



Edwin M. Lee, Mayor
Naomi M. Kelly, City Administrator



John Updike
Director of Real Estate

June 27, 2014

Through Naomi Kelly,
City Administrator

Honorable Board of Supervisors
City and County of San Francisco
City Hall, Room 244
1 Carlton B. Goodlett Place
San Francisco, CA 94102

Re: Transferable Option Agreement to Purchase the Hoedown Yard

Dear Board Members:

Attached for your consideration is a Resolution authorizing a transferable option agreement with Pacific, Gas and Electric Company ("PG&E") to purchase the Hoedown Yard, two parcels located at Illinois and 22nd Streets comprising 130,720 square feet (or approximately 3 acres), for \$63.37 per square foot (or approximately \$8,315,302).

On June 10, 2014, by Resolution 14-43, the San Francisco Port Commission approved License 15762 with PG&E for the ZA-1 Embarcadero-Potrero 230kV Transmission Project for approximately (i) 435,600 square feet of submerged land between Pier 28½ and the foot of 23rd Street, (ii) 52,272 square feet of underground access for horizontal directional drilling and (iii) 21,120 square feet of land along 23rd Street for a 40 year term, with a 26 year option (the "ZA-1 License"), subject to approval by the Board of Supervisors.

As a condition of the license, City staff has negotiated a transferable option to acquire the PG&E Hoedown Yard, which includes a portion of Irish Hill ("Option"), adjoining Pier 70. The Port of San Francisco is not a party to the Hoedown Yard Option Agreement and the agreement and its companion form of purchase and sale agreement ("Purchase and Sale Agreement") are not subject to Port Commission approval. However, given the proximity of the Hoedown Yard to Pier 70, Port staff participated in the discussions between the parties.

Current uses at the Hoedown Yard include parking, equipment storage, stockpiling and temporary storage of drilling mud, concrete, soil, sand, gravel and asphalt associated with PG&E utility projects. Relocation of these functions from the Hoedown Yard will enhance the Port's efforts to revitalize Pier 70.

The City option to purchase the Hoedown Yard is transferable, allowing the City to transfer this purchase right to a private entity. Since the Hoedown Yard is an asset of a regulated utility, PG&E's sale of the Hoedown Yard may be subject to CPUC approval pursuant to Section 851 of the California Public Utilities Code, unless PG&E is able to relocate these activities before the City exercises the Option.

The Option includes the following exhibits negotiated by City staff and PG&E:

- Exhibit A: Legal Description
- Exhibit B: Form of Memorandum of Option Agreement
- Exhibit C: Form of Purchase and Sale Agreement, including a Form of Release and Indemnity Agreement
- Exhibit D: Approved Site Management Plan dated June 22, 2012
- Exhibit E: Covenant and Environmental Restriction on Property
- Exhibit F: Form of Assignment and Assumption Agreement
- Exhibit G: Environmental Risk Management Measures

Not unlike the surrounding Pier 70 area, the Hoedown Yard contains known contamination. PG&E has completed site investigation and a human health risk assessment. The findings of this assessment indicate that arsenic is present in soil within an approximately 20,000 sf (by approx. 5 ft. deep) area in the northwest corner of the site at concentrations that pose a potential human health risk to future construction workers upon disturbance of the soil (not to current or future commercial/industrial workers). All other contaminants investigated exist at concentrations below levels of concern. Unless the City chooses to exercise the Option for its own municipal use, the City does not, and will not, bear any responsibility for existing contamination or the environmental risk exposure of future uses on the site.

The San Francisco Bay Regional Water Quality Control Board ("Water Board") has approved PG&E's investigations and agrees that no remediation is warranted under current or anticipated future conditions, provided that activities at the site comply with an approved Site Management Plan ("SMP") and land use is restricted to commercial/industrial uses through a deed restriction recorded by the Water Board.

PG&E has developed and Water Board has approved a SMP for the Hoedown Yard. The SMP specifies measures to protect workers, minimize dust, prevent contamination of stormwater, and other measures to manage potential risks from soil contamination.

