approximately \$15,000,000 available statewide for this program. This is the third and final round of funding.

Applications for funding are evaluated based on the following criteria:

1. Use natural systems, or systems that mimic natural systems; or create, enhance, or expand community green spaces.
2. Provide multiple benefits including, but not limited to
 - a decrease in air and water pollution, or
 - a reduction in the consumption of natural resources and energy, or
 - an increase in the reliability of local water supplies, or

- an increased adaptability to climate change.
3. Be consistent with the State's planning policies pursuant to Section 65041.1 of the Government Code specific to the following statewide priorities:
 - promote infill development and invest in existing communities,
 - protect, preserve and enhance environmental, agricultural and recreational resources, and
 - encourage location and resource efficient new development.
 4. Reduce, on as permanent a basis that is feasible, greenhouse gas emissions consistent with the California Global Warming Solutions Act of 2006 (Division 25.5 (commencing with Section 38500) of the Health and Safety Code), and any applicable regional plan.

Projects must also:

5. Comply with the California Environmental Quality Act (CEQA), Division 13 (commencing with Section 21000),
6. Comply with Labor Code Section 1771.5 regarding the labor compliance program and prevailing wages.

San Francisco Green Connections Plan

The recently completed Green Connections plan is intended to develop a citywide network linking people to parks, open spaces, and the water front. The plan was developed by the San Francisco Planning Department over a two-year time period from winter 2011 to winter 2013 and is the result of the Planning Department's outreach effort incorporating community-based organizations, government agencies and residents throughout San Francisco.

Alignment with existing plans and strategies

The Green Connections plan is consistent with several City efforts related to street design, open space and sustainability. Collectively, these plans describe a set of strategies for how to improve streets for walking and bicycling, increase access to parks and open spaces, and enhance the ecological functioning of City streets. Table 1 below summarizes these plans:

Table 1: Recent Planning Documents related to Green Connections Plan

Plan Title	Year of Release	Department
Blue Greenway Vision and Roadmap to Implementation	2006	Mayor's Blue Greenway Taskforce
San Francisco Bicycle Plan	2009	Planning Department
Better Streets Plan	2010	Planning Department
San Francisco Stormwater Design Guides	2010	Public Utilities Commission
2018 Bicycle Strategy	2013	Municipal Transportation Agency
San Francisco Pedestrian Strategy	2013	Mayor's Pedestrian Safety Task Force
Walk First: Improving Safety & Walking Conditions in San Francisco	Completion expected in 2014	Planning Department

The Green Connections plan also aligns with State and regional strategies designed to manage impacts of growth. According to Keith DeMartini, Planning Department Finance Manager, the Green Connections plan complies with the sustainable communities' strategy outlined in California SB 375, which seeks to limit the effects of climate change by linking land use to transportation, thereby reducing vehicular greenhouse gas emissions and promoting livable, healthy communities.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the Planning Department to apply for, accept and expend grant funds from the California Strategic Growth Council in an amount not to exceed \$975,659 for the Green Connections: Oakdale Avenue project. The proposed resolution would waive inclusion of indirect costs in the grant budget. The Budget and Legislative Analyst's report is based on an amended resolution, which will be submitted by the Planning Department to the February 12, 2014 Budget and Finance Committee meeting.

Oakdale Avenue Site Selection

San Francisco's Green Connections: Oakdale Avenue project is the first implementation project of the Green Connections plan. According to Mr. DeMartini, the Green Connections: Oakdale Avenue project conforms to the State's sustainable communities strategy outlined in SB 375 by decreasing the number of vehicle miles traveled, increasing bicycle and pedestrian usage and adding trees and sidewalk gardens. According to the grant application, the proposed project would provide sidewalk gardens, street trees, pedestrian lighting, and bike lanes on Oakdale Avenue between Quint Street and Lane Street in the Bayview neighborhood. According to Mr.

DeMartini, car ownership among households in the Bayview neighborhood is lower when compared to the City as a whole. As a result, many residents depend on public transportation and walking as their primary modes of transportation. The Oakdale Avenue improvements were included in the Bayview Hunters Point Community Revitalization Plan of 2002. The Bayview neighborhood is also a regional Priority Development Area¹. According to Mr. DeMartini, focusing development in these areas is a key strategy to meeting SB 375 goals.

The following capital improvements will be made to Oakdale Avenue through the implementation of the proposed project:

- 4 community greening workshops,
- 8 community work days,
- 64 new trees,
- removal of 7,500 square feet of impermeable paving, and creation of 7,500 square feet of drought-tolerant sidewalk gardens,
- 4 new corner gardens, which will add greening and improve pedestrian safety at intersections,
- new pedestrian scale lighting, to increase community safety, particularly when walking between community facilities and city transit stations, and
- improved bike lanes.

The anticipated timeline for the project is summarized in Table 2 as follows:

Table 2: Green Connections: Oakdale Avenue Project Timeline

Key Deliverable	Task	Start Date	End Date
Project Launch	Kick-off meeting with project partners	July 2014	Aug. 2014
	Complete contracts and work orders	Aug. 2014	Oct. 2014
Streetscape Construction	Design and Construction drawings	July 2014	Nov. 2014
	Secure construction permits	Oct. 2014	Nov. 2014
	Construction contract	Dec. 2014	Jan. 2015
	Groundbreaking	Feb. 2015	Feb. 2015
	Construction	Mar. 2015	Sept. 2015
Greening & Public Engagement	Community presentation of final design	Sept. 2014	Sept. 2014
	Publicize greening workshops	June 2015	Jul. 2015
	Host four (4) greening workshops	Aug. 2015	Sept. 2015
	Facilitate eight (8) community greening work days	Oct. 2015	Dec. 2015
Administration	Volunteer Coordination	Apr. 2015	Dec. 2015
	Grant reports and invoices to SGC	Quarterly Submissions	

¹ Priority Development Areas (PDAs) are locally designated areas within existing communities that have been identified and approved for future growth. These areas are typically accessible to transit, jobs, and other services.

