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

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: January 7, 2015 Budget and Finance Committee Meeting

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EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution (File 14-1150) would approve the fourth amendment to the existing Master Tournament Agreement between the Recreation and Park Department and the PGA Tour to (1) amend the schedule of PGA Tour tournaments at Harding Park, (2) revise the schedule and terms of payments by the PGA Tour to the Recreation and Park Department.
- The proposed ordinance (File 14-1147) would appropriate $1,300,000 in PGA Tour reimbursements to the Recreation and Park Department, including $800,000 for the Department's maintenance and labor costs and $500,000 to replace the Department's lost revenues at Harding Park during the PGA Tour event.

Key Points

- The Recreation and Park Department entered into the Master Tournament Agreement with the PGA Tour in 2002 that set the event schedule and payment terms for PGA Tour events held at Harding Park. The Master Tournament Agreement has been amended three times from 2002 to 2012.
- The proposed fourth amendment would revise the (a) schedule of PGA Tour events to be held at Harding Park, resulting in two required events in 2015 and 2025 respectively, and four optional events at the discretion of the PGA Tour; and (b) terms of PGA Tour's reimbursement of the Recreation and Department's costs to host PGA Tour events and participation in each event's gross operating revenues.

Fiscal Impact

- While the Master Tournament Agreement provided for the Recreation and Park Department to participate in the PGA Tour's gross operating revenues for each event, the threshold for the Department's participation was higher than the gross operating revenues received by the PGA Tour for each event. Therefore, the Department has not previously received a percentage of the PGA Tour's gross operating revenues under the Master Tournament Agreement, although the Department incurs ongoing cost to maintain Harding Park to meet PGA Tour standards.
- Subsequent to the December 10, 2014 Budget and Finance Committee meeting, the Recreation and Park Department renegotiated the terms of the proposed fourth amendment to lower the threshold for percentage rent. As a result, the Recreation and Park Department estimates receiving $1,350,981 in participation revenues from two required and one optional PGA Tour events in addition to reimbursements from the PGA Tour for the Department's costs to host each event.

Recommendation

- Approve the proposed resolution and ordinance.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

City Charter Section 9.118(a) states that contracts entered into by a department, board or commission that will generate revenue in excess of $1 million or any modification of that contract is subject to Board of Supervisors approval.

City Charter Section 9.105 states that the Board of Supervisors shall approve by ordinance all amendments to the Annual Appropriation Ordinance after the Controller certifies the availability of funds.

Background

Harding Park Golf Course and the Golf Fund

The Board of Supervisors approved the establishment of the Golf Fund (File 02-0197) in 2002. Under the Administrative Code, revenues from the Recreation and Park Department's golf courses are deposited into the Golf Fund. The Golf Fund does not fully cover the Recreation and Park Department's costs for operating and maintaining the golf courses, resulting in an annual General Fund subsidy to the Golf Fund.

When the Board of Supervisors approved establishing the Golf Fund, the Board also authorized spending $16,627,627 in State Proposition 12 grant funds on the renovation of Harding Park Golf Course (Harding Park). Revenues from the Golf Fund are to be used to reimburse the Open Space Fund for use of the State Proposition 12 grant funds to renovate Harding Park. To date, the Golf Fund has reimbursed $7,929,000 of the $16,627,627 to the Open Space Fund.

PGA Tour Master Tournament Agreement

In 2002, the Board of Supervisors approved a resolution approving a Master Tournament Agreement between the Recreation and Park Department and the Professional Golfers' Association Tour, Inc. (PGA Tour) for the PGA Tour to use Harding Park for PGA Tour Championship tournaments. Under the terms of the existing agreement, the PGA Tour was to hold a PGA Tour Championship Tournament at Harding Park three times over a nine-year period commencing on January 1, 2006.

Under the original Master Tournament Agreement, the PGA Tour would reimburse the Department $250,000 for maintenance costs incurred for each PGA Tour tournament. If the Department incurred maintenance costs in excess of $250,000, the PGA Tour would reimburse the Department up to an additional $130,000. The PGA Tour would also provide $250,000 for golf course improvements. Therefore, the PGA Tour would pay the Department between $500,000 and $630,000 per tournament, with $250,000 allocated to Harding Park course improvements. In addition, the First Tee Program (a youth organization that promotes life skills through golf) would receive $250,000 per tournament from the PGA Tour.

First Amendment

The Board of Supervisors approved the first amendment to the Master Tournament Agreement in March 2004. Instead of the PGA Tour having three tournaments over nine years, the PGA Tour would host five tournaments over a 15-year period commencing in 2005.

Second Amendment

The Board of Supervisors approved the second amendment to the Master Tournament Agreement in May 2007, which increased the number of PGA Tour tournaments to be held at Harding Park from five to six, and changed which tournaments the PGA Tour would host at Harding Park.

Between 2014 and 2020

The second amendment also included optional events to be held at Harding Park at the option of the PGA Tour including either: (a) the Presidents Cup, (b) a PGA Tour Playoff event, (c) the Bridgestone Invitational[1], (d) the Cadillac Championship[2] or, (e) the Accenture Match Play Championship[3].

Under the second amendment, the PGA Tour would pay the Recreation and Park Department an up-front facility fee equal to the Department's actual costs to host the PGA Tour tournaments up to $1,000,000. Tournament costs include Harding Park maintenance costs and the Department's lost revenues from the closure of Harding Park during the tournaments. In addition to the up-front fee, the PGA Tour would pay the Department 6.66 percent of gross operating revenues realized by the PGA Tour in excess of $10,000,000.

Third Amendment

The Board of Supervisors approved a third amendment to the Master Tournament Agreement in May 2012 that (a) revised the schedule of PGA Tour tournaments that the PGA Tour would host at Harding Park and (b) increased the number of PGA Tour events from six to seven and added two optional events for a potential total of nine events.