Port environmental staff also has reviewed the SMP and the Water Board deed restriction and believe that Hoedown Yard site conditions are suitable for future commercial or industrial use. If a third-party developer desires to acquire the City's option for the site for residential purposes, further remedial actions (such as removal or capping of arsenic-contaminated soil) would likely be required, along with approval of the Water Board to lift the deed restriction.

Pursuant to the Port's Waterfront Site Term Sheet with Forest City, Forest City will include the Hoedown Yard in the proposed Special Use District ("SUD") for the Waterfront Site for purposes of rezoning and design for development controls. The SUD is expected to be ready for consideration by the Planning Commission and the Board of Supervisors by mid-2016, after environmental review of the Waterfront Site mixed use development is complete, which means that the Hoedown Yard would be rezoned and ready for sale to a third-party within that timeframe, subject to required regulatory

approvals. PG&E has authorized the City and Forest City to pursue this rezoning, subject to the rezoning becoming effective after the close of a sale pursuant to the Option and the attached Form of Purchase and Sale Agreement.

Based on preliminary analysis – subject to change depending on market factors and site specific development risks – Port staff estimates that the difference between the as-is purchase price of the Hoedown Yard and its future rezoned value for residential use could be in excess of \$20 million. The City will continue to examine the highest and best use of the Hoedown Yard during development of the Waterfront Site SUD and associated environmental review. The range of permissible future uses of the Hoedown Yard will ultimately be decided by the Planning Commission and the Board of Supervisors.

Consistent with the requirements of Board of Supervisors Resolution No. 54-14, endorsing the Term Sheet for the ZA-1 Project, the Director of Real Estate will conduct a competitive process to sell the Option unless the Board has an approved acquisition on behalf of a City department that has identified funds to acquire the Hoedown Yard for a public use. If the Option is transferred to a third party, the purchaser will be required to pay market value and indemnify the City against environmental liabilities, and the City will not be in the chain of title for the site. The City intends to designate any net proceeds of its sale price to a third-party developer based on its rezoned value as a source of funds for the Potrero Terrace and Annex HOPE VI project, a major priority of Mayor Edwin Lee. For more information about this project, see <http://www.rebuildpotrero.com/>.

Term	Description
Premises	PG&E parcels Block 4110 (Lot 008A) and Block 4120 (Lot 002), 130,600 sf of industrial land at Illinois and 22 nd Street
Purchase Price	\$8,315,302 (\$63.37 per square foot)
Term	City or its transferee may exercise the Option by delivering written notice to PG&E on or before June 30, 2021
Section 851 Order	PG&E to use commercially reasonable efforts to relocate its operations by June 30, 2017 or, if unsuccessful, by December 31, 2020. Unless PG&E relocates its current Hoedown Yard operations in advance of the City's exercise of the Option, the CPUC will need to approve a Section 851 Order to allow PG&E to sell the property
Environmental Provisions	<ul style="list-style-type: none"> • Certain uses on the Hoedown Yard will be prohibited, including school, daycare and hospital uses and ground floor private open space; • High density residential, office and public open space will be permitted, subject to a modification to the Water Board's deed restriction; • The ultimate buyer of the Hoedown Yard will clean up the arsenic in the northwest corner of the site and indemnify and hold harmless PG&E from liability, including liability for personal injury, property damage, or further cleanup, during and after the construction of any new uses on the Hoedown Yard; • The owner of the Hoedown Yard or its agent will supply a \$1 million letter of credit to PG&E to back its indemnity until 3 years after Certificate of Occupancy;

Table 2: Hoedown Yard Option Agreement and Purchase and Sale Agreement	
Term	Description
	<ul style="list-style-type: none"> • Construction on site will comply with a risk management plan and defined institutional controls, such as use of 3' feet of clean soil and a demarcation layer above native soil in soft scaped areas such as public open space; and • The property owner/operator will notify all residents of site conditions and tenants and contractors of site conditions and required institutional controls and require notification of subtenants and subcontractors.

We recommend approval of the proposed Option. If you have any questions regarding this matter, please contact me at 554-9860 or Brad Benson at the Port of San Francisco at 274-0498.

Respectfully,



John Updike
 Director of Real Estate

cc: Brad Benson, Port of San Francisco