Planning and implementation for this project includes multiple City agencies and local community-based organizations. The San Francisco Planning Department completed the Green Connections plan, and solicited design input from Friends of the Urban Forest, a local community-based organization.² Friends of the Urban Forest will host four community greening workshops (one for each block of the Oakdale Avenue project) to provide residents information on the greening process and maintenance. Prior to planting of trees and gardens, all participating property owners sign a maintenance agreement with Friends of the Urban Forest and participate in work days. Following greening, each block will designate a volunteer captain to receive a maintenance toolkit with a shovel, spade, hose, spray nozzle, gloves, and guidebook. Friends of the Urban Forest follows up with annual tree trimmings and health checks every year for five years after the close of the grant.

The Department of Public Works (DPW) would provide construction support and design engineering for the project. Friends of the Urban Forest would perform outreach to support residents and property owners along Oakdale Avenue in maintaining the greening.

FISCAL IMPACT

The Green Connections: Oakdale Avenue estimated total project cost is \$1,320,148, as summarized in Table 3 below. The attachment to this report provides budget details.

Table 3: Green Connections: Oakdale Avenue Project Budget Summary

Sources of Funds	Total Budget
City Match	
Proposition B Road Repaving and Street Safety Bonds	\$300,000
In-Kind Contributions	16,436
Planning Department Funds	28,053
<i>City Match Subtotal (26%)</i>	<i>344,489</i>
State Funds	
Strategic Growth Council Funds	975,659
<i>State Funds Subtotals (74%)</i>	<i>975,659</i>
Total Sources	\$1,320,148
Uses of Funds	
DPW Project Management Costs	\$270,531
Streetscape Materials	729,960
Streetscape Construction	72,996
Greening	151,458
Contingency (6.5 % of project management, materials, construction and greening costs)	80,296
Other	14,908
Total Uses	\$1,320,148

² Friends of the Urban Forest's mission is to promote a larger, healthier urban forest as part of San Francisco's green infrastructure through community planting, tree care, education, and advocacy.

According to Mr. DeMartini, although the SGC grant application does not require matching funds, SGC encourages applicants to provide local matching funds in addition to the grant funds.

Detail on sources of matching funds

\$300,000 Proposition B Road Repaving and Street Safety Bond - The 2011 Road Repaving and Street Safety Bond provides \$248 million for improvements to the public right-of-way, of which \$30,783,542 was previously appropriated by the Board of Supervisors through Ordinance No. 104-13, to streetscapes, and pedestrian and bicycle safety improvements. DPW has allocated \$300,000 of the \$30.8 million to Oakdale streetscape improvements.

\$16,436 In-kind contributions - In-kind contributions for the project are coming from community volunteers who will be coordinated by Friends of the Urban Forest, and property owners and residents, who will pay \$178 each for tree planting/sidewalk landscape permits from the Bureau of Urban Forestry.

\$28,053 Planning Department funds – According to Mr. DeMartini these funds will pay for the 390 hours of a Planner III assigned to the project. The Planner III is part of the Citywide Division, which is funded through overhead charged on application fees, fees for specific application reviews, grants, and work orders with other city agencies.

Ongoing maintenance costs

The DPW Bureau of Urban Forestry maintains the trees and greening in specific public areas: high traffic corridors, medians, and publicly owned parks. Total estimated costs related to the maintenance of the Green Connections: Oakdale Avenue project are not available from DPW at this time. Fronting property owners will be responsible for any maintenance of trees installed in front of their property.

RECOMMENDATION

Approve the proposed resolution.

PROJECT ELEMENT	Unit Price	Unit of Measure	Quantity	Total Amount	SGC Prop 84 Grant	In-Kind	Prop B Street Bond	Planning Dept
	\$			\$	\$	\$	\$	\$
1 Project Management Costs								
Project Management (Planning Dept 5291)	\$71.93	\$/hour	390	\$28,053				\$28,053
Outreach & Community engagement coordination (Friends of the Urban Forest)	\$32.45	\$/hour	374	\$12,136	\$12,136			
outreach/engagement materials	\$0.33	\$/unit	4500	\$1,500	\$1,500			
Construction support (15% of construction total)	-	Lump Sum	-	\$120,443			\$120,443	
Design and engineering (13% of construction total)	-	Lump Sum	-	\$104,384			\$104,384	
Labor Compliance Program (grant requirement)	-	Lump Sum	-	\$4,015			\$4,015	
Subtotal Task 1 (not to exceed 25% of grant)				\$270,531	\$13,636	\$0	\$228,842	\$28,053
1%								
2 Streetscape Materials								
Corner bulb-outs with sidewalk planters	\$80,080	\$/unit	4	\$320,320	\$249,162		\$71,158	
New Pedestrian Street Lighting	\$10,000	\$/unit	17	\$170,000	\$170,000			
Conduit for Pedestrian Lighting	\$60	\$/linear foot	3200	\$192,000	\$192,000			
Roadway Striping & Signage	\$10	\$/linear foot	4764	\$47,640	\$47,640			
				\$729,960	\$658,802	\$0	\$71,158	\$0
3 Streetscape Construction								
mobilization	\$729,960	Lump Sum	5%	\$36,498	\$36,498			
traffic control	\$729,960	Lump Sum	5%	\$36,498	\$36,498			
Subtotal Task 2				\$72,996	\$72,996	\$0	\$0	\$0
4 Greening								
Sidewalk garden coordinator (FUF)	\$30.51	\$/hr	720	\$21,967	\$21,967			
Tree planting manager (FUF)	\$28.01	\$/hr	700	\$19,607	\$19,607			
Community Outreach Manager (FUF)	\$30.11	\$/hr	96	\$2,891	\$2,891			
Program Director (FUF)	\$56.03	\$/hr	20	\$1,121	\$1,121			
Citizen Forester volunteers	\$21.79	\$/hr	65	\$1,416		\$1,416		
Community volunteers	\$12.00	\$/hr	65	\$780		\$780		
concrete cutting and removal for sidewalk g	\$4.00	\$/square foot	7500	\$30,000	\$30,000			
Permeable paver installation (labor for 25%)	\$15.00	\$/square foot	1875	\$28,125	\$28,125			
concrete cutting and removal for new trees	\$80.00	\$/tree basin	64	\$5,120	\$5,120			
Garden materials (Plants, grasses, edging m	\$3.44	\$/square foot	7500	\$25,800	\$25,800			
permeable pavers (gardens only)	\$5.42	\$/square foot	1875	\$10,163	\$10,163			
Trees (15 gallon)	\$51.30	\$/unit	64	\$3,283	\$3,283			
Tree planting materials (Stakes, arbor tie, tre	\$18.52	\$/set	64	\$1,185	\$1,185			
Subtotal Task 3				\$151,458	\$149,261	\$2,196	\$0	\$0
5 Other								
Interpretive signage (with SGC, City, FUF lo	150	\$/unit	2	\$300	\$300			
Neighborhood maintenance toolkit	92	\$/unit	4	\$368	\$368			
Permits	178	\$/unit	80	\$14,240		\$14,240		
Subtotal Task 4				\$14,908	\$668	\$14,240	\$0	\$0
6 Contingency (not to exceed 10% of grant)								
construction contingency (10% construction contract)	\$80,296	streetscape construction costs	-	\$80,296	\$80,296			
Subtotal Task 5				\$80,296	\$80,296	\$0	\$0	\$0
GRAND TOTAL				\$1,320,148	\$975,659	\$16,436	\$300,000	\$28,053