Table 1 below shows the previous and currently scheduled tournaments under the Master Tournament Agreement as agreed to under the first, second, and third amendments.

[1] The Bridgestone Invitational is one of the annual World Golf Championships, a group of four annual events for male professional golfers.

[2] The Cadillac Championship is one of the annual World Golf Championships.

[3] The Accenture Match Play Championship is one of the annual World Golf Championships.

Table 1: Previously Held and Currently Scheduled PGA Tour Golf Tournaments

Year	Event	Status
2005	American Express Championship	Held
2009	The Presidents Cup	Held
2010	Charles Schwab Championship	Held
2011	Charles Schwab Championship	Held
2013	Charles Schwab Championship	Held
2015	Charles Schwab Championship, Championship Tour Event, or $500,000 cancellation payment	Cancelled
2016	PGA Tour playoff event	Pending
2017-2019	PGA Tour Option: • PGA Tour playoff event • World Golf Championship • Presidents Cup	Pending
2021	PGA Tour Option: Presidents Cup	Pending

Source: Recreation and Park Department

If the PGA Tour did not host the Charles Schwab Championship or Championship Tour Event at Harding Park in 2015, as listed in Table a above, then the PGA Tour is required to pay the Recreation and Park Department $500,000 as a cancellation fee. The PGA Tour will not host either event and has made a $200,000 payment to date with $300,000 outstanding and due by December 31, 2015.

DETAILS OF PROPOSED LEGISLATION

File 14-1150

The proposed resolution would approve the fourth amendment to the existing Master Tournament Agreement between the Recreation and Park Department and the PGA Tour to (1) amend the schedule of PGA Tour tournaments at Harding Park, (2) change the cancellation payments payable by the PGA Tour to the Department in the event that certain tournaments are not held at Harding Park, (3) require the PGA Tour to reimburse the Department for maintenance and labors costs by an amount of up to $1,100,000 to $1,375,000, depending on the event and (4) change the revenue-sharing thresholds under the Master Tournament Lease.

Under the proposed fourth amendment, the PGA Tour would host two major golf tournaments at Harding Park in 2015 and in 2025 and would increase the number of optional tournaments to be held at the discretion of the PGA Tour from two to four.

The new schedule of tournaments would be as follows:

2015 Guaranteed: World Golf Championships – Cadillac Match Play.

2016 – 2018 Option: Up to three tournaments at the sole discretion of the PGA Tour. These tournaments could include a World Golf Championship, PGA Tour Tournament, or PGA Tour Playoff Event.

2021 – 2023 Option: One additional tournament at the sole discretion of the PGA Tour. These tournaments could include a World Golf Championship, PGA Tour Tournament, or PGA Tour Playoff Event.

2025 Guaranteed: Presidents Cup.

Under the proposed fourth amendment, if the PGA Tour decided not to hold either of the two guaranteed events – the World Golf Championships/Cadillac Match Play in 2015 and Presidents Cup in 2015 - then the PGA Tour would have to make a cancellation payment to the Recreation and Park Department in the amount of $1,000,000 per event.

This schedule completely replaces the previous schedule that was authorized under the third amendment to the Master Tournament Lease. The third amendment included a mandatory cancellation payment of $500,000, payable by the PGA Tour to the Recreation and Park Department by December 31, 2015, if the PGA Tour did not host either the Charles Schwab Tournament or a Championship Tour Event in 2015. Under the proposed fourth amendment, the cancellation payment owed to the Department for the Charles Schwab Tournament or Championship Tour Event that was to take place in 2015 would be reduced from $500,000 to $400,000 in recognition of the fact that the PGA Tour is hosting the World Golf Championships-Cadillac Match Play event at Harding Park in 2015. As discussed above, the PGA Tour has paid $200,000 of that $400,000 and will be required to pay the remaining $200,000 by December 31, 2014, one year earlier than was required under the previously approved third amendment.

Under the proposed fourth amendment, the PGA Tour would (1) be required to host a total of two events at Harding Park including the World Golf Championship-Cadillac Match Play in 2015 and the Presidents Cup in 2025, and (2) would increase the number of optional events, at the sole discretion of the PGA Tour from two to four.

Based on an inquiry by the Budget and Legislative Analyst's Office, the Recreation and Park Department revised the proposed fourth amendment subsequent to the December 10, 2014 Budget and Finance Committee meeting to require the Department to submit invoices to the PGA Tour no later than 60 days following the conclusion of each event.

File 14-1147: The proposed ordinance would appropriate $1,300,000 in PGA Tour reimbursements to Recreation and Park Department, including $800,000 for maintenance and labor costs at Harding Park in preparation for the World Golf Championship–Cadillac Match Play that will be held at Harding Park from April 29, 2015 to May 3, 2015; and $500,000 to replace revenues that will be lost while Harding Park is closed for use by the PGA Tour.

FISCAL IMPACT

Proposed Fourth Amendment (File 14-1150)

Under the proposed resolution (File 14-1150), the Recreation and Park Department is to receive reimbursements from the PGA Tour for maintenance and labor costs and payment for lost revenues in an amount ranging from up to $1,100,000 to $1,375,000, depending on the event, as shown in Table 2 below.

In addition, the Recreation and Park Department is to receive a percentage of PGA Tour event gross operating revenues over a certain threshold that varies by event, as shown in Table 2 below.

Subsequent to the December 10, 2014 Budget and Finance Committee meeting, the Recreation and Park Department renegotiated a lower threshold amount for receipt of percentage revenues as noted in Table 2 below.