Item 4 File 13-1163	Departments: Port of San Francisco Office of Economic and Workforce Development (OEWD)
EXECUTIVE SUMMARY	

Legislative Objective

Approval of the proposed resolution would endorse the proposed term sheet between the Port and Office of Economic and Workforce Development (OEWD), and Pacific Gas and Electric Company (PG&E) for the Embarcadero-Potrero 230 kilovolt (kV) Cable Project.

Key Points

- PG&E proposes to construct a 230 kV underwater cable (Cable Project) from the Embarcadero Substation (Fremont and Folsom Streets) to the Potrero Switchyard (22nd and Illinois Streets), which will provide electricity redundancy to downtown San Francisco. The Cable Project was approved by the California Public Utilities Commission (CPUC), and CPUC completed environmental review of the project.
- Approval of the proposed term sheet between the Port, OEWD, and PG&E would set the terms of negotiations for three proposed agreements: (1) a license between the Port and PG&E to construct and operate an underwater 230 kV cable on Port property from the Embarcadero Substation to the Potrero Switchyard; (2) an option for OEWD to purchase from PG&E a land parcel located at 22nd and Illinois Streets (the Hoedown Yard), which may be transferred to a third party; and (3) an option for the City to direct PG&E to build a screen around the existing Potrero 115 kV Switchyard.
- According to the proposed resolution, the term sheet is not a binding document that commits the Port, OEWD, or PG&E to proceed with the Cable Project or the purchase of the Hoedown Yard.

Fiscal Impact

- Under the proposed term sheet, PG&E will prepay rent of an estimated \$15,275,205 to the Port for the initial 40-year term of the license. This license is for use of the Port's underwater land between Potrero Hill and the Embarcadero and underground land adjacent to 23rd Street in Potrero Hill. The rent is based on the appraised value of adjacent properties.
- Under the proposed term sheet, OEWD will have the option to purchase the Hoedown Yard from PG&E for the purchase price of approximately \$8,322,942, based on the current appraised value. OEWD may transfer the option to purchase the Hoedown Yard to a private entity. The proposed resolution should be amended to (1) ensure that the City does not incur costs to exercise the purchase option of the option is transferred to a third party, as detailed in the recommendations below; and (2) specify that the Director of Real Estate,

rather than OEWD, has the option to purchase the Hoedown Yard, including transfer of the option to a private entity.

- Under the proposed term sheet, PG&E will screen the Potrero Switchyard, either by enclosing the switchyard in a building or constructing a screen around the switchyard perimeter at the City's request. If PG&E is not allowed by the CPUC to recover costs through utility rates, then the costs may be paid from infrastructure financing district (IFD) proceeds if the City forms an IFD project area that incorporates the Hoedown Yard. The proposed resolution should be amended to require the Port to submit detailed information to the Board of Supervisors on the costs of screening the Potrero Switchyard if IFD funds are used to pay the costs, and to urge the Port and PG&E to apply net sale proceeds from any PG&E land made surplus due to the screening of the switchyard to repay the IFD funds.

Policy Consideration

- The proposed term sheet provides for an option for the City to purchase the Hoedown Yard and then resell the Hoedown Yard to a third party. The City has not historically entered into purchase agreements with the intention of reselling the property for private development, although the former San Francisco Redevelopment Agency had such agreements. According to Port staff, net proceeds to the City for the resell of the Hoedown Yard to a third party would be used as a source of funds to redevelop property under the jurisdiction of the San Francisco Housing Authority. The proposed resolution should be amended to state that net revenues to the City from the transfer of the purchase option for the Hoedown Yard to a third party will be allocated to affordable housing projects. Endorsement of the proposed term sheet provision for the option by the City to purchase the Hoedown Yard is a policy matter for the Board of Supervisors because it provides for the City to purchase property with the intention of reselling the property for private development.