Table 2: PGA Tour Payments to the Recreation and Park Department Under the Proposed Fourth Amendment to the Master Tournament Agreement

2015	Match Play Event	Reimbursement Up to $1,100,000, payable by the PGA Tour to the Recreation and Park Department by no later than 45 days after receipt of invoices.	**AND**	6.66% of gross operating revenues greater than $4,000,000. (The prior version of the fourth amendment provided for 6.66% of gross operating revenues greater than $8,000,000.)
2016 -2018, 2021-2023	Optional Events	Reimbursement up to $1,100,000 as adjusted for inflation from September 2013, payable by the PGA Tour to the Recreation and Park Department by no later than 45 days after receipt of invoices.	**AND**	6.66% of gross operating revenues greater than $9,000,000. (The prior version of the fourth amendment provided for 6.66% of gross operating revenues greater than $8,000,000 or $10,000,000 depending on the event selected by the PGA Tour)
2025	Presidents Cup	Reimbursement up to $1,375,000, as adjusted for inflation from September 2013, payable by the PGA Tour to the Recreation and Park Department by no later than 45 days after receipt of invoices.	**AND**	6.66% of gross operating revenues greater than $9,500,000. (The prior version of the fourth amendment provided for the greater of $1,375,000 reimbursements or 9% of gross operating revenues, whichever is greater.)

Source: Original and Revised Fourth Amendment to the Master Tournament Agreement

Under the proposed fourth amendment, the Recreation and Park Department is to be reimbursed by the PGA Tour for the maintenance and labor costs and lost revenues to host each PGA Tour event at Harding Park up to a maximum reimbursement amount of $1,100,000 to $1,375,000, depending on the event and as shown in Table 2 above. According to Ms. Katie Petrucione, Recreation and Park Department Director of Finance and Administration, the

Department does not anticipate that the Department's costs and lost revenues for hosting each PGA Tour event will exceed the maximum reimbursement amount under proposed fourth amendment.

While the second and third amendments to the Master Tournament Agreement provided for the Recreation and Park Department to participate in the PGA Tour's gross operating revenues exceeding $10,000,000 per event, the PGA Tour's gross operating revenues never exceeded this threshold and the Recreation and Park Department never received percentage revenues for these events. The PGA Tour's gross operating revenues from the five events held at Harding Park from 2005 through 2013 ranged from $1,236,000 to $8,453,000, as shown in Table 3 below.

Table 3: PGA Tour's Gross Operating Revenues per Event

Year	Event	Gross Operating Revenues
2005	American Express Championship	$4,929,000
2009	President's Cup	8,453,000
2010	Charles Schwab Cup Championship	1,466,000
2011	Charles Schwab Cup Championship	1,640,000
2013	Charles Schwab Cup Championship	1,236,000
	Total	**$17,724,000**

Source: Recreation and Park Department

As noted above, the Recreation and Park Department revised the proposed fourth amendment subsequent to the December 10, 2014 Budget and Finance Committee meeting to lower the threshold for percentage rent, as shown in Table 2 above. As a result, the Recreation and Park Department estimates that the Department will receive from $79,920 to $1,032,300 in percentage revenues per event under the revised fourth amendment, as shown in Table 4 below.

Table 4: Estimated Percentage of Gross Operating Revenues to be Paid by the PGA Tour to the Recreation and Park Department

Year	Event	Required/ Optional	PGA Tour's Estimated Gross Operating Revenues	Threshold for Department Participation	Percent of Gross Operating Revenues	Estimated Revenues to the Department
2015	Cadillac Match Play	Required	$5,200,000	$4,000,000	6.66%	$79,920
2017	The Barclay's	Optional	12,585,000	9,000,000	6.66%	238,761
2025	President's Cup	Required	25,000,000	9,500,000	6.66%	1,032,300
	Total		**$42,785,000**			**$1,350,981**

Source: Recreation and Park Department

According to Mr. Tom Hart, Recreation and Park Department Property Manager, the PGA Tour provided the estimates for gross operating revenues for each of the three PGA Tour events listed in Table 4 above. Mr. Hart states that the estimate of $25,000,000 for the President's Cup gross operating revenues in 2025, which is almost 3x the President's Cup gross operating revenues of $8,453,000 in 2009, is reasonable because (a) the two most recent President Cup events earned $17,000,000 in Australia in 2011 and $19,000,000 in Ohio in 2013, and (b) five additional President Cup events are scheduled between 2013 and 2025, resulting in increased interest in the event.

Supplemental Appropriation (File 14-1147)

The proposed ordinance appropriates $1,300,000 in Golf Fund monies, of which $800,000 is to be used for the Department's maintenance and labor costs and $500,000 is to replace the Department's lost revenues to host the World Golf Championships-Cadillac Match Play tournament in 2015. These funds of $1,300,000 will be reimbursed by the PGA Tour under the proposed fourth amendment, as shown in Table 5 below.

Table 5: Sources and Uses of Funds

Sources of Funds	
PGA Tour Reimbursement for Labor and Maintenance Costs and Lost Revenues	$1,100,000
PGA Tour Cancellation Fee	200,000
Total Sources	**$1,300,000**
Uses of Funds	
Recreation and Park Department Labor and Maintenance Costs	$800,000
Recreation and Park Department Lost Revenues	500,000
Total Uses	**$1,300,000**

Source: Recreation and Park Department

According to the proposed ordinance, the Controller will record transfers between funds and adjust the accounting treatment of sources and uses appropriated in the proposed ordinance to reconcile the Recreation and Park Department's expenditures with reimbursements received from the PGA Tour.

According to Ms. Petrucione, the Recreation and Park Department has spent in FY 2014-15 $158,282 of the $800,000 allocated to maintenance and labor at Harding Park as shown in Table 6 below.