Recommendations

- Amend the proposed resolution to require that the proposed license specify that if the option to extend the term is exercised, the City and PG&E will jointly select the appraiser; and establish procedures to resolve disputed appraised values.
- Amend the proposed resolution to specify that:
 - The Director of Real Estate, rather than OEWD, will have the option to purchase the Hoedown Yard, including transfer of the option to a private third party;
 - City funds cannot be used for the purchase of the property unless the property is used for public purposes or the City is fully reimbursed for all public funds associated with the option;
 - The City will only exercise the option to purchase the Hoedown Yard if (1) the property is transferred to a third party that assumes all environmental liabilities associated with the property under an "as-is" sale; or (2) a City department proposes a public use for the site, has an identified funding source and a plan to use the site in a manner that conforms to regulatory requirements for the site, and has determined that the value of

the land at the time of purchase is not less than purchase price of approximately \$8,322,942; and

- Net revenues to the City from the transfer of the option to purchase the Hoedown Yard will be allocated to affordable housing projects, including the Potrero Terrace and Annex HOPE VI.
- Amend the proposed resolution to:
 - Require the Port to present detailed information to the Board of Supervisors on the costs of constructing the Potrero Switchyard screen if the proposed screen is to be funded by a future IFD project area; and
 - Urge the Port and PG&E amend the final agreement to screen the Potrero Switchyard to provide that any value from the sale of land no longer required for Potrero Switchyard purposes (net of any environmental cleanup costs), that is not owed to ratepayers and that is not required for purposes of constructing the screen, should be used to repay all or a portion of the IFD investment in the screen of the Potrero Switchyard.
- Endorse the proposed term sheet provisions, as amended, for the license between PG&E and the Port to construct and operate the 230 kV cable under the Bay.
- Endorsement of the proposed term sheet provisions for the option to purchase the Hoedown Yard, as amended, is a policy matter for the Board of Supervisors because the term sheet provides for the City to purchase property with the intention of reselling the property for private development; and
- Endorsement of the proposed term sheet provisions for the City to request PG&E to screen the Potrero Switchyard, as amended, is a policy matter for the Board of Supervisors because construction of the screen may be funded by future IFD revenues.

MANDATE STATEMENT

The Budget and Legislative Analyst recommended in our April 2004 *Management Audit of the Port of San Francisco* that the Board of Supervisors request the Port Commission to submit to the Board for the Board's endorsement, all development negotiation term sheets for projects with development costs greater than \$10 million, and to submit the development agreements to the Board of Supervisors for approval. The Budget and Legislative Analyst's recommendation was accepted by the Board of Supervisors.

BACKGROUND

California Independent System Operator Transmission Plan

The California Independent System Operator (ISO) is the independent electricity grid operator, responsible for managing the transmission of electricity across California's high-voltage, long-distance power lines. The 2011/2012 ISO Transmission Plan, which is a comprehensive evaluation of the ISO transmission grid to identify system reliability and upgrade requirements, states that Pacific Gas and Electricity's (PG&E) proposed Embarcadero-Potrero 230 kV (kilovolt) Cable Project will provide electricity redundancy to downtown San Francisco and protect against the simultaneous loss of two existing electricity cables serving downtown San Francisco.

Embarcadero-Potrero 230 KV Cable Project

PG&E has two existing 230 kV cables that comprise an electricity transmission line extending from the Embarcadero Substation (Fremont and Folsom Streets) to the Martin Substation (Schwerin Street and Geneva Avenue in Daly City,). Electricity generated by the Embarcadero Substation serves most of downtown San Francisco, including sections of the Embarcadero, Chinatown, North Beach, Financial District, Union Square, Mid-Market, South of Market, and Mission Bay.

According to the 2011/2012 ISO Transmission Plan, loss of these two cables or failure of the Embarcadero Substation breaker will result in the loss of electricity to the areas served by the Embarcadero Substation, and "while the likelihood of the simultaneous loss of both circuits is low, the consequences of the outage are severe..." PG&E plans to construct a 230KV transmission bus¹ at the Embarcadero Substation, with an estimated completion date by 2016.

PG&E requests to enter into a license with the Port to construct the proposed Embarcadero-Potrero 230 kV Cable Project (Cable Project) on Port property during the same general time frame in which PG&E is constructing the new Embarcadero 230KV Bus Upgrade project.

¹ Transmission buses are steel structure arrays of switches used to route power into a substation.

Alternative Underground Cable Routes

PG&E studied three potential routes for laying the proposed 230 kV cable:

- Underground from the Embarcadero Substation, along Harrison and Bryant Streets to Henry Adams Street, 17th Street, and Tennessee Street to the Potrero Switchyard (22nd and Illinois Streets);
- Underground from the Embarcadero Substation, along Folsom and Bryant Streets to 5th Street and Minnesota Street to the Potrero Switchyard, which requires running cable under Mission Creek; or
- Under the Bay from the Embarcadero Substation to the Potrero Switchyard.

Exhibit 1 below shows the three alternative routes. PG&E has selected the third option to construct a cable route under the Bay, which is the project it proposed for approval to the California Public Utilities Commission (CPUC). The CPUC has conducted an environmental review of that proposed project.

Exhibit 1: Embarcadero-Potrero 230 kV Cable Project

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would endorse the term sheet between the Port, Office of Economic and Workforce Development (OEWD), and PG&E, which sets the terms of negotiations for the following proposed agreements:

- A license between the Port and PG&E for PG&E to construct and operate an underwater 230 kV cable on Port property from the Embarcadero Substation to the Potrero Switchyard;
- An option for OEWD to purchase from PG&E a land parcel located at 22nd and Illinois Streets (the Hoedown Yard), subject to required approvals, which may be transferred to a third party, as discussed below; and
- An option for the City to direct PG&E to build a screen around the existing Potrero 115 kV Switchyard, subject to required approvals.

According to the proposed resolution, the term sheet is not a binding document that commits the Port, OEWD, or PG&E to proceed with the Cable Project, or to purchase of the Hoedown Yard. Also, the proposed term sheet does not outline all the material terms and conditions of any final transaction documents.

Proposed Term Sheet

Proposed License Agreement between the Port and PG&E

The Cable Project entails construction of a (a) three-mile 230 kV cable on Port property under the Bay from the Embarcadero Substation to the Potrero Switchyard; and (b) new 230 kV substation adjacent to the existing 115 kV Potrero Switchyard, and related equipment to interconnect the new substation to the existing 115 kV Potrero Switchyard.

Under the proposed term sheet, the Port and PG&E would enter into a license agreement for Port property that provides PG&E exclusive use of underwater land to lay the 230 kV cable, non-exclusive use of underwater land to access the cable, underground land for horizontal downward drilling to run the cable from the Bay to land, and underground land at 23rd Street. Terms of the proposed license are shown in Table 1 below:

Table 1: Terms of Proposed License Granted by the Port to PG&E

Area	<p>79,200 square feet of exclusive use underwater land</p> <p><u>356,400</u> square feet of non-exclusive use underwater land</p> <p>435,600 square feet of underwater land</p> <p>52,272 square feet horizontal downward drilling</p> <p><u>21,120</u> square feet underground 23rd Street</p> <p>508,992 square feet total</p>
Initial Term	40 years from approximately 2014 through 2054
Option to Renew	26 years from approximately 2055 through 2081
Rent Initial Term Payable by PG&E to the Port	\$15,275,205 pre-paid
Rent Option Term Payable by PG&E to the Port	<ul style="list-style-type: none"> - Fair market value based on third party appraisal - Rent may be prepaid or paid annually as determined by PG&E
Construction Period Rent	75% abatement of rent during first two years
Deposits	<ul style="list-style-type: none"> - Security deposit equal to 1/6th of the license fee in the 40th year of the term (approximately \$375,000) - Environmental oversight deposit of \$10,000, increased by 15% every five years - Environmental assurances deposit up to \$6 million at the discretion of the Port
Regulatory Approvals	<ul style="list-style-type: none"> - California Public Utilities Commission (CPUC) - California Environmental Quality Act (CEQA) - San Francisco Department of Public Works (DPW) permits - Port building and other permits - Other State agencies, which may include State Water Resources Control Board, San Francisco Bay Conservation and Development Commission, and Regional Water Quality Control Board - Army Corps of Engineers
Non-exclusive License	Port reserves the right to grant other licenses or easements except in PG&E's exclusive use zone or other Port areas described in the proposed term sheet

Construction Period Rent

Under the proposed term sheet, PG&E would pay reduced rent to the Port during the two-year construction period. According to Mr. Brad Benson, Port Special Projects Manager, the proposed 75 percent reduction in rent during the construction period is a common feature of Port development leases because during the construction period, Port tenants are not realizing the revenues that will be available to tenants after projects are completed. Mr. Benson states that this leasing strategy is intended to encourage private investment in Port property that will generate future revenues enabling the payment of future Port rent.

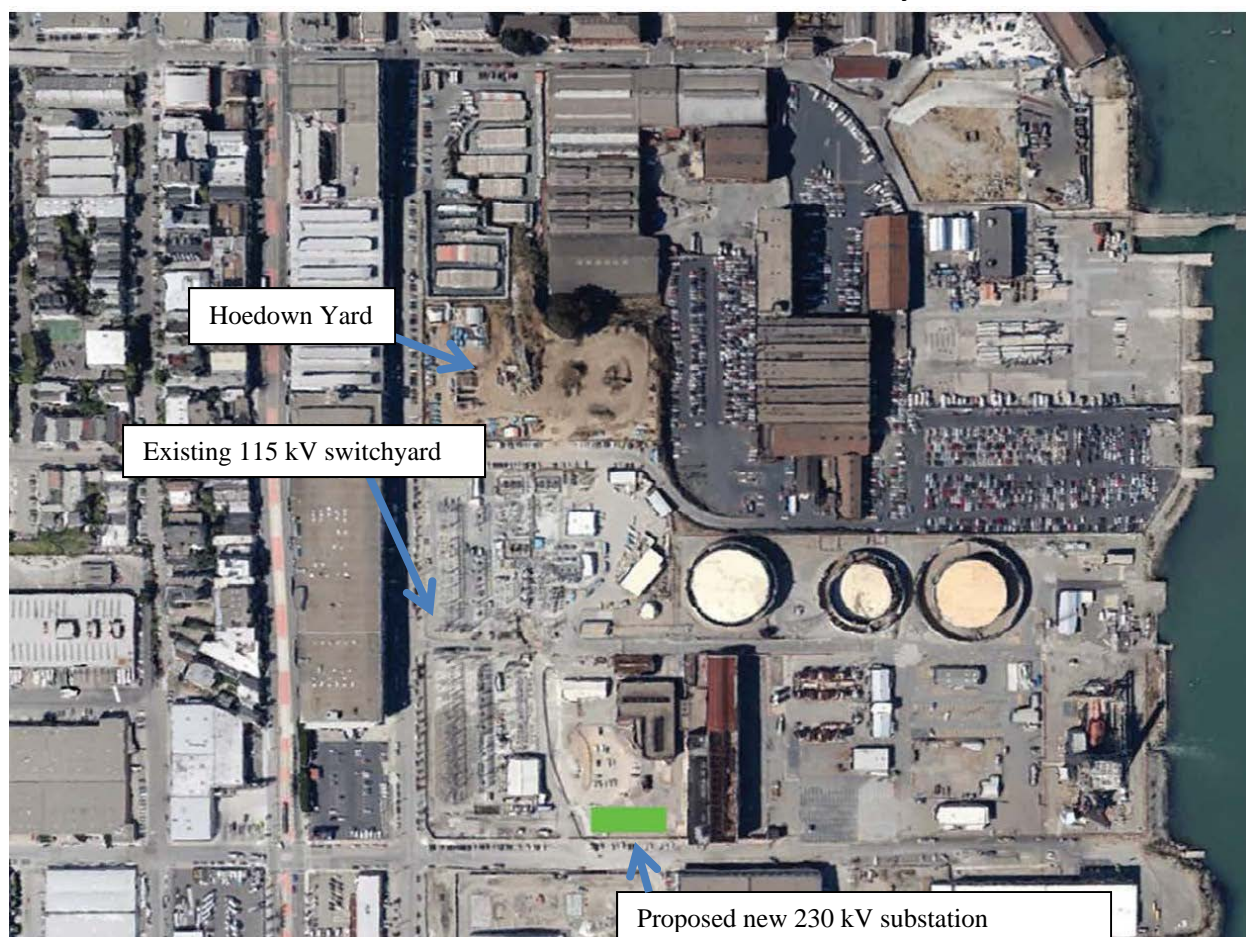
CPUC Environmental Impact Analysis

According to the CPUC's August 2013 draft "Mitigated Negative Declaration and Supporting Initial Study" of the proposed Cable Project:

"Based on the analysis in the Initial Study, it has been determined that all project-related environmental impacts could be reduced to less than significant level with the incorporation of feasible mitigation measures. Therefore, adoption of a Mitigated Negative Declaration will satisfy the requirements of CEQA."