Table 6: Expenditures for Maintenance and Labor at Harding Park June to November 2014

Maintenance Employees Overtime Costs	$79,953
Maintenance Employees Fringe Benefits	29,595
Materials and Supplies	48,734
Subtotal, Expenditures Through November 15, 2014	**$158,282**
Additional Maintenance Employees Overtime Costs	331,125
Additional Maintenance Fringe Benefits	32,067
Additional Materials and Supplies	211,266
Professional Service Contracts to Renovate the Driving Range	67,260
Subtotal, Estimated Additional Expenditures in FY 2014-15	**$641,718**
Total Actual and Estimated Expenditures in FY 2014-15	**$800,000**

According to Ms. Petrucione, the $500,000 reimbursement for lost revenues payable by the PGA Tour to the Recreation and Park Department would be deposited to the Golf Fund to pay for standard expenditures from the Golf Fund as included in the FY 2014-15 Annual Appropriation Ordinance as approved by the Board of Supervisors.

POLICY CONSIDERATION

Although the Recreation and Park Department has not previously received a percentage of the PGA Tour's gross operating revenues under the Master Tournament Agreement, the Department incurs ongoing costs to maintain Harding Park to meet PGA Tour standards. In addition, while the Golf Fund is responsible for Harding Park expenses, Golf Fund revenues are insufficient to maintain the City's golf courses, resulting in annual General Fund subsidies of $4,961,627 in FY 2014-15, which includes a General Fund subsidy of an estimated $2.4 million to Harding Park. Under the proposed fourth amendment, the Department estimates receiving percentage revenues for two required and one optional PGA Tour events of $1,350,981, as shown in Table 4 above. These revenues are in addition to reimbursements by PGA Tour to the Department for the Department's labor and maintenance costs and lost revenues to host PGA Tour events.

RECOMMENDATION

Approve the proposed resolution and ordinance.

File 14-1239 Item 3	Department: San Francisco Municipal Transportation Agency (SFMTA)

EXECUTIVE SUMMARY

Legislative Objectives

The proposed resolution would authorize: (1) a new ten-year lease, from January 25, 2015, through December 31, 2024, with three five-year extension options, between C&E Haas Development Company, a California limited liability company, as landlord, and the City and County of San Francisco, acting by and through the San Francisco Municipal Transportation Agency (SFMTA), as tenant, for radio transmission space at 1 Bayview Park Road for SFMTA's use as a radio transmission site, (2) adoption of environmental findings, and (3) other actions in furtherance of this resolution.

Key Points

- The $116,425,667 Radio Replacement Project was adopted in the City's ten-year Capital Plan, and updates SFMTA's communication system to support current transit services and provide additional capacity for future growth. SFMTA entered into an $86.6 million design-build contract with Harris Corporation in April 2012 to provide engineering and design services and construct the radio system following a competitive solicitation. The Radio Replacement Project is currently in the final stages of the design phase.
- The Radio Replacement Project requires four base radio transmission sites to provide adequate radio coverage throughout the City. Three other sites have already been identified. This lease would cover the last necessary site for radio coverage in the southwest quadrant of the City.
- The leased site will be used exclusively for radio transmission; no SFTMA staff will occupy the site. SFMTA will construct improvements to the leased site and install radio transmission equipment. Construction of the improvements is scheduled to begin in February 2015 and completed in July 2016.

Fiscal Impact

- Annual rent for the site is $78,000, or $6,500 per month in the first year of the lease, and would increase by 3 percent per year. SFMTA's costs for site improvements and installation of equipment are $2,503,146. Over the initial ten-year period, the City will pay approximately $3,542,106 in site improvements, purchase and installation of equipment, annual rent, and electricity under this lease.
- Site improvements, purchase and installation of equipment, construction, and rent in year one would be funded by Radio Replacement Project funds, consisting of Proposition K and Federal and State grant funds. Upon project completion in July 2016, the annual base rent and electricity costs will be funded by the SFMTA's operating budget beginning in FY 2016-17.

Recommendation

- Approve the proposed resolution

MANDATE STATEMENT

City Administrative Code 23.27 states that any lease with a term of one year or longer or with rent of $5,000 or more and where the City is the tenant is subject to Board of Supervisors approval.

BACKGROUND

The San Francisco Municipal Transportation Agency (SFMTA) radio communication systems provide voice communications to all SFMTA buses and transit operation and maintenance workers. The SFMTA has embarked on a $116,425,667 Radio Replacement Project to update its communications system to provide sufficient radio channels and data bandwidth to support current transit services and provide additional capacity for future growth. The Radio Replacement Project was adopted as part of the City's ten-year Capital Plan. Funding for the Radio Replacement Project comes from a combination of Federal, State and local sources listed in Table 1 below.

Table 1: Radio Replacement Project Funding by Source

Funding By Source	Amount
Federal	
Federal Transit Administration and Department of Transportation	$19,593,854
State	
Prop 1B I-Bond	$26,000,268
Local	
Proposition K	$61,757,410
AB664 Bridge Tolls	$554,878
SFMTA Revenue Bond FY13	$4,710,000
SFMTA operating funds	$3,809,257
TOTAL	**$116,425,667**

Source: SFMTA

The Radio Replacement Project budget by phase is outlined in Table 2 below.

Table 2: Radio Replacement Project Budget by Phase

Budget by Phase	Amount
Conceptual Engineering	$4,380,347
Final Design	$6,892,977
Construction	$105,152,343
Total	**$116,425,667**

Source: SFMTA

The overall timeline for the Radio Replacement Project is approximately two years. Table 3 below outlines the major project milestones.

Table 3: Radio Replacement Project Timeline

Major Milestones	Date
Complete Design	February 2015
Construction/Installation	July 2016
Contract Closeout	October 2016
Project Closeout	January 2017

Source: SFMTA

SFMTA entered into an $86.6 million design-build contract with Harris Corporation in April 2012 to provide engineering and design services and construct the radio system following a competitive solicitation.[1] The Radio Replacement Project is currently in the final stages of the design phase.

The Radio Replacement Project provides for four radio transmission base stations located in different areas of the City to provide radio coverage to SFMTA. The three existing radio transmission base stations are located at: 555 California Street, McLaren Park, and Forest Hill. The 555 California Street site is privately owned and leased by the SFMTA. The McLaren Park site is under the jurisdiction of Recreation and Parks Department, and the Forest Hill site is under the jurisdiction of the San Francisco Public Utilities Commission (SFPUC).

The SFMTA is now seeking to enter into a lease with C&E Haas Development Company, LLC (Haas Development) for premises at 1 Bayview Park Road in the Bayview Hunter's Point neighborhood for use as the fourth SFMTA radio transmission base station site. The lease under consideration will provide the facilities to begin construction and base station installation of the radio system at this fourth transmission site. The SFMTA Board of Directors approved the proposed lease on October 7, 2014.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize: (a) a new ten-year lease, from January 25, 2015, through December 31, 2024, with three (3) five-year extension options, between C&E Haas Development Company (C&E), a California limited liability company, as landlord, and the City and County of San Francisco, acting by and through the San Francisco Municipal Transportation Agency (SFTMA), as tenant, to serve as a fourth radio transmission base station site space at 1 Bayview Park Road for SFMTA's use, (b) adoption of environmental findings, (c) other actions in furtherance of this resolution. Table 4 below summarizes the key lease provisions.

[1] According to Robert Stone, Deputy City Attorney, this design-build contract was not subject to Board of Supervisors approval because this contract is considered a construction contract pursuant to Administrative Code Section 6.61. The SFMTA elected to use a design-build contract process to ensure that the construction, technology, and system elements of the project were properly integrated and covered under a single warranty.

Table 4: Key Lease Provisions

Area	Equipment room consisting of an approximately 204 square feet in the basement of the main building; space on the tower for four radio antennae; space on the main building roof for two 24-inch microwave dishes and two 16-inch GPS antennae; space on the property for a fenced exterior pad consisting of approximately 198 square feet for City's installation of an emergency generator; space for all conduits, panels, and equipment necessary to connect such emergency generator to the other City equipment; and all conduits, panels and equipment necessary to connect fiber to the premises and to connect the City's equipment to the building's grounding system
Rent paid by SFMTA to C&E	$6,500 monthly ($78,000 annually) for the first base year of the lease
Rent Adjustments	Rent to be increased at the fixed rate of three percent per year on the anniversary of the lease date
Term	Ten (10) years, from January 25, 2015, through December 31, 2024
Options to extend	• Three (3) additional five-year extension options • Rent to be increased at the fixed rate of three (3) percent per year
Services and Utilities	• The City pays for the electrical usage, estimated by the SFMTA at $12,629 in Year One, increasing by three percent annually • Landlord, at its sole cost, provides the security services • Janitorial services are not necessary, as this will be an unstaffed telecommunication building
Construction of Tenant Improvements	• City's cost of adding improvements to the premises, at approximately $1,237,293 • City's cost of purchasing and installing the equipment, at approximately $1,265,853

This space to be leased is a telecommunications site; no SFMTA staff will be present on site.

Mr. Charlie Dunn, Senior Real Property Officer for the City's Real Estate Division determined the first year fair market value for the lease to be $78,000 by comparing the proposed lease rent to comparable leases, as shown in Table 5 below.

Table 5: Comparable Lease Transactions

Address	Date	Annual Rent	Taxes, Insurance, Building and Tower Maintenance included in Rent	Tenant
Subject	Proposed	$78,000	Yes	SFMTA
Bayview Park Rd (1/2)	10/13	$72,000	No	KREV FM
Bayview Park Rd (2/2)	3/14	$72,000	No	KEST FM
555 California	5/13	$92,785	Yes	SFMTA
1250 Jones St	9/13	$9,540	No	SFMTA

Source: City & County of San Francisco, Real Estate Division

SFMTA's Tenant Improvements

SFMTA will construct the following improvements to the lease site as part of the Radio Replacement Project:

1) Four radio antennae mounted to a tower at approximately 140 feet and 160 feet;
2) Two 24-inch microwave dishes and two 16-inch GPS antennae on the main building roof and space to install a condensing unit on the northeastern corner of the main building;
3) A 9 feet by 22 feet fenced exterior foundation pad for City's emergency generator;
4) All conduits, panels, and equipment necessary to connect such emergency generator to the City's equipment; and
5) All conduits, panels and equipment necessary to connect fiber between the City's equipment in the main building and the tower and to connect such equipment to the main building's grounding system.

Harris Corporation will construct the improvements as part of their Radio Replacement Project design-build contract with SFMTA. Total tenant improvement costs to SFMTA are $2,503,146, of which $1,237,293 are site construction costs and $1,265,853 are equipment costs, as shown in Table 6 below.

Table 6: Proposed Tenant Improvements Budget

Site Construction:	**Amount**
Architectural Improvement Costs (including room improvements, concrete pad for generator, etc.)	$265,899
Mechanical Improvement Costs (including HVAC and fire protection)	434,302
Electrical Improvement Costs (including generator)	284,611
Seismic Improvement Costs	140,000
Sub-total	$1,124,812
Contingency @10%	112,481
Total Estimated Site Construction Costs	$1,237,293
Equipment Costs:	
P25 Site Equipment	
9 P25 Base Stations	$367,172
Common Simulcast Equipment	75,695
Intermodulation Study	33,906
Open Sky Equipment	
3 Open Sky Base Stations	206,078
Open Sky Licenses	61,451
Antenna Equipment	78,625
Security Router, Switch, Interface Equip	43,149
Equipment Installation	284,699
Sub-total	$1,150,775
Contingency @ 10%	115,078
Total Estimated Equipment Costs	$1,265,853
Total Estimated Construction and Equipment Costs	$2,503,146

Construction of the tenant improvements are scheduled over 19 months from approximately January 2015 through July 2016. Tenant improvement costs of $2,503,146, and base rent and electricity during the tenant improvement period from January 2015 through July 2016 are funded by Radio Replacement Project funds, consisting of Proposition K[2] and Federal and State grant funds. Upon project completion in July 2016, the annual base rent and electricity costs will be funded by the SFMTA's operating budget beginning in FY 2016-17, subject to appropriation approval by the Board of Supervisors.