Purchase and Sale of Hoedown Yard

The proposed term sheet would grant an option to OEWD to purchase PG&E's Hoedown Yard at 22nd and Illinois Streets, adjacent to the existing 115 kV Potrero Switchyard and proposed new 230 kV Potrero Substation, as shown in Exhibit 2.

Exhibit 2: Hoedown Yard and Potrero Switchyard

The proposed terms of the City's option to purchase the Hoedown Yard are summarized in Table 2 below.

Table 2: Terms of Proposed Option by OEWD to Purchase PG&E's Hoedown Yard

Area	3.0 acres on the northeast corner of 22 nd Street and Illinois Street
Purchase Price	\$8,322,942, equal to \$63.67 per square foot for approximately 130,720 square feet (approximately 3.0 acres)
Option Period	Prior to December 31, 2019
Transfer Rights	The option may be transferred or assigned to another party in the City's sole discretion without payment of fees or other consideration to PG&E.
Closing Costs	<ul style="list-style-type: none"> - PG&E pays (a) the premium for title insurance; (b) all transfer and sales taxes; (c) one-half of escrow fees; and (d) PG&E's attorney and consultant fees - OEWD pays (a) one-half of escrow fees; (b) all other title costs; and (c) OEWD's attorney and consultant fees
Closing Requirements	OEWD must complete acquisition of the property within five years of exercising the option and the latter of CPUC, CEQA and other regulatory approvals
Rezoning of Property	<ul style="list-style-type: none"> - The City may rezone the property, which is currently zoned for heavy industrial use, to another use, including residential use. Rezoning to residential use will require the City and PG&E to determine allocation of the risks associated with residential development on the Hoedown Yard based on the existing site conditions. - The purchase price is not subject to change based on rezoning of the property.
Refinement of Terms	The terms and conditions of the option to purchase the property will be further refined in a separate option agreement, which will be submitted to the Board of Supervisors for approval concurrently with the License.

Waterfront Site Project and Special Use District

In June 2013 the Board of Supervisors approved a resolution, endorsing the term sheet for the proposed Waterfront Site project. (File 13-0495). Under that term sheet, the Port and Forest City Development California, Inc. (Forest City) will enter into a ground lease for Pier 70 and a development agreement, in which Forest City will develop the Pier 70 as part of the Waterfront Site mixed-use project. The Waterfront Site project also includes two third-party parcels: 20th and Illinois Street parcel and the Hoedown Yard. The Waterfront Site is currently zoned for

heavy industrial use and will need to be rezoned as a special use district to allow for mixed use development.

At the time that the Board of Supervisors approved the term sheet for the Waterfront Site project, the Port was in discussions with PG&E to acquire the Hoedown Yard, with a potential option for Forest City to acquire the Hoedown Yard from the Port as part of the Waterfront Site mixed use development. Subsequently, the Port determined that OEWD rather than the Port should acquire the option to purchase the Hoedown Yard, since the Port could not use Port funds to acquire non-trust properties for non-trust uses.

Transferable Option to Purchase the Hoedown Yard

Under the proposed term sheet, OEWD may transfer the option to purchase the Hoedown Yard to a private entity. According to Mr. Benson, the intent of the transferable option to purchase the Hoedown Yard is to:

- (1) Promote a change in use for the property, which is currently used by PG&E for parking, equipment storage, and temporary storage of drilling mud, concrete, soil, asphalt and other materials for utility purchases; and
- (2) Generate net proceeds for the Potrero Terrace and Annex HOPE VI project.

Mr. Benson states that a commercial or residential use of the Hoedown Yard would be more compatible with the Waterfront Site mixed use development than PG&E's current use of the property.

Because the Hoedown Yard is intended for private uses, the proposed resolution should be amended to specify that:

- (1) The intent of the option to purchase the Hoedown Yard is to transfer the option to a private entity for development of the property compatible with the Waterfront Site mixed use development; and
- (2) City funds cannot be used for the purchase of the property unless the property is used for public purposes or the City is fully reimbursed for all public funds associated with the option.

Further, because the City's Administrative Code assigns responsibility for property transactions on behalf of the City to the Director of Real Estate, the proposed resolution should be amended to specify that the Director of Real Estate, rather than OEWD, has the option to purchase the Hoedown Yard, including transfer of the option to a private entity.

Environmental Mitigation

According to the September 6, 2013 Port staff memorandum to the Port Commission, PG&E has completed site investigation and a human health risk assessment of the Hoedown Yard. The findings of this assessment indicate that arsenic is present in approximately 20,000 square feet of soil up to five feet in depth. This arsenic contamination poses a potential human health risk to future construction workers. According to Mr. Benson, the site can be used as-is for

industrial and commercial uses but would require mitigation for construction or residential uses. PG&E has developed a Site Management Plan, approved by the San Francisco Bay Water Quality Water Control Board and filed a deed restriction limiting future uses of the site to commercial and industrial uses. According to Mr. Benson, the Site Risk Management Plan provides for construction methods to mitigate this risk to construction workers during construction on the site.

Under the proposed term sheet, if the City wants to use the Hoedown Yard for residential development, PG&E will need to agree to lift the deed restriction. The term sheet states that the City and PG&E will establish a “reasonable mechanism” to allocate the risks of existing site conditions associated with residential development of the Hoedown Yard.

Screening of Potrero Switchyard

PG&E’s existing 115 kV Potrero Switchyard is adjacent to the Hoedown Yard and Pier 70. According to the September 6, 2013 Port staff memorandum to the Port Commission, Pier 70 and the surrounding area are being redeveloped from heavy industrial use to mixed use, and screening the switchyard would be more compatible with mixed use development. The proposed term sheet requires PG&E to enclose or screen, at the City’s option, a substantial portion of the existing switchyard at any time within five years of designation of the City’s preferred design. Screening of the switchyard may include either an enclosed building or perimeter screening, based on City preference and approval of the Port’s Waterfront Design Advisory Committee.

Appraised Value of Proposed License Granted by the Port to PG&E and the OEWD’s Option to Purchase the Hoedown Yard

Two appraisals of the Hoedown Yard were conducted by separate appraisers, one commissioned by the City’s Real Estate Division and the other commissioned by PG&E.

Appraisal by Associated Right of Way Services, Inc.

The Real Estate Division selected Associated Right of Way Services, Inc. (ARWS) from their as-needed appraisers list to conduct an appraisal of the Hoedown Yard. According to the November 15, 2012 appraisal report to the Real Estate Division, the as-is value of the Hoedown Yard is \$9,930,000, or approximately \$76 per square foot for 130,720 square feet of land. The appraiser compared the Hoedown Yard to the sales price of other industrial properties in 2011 and 2012, which ranges from \$74.51 per square foot to \$87.62 per square foot. The appraised value of \$76 per square foot for the Hoedown Yard was based on the costs to clean up environmental contamination and the existence of an easement for railroad purposes.

Appraisal by Tattersol & Associates

According to the September 6, 2013 Port staff memorandum to the Port Commission, the ARWS appraisal indicated industrial land values that exceeded the expectations of both Port

and PG&E staff; and the Port granted PG&E's request to conduct a second appraisal, subject to appraisal instructions approved by the Port.

According to the February 8, 2013 appraisal report to PG&E, the as-is value of the Hoedown Yard is \$6,405,000, or approximately \$49 per square foot for 130,600 square feet. The appraised value by Tattersol & Associates is \$3,525,000 or 35 percent less than the \$9,930,000 appraised value by ARWS. The appraiser compared the Hoedown Yard to the sales price of other industrial properties in 2009 and 2010, which ranged from \$33.28 per square foot to \$99.00 per square foot. The appraised value of \$49 per square foot for the Hoedown yard was based on the costs to clean up environmental contamination and the existence of an easement for railroad purposes.

Rent for Proposed License Based on Appraised Land Value

The Port does not have a standard methodology for determining rent for underwater land and does not use methodologies established by other ports. To determine the rent for the proposed license, the Port negotiated the rent per square foot with PG&E as follows:

Exclusive use underwater land: 50 percent of the approximate average of the two appraised values using a capitalization rate² of 8 percent.

Non-exclusive use underwater land: 25 percent of the approximate average of the two appraised values using a capitalization rate of 8 percent.

Underground area: \$0.031562 per square foot.

According to Mr. Benson, rents for the exclusive and non-exclusive underwater land and underground areas are based on the following:

- The Port has an established policy of charging rent for underwater land based on 50 percent of appraised industrial upland value. This policy was adopted after reviewing the practice of the California State Lands Commission for renting underwater land.
- The Port negotiated rent for the non-exclusive zone based on 25 percent of appraised industrial upland value.
- The rent for underground areas is based on underground rents established by the Port and PG&E for the Hunters Point 115kV Cable Project.

According to Mr. Benson, the capitalization rate of 8 percent, which the Port used to set the rent for the exclusive and non-exclusive use of underwater land, is based on the proposed use and estimated value of the underwater land.

Fair Market Value for the Option Period Rent under the Proposed License

According to the proposed term sheet, if PG&E exercises the option to renew the license for an additional 26 years, the fair market value rent will be determined by appraisal using the same

² The *capitalization rate* represents the estimated annual income from the property.

formulas to establish the initial rent. The proposed resolution should be amended to require that the license (a) specify that the City and PG&E will jointly select the appraiser; and (b) establish procedures to resolve disputed appraised values.

Purchase Price for the Proposed Option to Purchase the Hoedown Yard

The purchase price for the Hoedown Yard under the proposed option is \$63.67 per square foot, which according to Mr. Benson is based on the approximate average of the two appraised values, including discounts to account for the costs to clean up environmental contamination and the existence of an easement for railroad purposes.

FISCAL IMPACT

Rent to the Port under the Proposed License

Under the proposed license to be issued by the Port to PG&E, PG&E will prepay rent to the Port for the initial 40-year term, estimated to be \$15,275,205 (Table 1).³ The Port calculated the prepayment of the rent based on 3 percent per year escalation of the rent and an annual discount rate of 6.5 percent.⁴ The discount rate of 6.5 percent is based on the current estimated blended average of the Port's costs of funds (bonds, loans and other payables).

Costs to Purchase the Hoedown Yard

Under the proposed term sheet, OEWD would have the option to purchase the Hoedown Yard for \$63.67 per square foot, estimated to be \$8,322,942 (Table 2) for approximately 130,720 square feet. The actual purchase price would be established based on the actual square footage of the Hoedown Yard. The purchase price is not subject to change due to rezoning of the property or the date when the title is transferred to the City.

Under the proposed term sheet, OEWD must exercise the option to purchase the Hoedown Yard by December 31, 2019, which is approximately six years. Upon exercising the option, the City may complete the acquisition within five years following the later of CPUC, CEQA and other regulatory approvals. Therefore, because the title to the Hoedown Yard may not be transferred to the City for up to 10 years or more, during which time the value of the property could decrease, the proposed resolution should be amended to specify that the City will not enter into a purchase agreement for the Hoedown Yard unless (1) the City has identified a third party buyer willing to pay the full purchase price for the property on an "as-is" basis and accept any remaining environmental liabilities associated with the property; or 2) a City department proposes a public use for the site, has an identified funding source and a plan to use the site in a manner that conforms to regulatory requirements for the site, and has determined that the value of the land at the time of purchase is not less than purchase price of approximately \$8,322,942.