Adoption of Environmental Findings

On April 25, 2014, the City's Planning Department determined that the proposal to lease the premises qualified for a Class 1 categorical exemption from environmental review under the California Environmental Quality Act (CEQA), as the lease would be for an existing facility involving negligible expansion of use beyond what currently exists.

[2] San Francisco voters approved Proposition K in November 2003, imposing a ½ cent Sales Tax to fund transit, street, traffic safety, paratransit and other transportation-related projects.

FISCAL IMPACT

Over the initial ten-year term of the lease, SFMTA will pay an estimated $3,542,106 in tenant improvements, base rent, and electricity, as shown below in Table 7.

The lease includes a base annual rent of $78,000 per year, or $6,500 per month. Per the lease agreement, the annual rent will increase by three percent each year. In addition, SFMTA will pay for electricity, estimated to cost approximately $12,629 per year in Year One and increasing by three percent per year.[3] No new electrical equipment will be added during the term of the lease.

Table 7: Annual Rent and Utilities

Lease Year	Rent	Electricity	Total
Year One	$78,000	$12,629	$90,629
Site Improvements			$1,237,293
Purchase & Installation of Equipment			$1,265,853
Year One Subtotal			**$2,593,775**
Year Two	$80,340	$13,008	$93,348
Year Three	$82,750	$13,398	$96,148
Year Four	$85,233	$13,800	$99,033
Year Five	$87,790	$14,214	$102,004
Year Six	$90,423	$14,640	$105,064
Year Seven	$93,136	$15,080	$108,216
Year Eight	$95,930	$15,532	$111,462
Year Nine	$98,808	$15,998	$114,806
Year Ten	$101,772	$16,478	$118,250
Total			**$3,542,106**

RECOMMENDATION

Approve the proposed resolution.

[3] Per Mr. Charlie Dunn, Senior Real Property Officer, City & County of San Francisco, December 09, 2014.

File 14-1221 **Item 4**	**Department:** Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution authorizes the San Francisco Public Utilities Commission (SFPUC) to accept and expend a grant in the amount of $234,300 from the California Department of Water Resources for the Large Landscape Water Conservation Program.

Key Points

- The Association of Bay Area Governments (ABAG) applied for a Proposition 84 Integrated Regional Water Management Program Grant from the California Department of Water Resources). The Department of Water Resources awarded ABAG a grant of $20,000,000, and required that the agency to commit at least 25 percent in matching funds.
- ABAG and the Solano County Water Agency entered into an agreement where Solano County Water Agency serves as the Local Project Sponsor and single grant program coordinator on behalf of 12 Bay Area water agencies seeking Proposition 84 grant funds for similar water conservation programs. ABAG serves as the fiscal agent. Under the agreement between ABAG and the Solano County Water Agency, participating water agencies must commit matching funds of $14,428,997 to grant funds of $20,000,000.
- SFPUC entered into a Memorandum of Understanding (MOU) with the Solano County Water Agency for the $234,300 grant to fund water irrigation and landscape projects as part of the Recreation and Park Department's Alamo Square Park Project.

Fiscal Impact

- The Alamo Square Park Project will be administered by the Recreation and Park Department. Project costs are $2,318,845, of which SFPUC will contribute $1,318,845 and the Recreation and Park Department will contribute $1,000,000. SFPUC's contribution of $1,318,845 includes $1,084,545 from the Water Enterprise Water Conservation Fund, (including $724,383 in matching funds to the grant) and $234,300 in grant funds. The Recreation and Park Department will contribute the balance of $1,000,000, in previously appropriated 2012 Clean and Safe Neighborhood Parks General Obligation Bond monies designated for water conservation projects.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

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, are subject to Board of Supervisors approval.

Background

In February 2014, the California Department of Water Resources awarded the Association of Bay Area Governments (ABAG) a grant of $20,000,000 in funds from the Proposition 84 Integrated Regional Water Management Program to help fund the implementation and operation of 19 local, sub-regional, and regional water conservation, water recycling, ecosystem restoration, green infrastructure, and flood management-watershed projects to be carried out by participating local agencies, including the San Francisco Public Utilities Commission (SFPUC).

Details of Proposition 84 Funding Allocation

The Solano County Water Agency applied as the Local Project Sponsor on behalf of 12 Bay Area water agencies seeking Proposition 84 grant funds for similar water conservation programs. Collectively, the request for all 12 agencies was approved by the California Department of Water Resources as one regional Bay Area conservation program, and as such, it requires one single grant program coordinator, the role taken on by the Solano County Water Agency.

Grant funds will be disbursed by the California Department of Water Resources to ABAG, the fiscal agent of the grant, on a reimbursement basis. ABAG and the Solano County Water Agency have entered into an agreement where ABAG agrees to disburse funding from the State grant to the Solano County Water Agency to use in administration and performance of eligible Water Conservation Projects under the State grant. In November 2014, SFPUC adopted Resolution No. 14-0185 approving a Memorandum of Understanding (MOU) between the SFPUC and the Solano County Water Agency, in which the Solano County Water Agency agreed to disburse $234,300 in State grant funds to the SFPUC to assist with implementation of the Department's Large Landscape Water Conservation Program.