³ The prepaid rent includes construction period rent in year one and year two of approximately \$185,000 per year, and annual rent beginning in year three of approximately \$773,200.

⁴ The discount rate is the rate used to calculate the present value of future payments.

Screening of the Potrero Switchyard

Under the proposed term sheet, PG&E will screen the Potrero Switchyard, either by enclosing the switchyard in a building or constructing a screen around the switchyard perimeter at the City's request. PG&E will apply to the CPUC to recover the costs of the screen through rates charged to PG&E customers.

If CPUC does not approve PG&E's application to recover costs through utility rates, then under the proposed term sheet, the costs may be paid from infrastructure financing district (IFD) proceeds generated by the Hoedown Yard if the City forms a Pier 70 IFD project area that includes the Hoedown Yard and properties no longer required by the Potrero Switchyard. According to Mr. Benson, the Port does not have estimates at this time of the costs to screen the Potrero Switchyard or potential IFD revenues from the Hoedown Yard to pay for these costs.

According to Mr. Benson, enclosure of the existing Potrero Switchyard in a new building would likely make available for sale additional PG&E-owned land currently occupied by the Potrero Switchyard. According to Mr. Benson, the sale of such land, net of any environmental cleanup costs, would typically generate proceeds that are divided between ratepayers (because the site is a regulated utility asset) and PG&E shareholders.

The proposed resolution should be amended to:

- Require the Port to present detailed information to the Board of Supervisors on the costs of constructing the Potrero Switchyard screen if the proposed screen is to be funded by a future IFD project area; and
- Urge the Port and PG&E amend the final agreement to screen the Potrero Switchyard to provide that any value from the sale of land no longer required for Potrero Switchyard purposes (net of any environmental cleanup costs), that is not owed to ratepayers and that is not required for purposes of constructing the screen, should be used to repay all or a portion of the IFD investment in the screen of the Potrero Switchyard.

POLICY CONSIDERATION

Use of Hoedown Yard Sales Proceeds for Public Housing

According to the September 6, 2013 Port staff memorandum to the Port Commission, OEWD will either sell the option to purchase the Hoedown Yard to a third party, or purchase and then resell the Hoedown Yard to a third party if OEWD exercises the option to purchase the property. A City department could also indicate its interest in purchasing the site for a public purpose.

The Hoedown Yard will be included in the rezoned Waterfront Site special use district (discussed above), which is expected to be submitted to the Board of Supervisors for approval in 2016. According to Mr. Benson, if the property is rezoned for mixed use development, the

difference between the City's purchase price for the property of approximately \$8.3 million and sale of the property to a third party is estimated to be between \$4 million and \$7 million, depending on market conditions at the time of the sale and final zoning for the site approved by the City. Mr. Benson states that net proceeds from the sale of the Hoedown Yard to a third party would be used as a source of funds to redevelop property under the jurisdiction of the San Francisco Housing Authority – Potrero Terrace and Annex HOPE VI. Therefore, the proposed resolution should be amended to state that net revenues to the City from the transfer of the option to purchase the Hoedown Yard will be allocated to affordable housing projects, including Potrero Terrace and Annex HOPE VI.

According to Mr. Benson, the City has not historically entered into purchase agreements with the intention of reselling the property for private development, although the former San Francisco Redevelopment Agency has entered into these types of agreements. Mr. Benson states that the source of funds to purchase the Hoedown Yard, if the City exercises the option to purchase, would come from a third party buyer for the site or a City department desiring to use the site for a public purpose.

Endorsement of the proposed term sheet provision for the option by the City to purchase the Hoedown Yard is a policy matter for the Board of Supervisors because it provides for the City to purchase property with the intention of reselling the property for private development.

RECOMMENDATIONS

1. Amend the proposed resolution to require that the proposed license specify that if the option to extend the term is exercised, the City and PG&E will jointly select the appraiser; and establish procedures to resolve disputed appraised values.
2. Amend the proposed resolution to specify that:
 - a. The intent of the option to purchase the Hoedown Yard at 22nd and Illinois Streets is to transfer the option to a private third party;
 - b. City funds cannot be used for the purchase of the property unless the property is used for public purposes or the City is fully reimbursed for all public funds associated with the option;
 - c. The Director of Real Estate, rather than OEWD, will have the option to purchase the Hoedown Yard, including transfer of the option to a private third party for development of the property compatible with the Waterfront Site mixed-use development;
 - d. The City will only exercise the transferable option to purchase the Hoedown Yard if (1) the property is transferred to a third party that assumes all environmental liabilities associated with the property under an "as-is" sale; or (2) a City department proposes a public use for the site, has an identified funding source and a plan to use the site in a manner that conforms to regulatory requirements for the site, and has determined that

the value of the land at the time of purchase is not less than purchase price of approximately \$8,322,942; and

- e. Net revenues to the City from the transfer of the option to purchase the Hoedown Yard will be allocated to affordable housing projects, including the Potrero Terrace and Annex HOPE VI.
3. Amend the proposed resolution to:
- a. Require the Port to present detailed information to the Board of Supervisors on the costs of constructing the Potrero Switchyard screen if the proposed screen is to be funded by a future IFD project area; and
 - b. Urge the Port and PG&E amend the final agreement to screen the Potrero Switchyard to provide that any value from the sale of land no longer required for Potrero Switchyard purposes (net of any environmental cleanup costs), that is not owed to ratepayers and that is not required for purposes of constructing the screen, should be used to repay all or a portion of the IFD investment in the screen of the Potrero Switchyard.
4. Endorse the proposed term sheet provisions, as amended, for the license between PG&E and the Port to construct and operate the 230 kV cable under the Bay.
5. Endorsement of the proposed term sheet provisions for the option to purchase the Hoedown Yard, as amended, is a policy matter for the Board of Supervisors because the term sheet provides for the City to purchase property with the intention of reselling the property for private development; and
6. Endorsement of the proposed term sheet provisions for the City to request PG&E to screen the Potrero Switchyard, as amended, is a policy matter for the Board of Supervisors because construction of the screen may be funded by future IFD revenues.