SFPUC Large Landscape Water Conservation Program

The SFPUC Large Landscape Water Conservation Program retrofits qualifying large landscape sites over 2.5 acres in San Francisco with a new high-efficiency irrigation system and climate-adapted species for purposes of reducing landscape water use. The program covers design and construction costs for new irrigation and plantings, as well as installation of educational public signage about water-efficient landscaping practices. Projects must be installed for a minimum of 10 years, and all projects must meet the requirements of San Francisco's Water Efficient Irrigation Ordinance. The goal of the program is to achieve permanent water savings at large irrigated landscape sites.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution authorizes the SFPUC to accept and expend a grant in the amount of $234,300 from the Solano County Water Agency for the SFPUC Large Landscape Water Conservation Program to fund construction of water conserving irrigation improvements at Alamo Square Park, an approved site to participate in the program. Under the agreement between the California Department of Water Resources and ABAG, grant recipients must provide at least a 25 percent match to the grant funds. Under the agreement between the Solano County Water Agency and ABAG, the State grant is $20,000,000 and matching funds from participating agencies are $14,428,997, or 72 percent of total grant funds. SFPUC has decided to contribute $724,383 in matching funds from previously appropriated funds to the Alamo Square Park project from the SFPUC's Water Conservation Fund, which is funded by revenues earned from the sale of water.

FISCAL IMPACT

The Alamo Square Park Project will be administered by the Recreation and Park Department. SFPUC will contribute $1,318,845 of total project costs of $2,318,845. $1,084,545 will be funded by the Water Enterprise Water Conservation Fund, which is funded through water revenues (including the $724,383 in matching funds) and $234,300 will be the grant funds. The Recreation and Park Department will contribute the balance of $1,000,000, in previously appropriated 2012 Clean and Safe Neighborhood Parks General Obligation Bond monies designated for water conservation projects. The total Alamo Square Park Project budget is $2,318,845 as shown in Table 1 below.

Table 1: Alamo Square Park Project Budget

Task	Budget
Topographic Survey	$40,000
Contract for DPW Services	3,000
Construction Documents	264,120
Community Outreach and Certificate of Appropriateness	40,000
Advertise and Bid	15,000
Award of Contract	1,320
Construction	1,954,405
Closeout	1,000
Total Grant Plan Budget	**$2,318,845**

Source: SFPUC

Table 2 below outlines the funding from both RPD and SFPUC to the Alamo Square Park Project.

Table 2: Alamo Square Park Project Funding Sources

Funding Source	Amount
Recreation & Park Department Funding	$1,000,000
SFPUC Funding	1,318,845
Total	**$2,318,845**

Source: SFPUC

To date, six projects in the SFPUC's Large Landscape Water Conservation Program have been completed, and three are in the design phase, including the subject Alamo Square Park Project. The current amount of funding in the Large Landscape Water Conservation program is $4,990,686. $2,590,686 of this funding has been allocated, with the balance of $2,400,000 remaining for future projects. The total SFPUC Large Landscape Water Conservation Program budget is $4,990,686 as shown in Table 3 below.

Table 3: Large Landscape Water Conservation Program Budget

Project	Funding
Alamo Square Park	$1,318,845
Moscone Recreation Center Park	360,748
Alta Plaza North	911,093
Subtotal	**2,590,686**
Remaining Funding in Program for Future Projects	2,400,000
Total	**$4,990,686**

Source: SFPUC

The Alamo Square Park water conserving irrigation project is expected to commence in February 2015 and be completed in December 2017. The Recreation and Park Department will oversee the project's procurement process. The construction and installation of the irrigation improvements at Alamo Square Park will be implemented through a landscape contractor procured through an RPD construction contract based on a competitive process.

According to Ms. Katie Petrucione, Director of Administration and Finance at RPD, there will be no ongoing costs for the Alamo Square Park water conservation project.

RECOMMENDATION

Approve the proposed resolution.

File 14-1269 **Item 8**	**Department:** Department of Administrative Services

EXECUTIVE SUMMARY

Legislative Objectives

The proposed resolution authorizes the Director of Real Estate to enter into a purchase and sale agreement for three contiguous lots located at 1945-1995 Evans Street for a purchase price of $15,475,000.

Key Points

- Under the proposed resolution, the Real Estate Division would enter into a purchase and sale agreement to purchase 1995 Evans Street in the Bayview Hunter's Point neighborhood from the current property owner, Claire A. Spencer, consisting of three adjacent lots that comprise 2.05 acres of land.
- Since August 1, 2013, the City leased this property as an interim storage space for the Department of Technology and the Department of Administrative Services' Central Shops. A purchase option for $16,000,000 was included in the original lease, which the City exercised on June 23, 2014.
- General Bond Obligation Measure Proposition A, the Earthquake Safety and Emergency Response Bond II (ESER II), identified 1995 Evans Street as the future location for the City's Forensic Services Division (FSD) and Traffic Company (TC) of the San Francisco Police Department (SFPD). General Bond Obligation projects require fee ownership of property by the City which is why the City seeks to purchase, rather than continue to rent, this property.

Fiscal Impact

- An appraisal in August, 2014 concluded the value of the property to be $11,360,000, or $4,640,000 less than the current lease's purchase option of $16,000,000 negotiated in the summer of 2013. Mr. Updike reported that after negotiations with the landowner, the two parties mutually agreed to a purchase price of $15,475,000. This is $525,000 less than the original purchase option of $16,000,000, but $4,115,000 more than the recent appraised value. Funding for the purchase of this property would come from ESER II.

Policy Considerations

- The Board of Supervisors has four alternative policy options: 1. Continue the Proposed Resolution and Exercise Eminent Domain; 2. Continue the Proposed Resolution and Request Further Negotiations; 3. Do Not Approve the Proposed Resolution; and 4. Approve the Proposed Resolution.

Recommendations

1. Request the Director of Real Estate to include language in future purchase option agreements to require appraisals, and other due diligence procedures, prior to negotiating and agreeing to specified purchase prices for the City.
2. Approval of the proposed resolution is a policy decision for the Board of Supervisors.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

Administrative Code Section 23.1 requires Board of Supervisors approval of all resolutions and ordinances approving real property transactions. Administrative Code Section 23.4 requires Board of Supervisors approval of the granting of real property to the City before the Director of Real Estate can accept the deed to the property.

Background

The City has an existing lease with Claire A. Spencer for the property at 1945-1995 Evans Street ("1995 Evans Street") in the Bayview Hunter's Point neighborhood, which the City uses for interim storage for the Department of Administrative Services' (DAS) Central Shops and the Department of Technology's (DT) Public Safety Communications Division. The existing lease, which was previously approved by the Board of Supervisors for the 17 month period from August 1, 2013 through December 31, 2014 (File 13-1038), contained an option to purchase the property for $16,000,000 by no later than December 31, 2014. The City exercised the option to purchase the property on June 23, 2014 at a renegotiated price of $15,475,000.

<u>Proposed Use of the Property</u>

The City's Capital Plan identified 1995 Evans Street as the future location for the San Francisco Police Department (SFPD) Forensic Services Division's Crime Lab, and the SFPD Traffic Company, which houses the SFPD's motorcycle fleet. Development of 1995 Evans Street for the Crime Lab and Traffic Company will be funded by the Earthquake Safety and Emergency Response Bond II (ESER II), approved by the San Francisco voters on June 3, 2014. As General Bond Obligation projects require fee ownership of property by the City, the City seeks to purchase this property rather than continue to lease it.

Currently, the Crime Lab is spread out over two locations, one in the seismically deficient Hall of Justice, and one in Hunter's Point Shipyard which is scheduled for demolition to make way for a new residential development. Combining the two Crime Lab facilities in one location would provide uninterrupted service to residents while allowing the Crime Lab to modernize facilities and accommodate evolving technologies. Relocating the Police Department's Traffic Company to the 1995 Evans Street is important, as it will house the motorcycle fleet in a new seismically safe facility rather than the current seismically deficient Hall of Justice, ensuring that motorcycles are available to assist in recovery efforts in the event of a major disaster.[1]

DETAILS OF PROPOSED LEGISLATION

The proposed resolution (1) authorizes the purchase of three adjacent lots located at 1945-1995 Evans Street (Lots 004, 005 and 006, all in Block 321) ("1995 Evans Street") by the City from Claire A. Spencer, Surviving Trustee of the William D. Spencer and Claire A. Spencer 1995 Living Trust ("landowner") for a purchase price of $15,475,000; (2) adopt findings that the

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[1] San Francisco Earthquake Safety and Emergency Response Bond Program. http://www.sfearthquakesafety.org/motorcycle-police-and-crime-lab.html.

purchase and improvements on this property will not have a significant effect on the environment under the California Environmental Quality Act (CEQA); and (3) adopt findings that the acquisition of the property by the City is consistent with the City's General Plan and Eight Priority Policies of City Planning Code Section 101.1.

Under the proposed resolution, the City would enter into a purchase and sale agreement with the landowner to purchase three adjacent lots located at 1995 Evans Street. This property would be used for the future location for the San Francisco Police Department (SFPD) Forensic Services Division's Crime Lab, and the SFPD Traffic Company, which houses the SFPD's motorcycle fleet. The property consists of 89,198 square feet, or approximately 2.05 acres of land, one existing two-story office building and a smaller building. The property is zoned PDR-2, Production, Distribution, and Repairs, and is currently being used as an interim storage space for both the Central Shops and DT's Public Safety Communications Division. Under the purchase and sale agreement, the City would buy the property "as-is" from the landowner.

The City plans to demolish the existing structures on site and construct a new four-story, 90,000 square foot (sf) building, along with a separate 42,000 sf parking structure. The parking structure will consist of 82 spaces for sworn officers and City vehicles, 110 spaces for Traffic Company motorcycles, and storage space for 25 Forensic Services Division evidence impound vehicles.

Project Timeline

According to Mr. John Updike, Director of Real Estate, the City expects to complete the purchase of the property in January 2015. Arrangements have been made with the landowner to pay a prorated rental amount for January as part of the closing of escrow.

Environmental review under the California Environmental Quality Act (CEQA) was completed in September 2013 and the Final Mitigated Negative Declaration was published in November 2013. Upon finalizing the purchase and sale agreement, the City will begin development of 1995 Evans Street with project completion and occupancy by October 2018.

The Department of Public Works (DPW) selected HOK in November 2014 through a competitive Request for Qualifications (RFQ) process to provide architectural and engineering services. The Board of Supervisors approved an ordinance in October 2014, authorizing DPW to procure construction work through a hybrid Construction Manager/General Contractor and Design/ Build approach (File 14-0846). DPW issued an RFQ in October 2014 for these services and plans to select a contractor in Spring of 2015. Table 1 below outlines the expected project timeline.

Table 1: Project Timeline

Project Phase	Date
Complete Purchase of Property	January 2015
Start Construction	May 2016
Complete Construction	July 2018
Building Occupancy	October 2018

Source: ESER 2014: Safeguarding San Francisco Bond Report

Relocation of the Items Currently Stored at 1995 Evans Street

Under the current lease, DAS's Central Shops and DT's Public Safety Communications Division are granted temporary use of the property for storage purposes. Items stored at 1995 Evans Street will be relocated to their new office near Pier 80 by early 2016, when construction will begin at the site.

Details of Proposed Property Purchase

The purchase price shall be allocated in the manner outlined in Table 2 below:

Table 2: Sales Price and Square Footage by Lot Number at 1995 Evans Street

Lot Number	Square Feet	Price
Lot 004	33,449	$5,477,000
Lot 005	33,449	$4,999,000
Lot 006	22,300	$4,999,000
Total	**89,198**	**$15,475,000**

Source: SF Real Estate Division, SF Planning Department

According to Mr. Updike, the variation in each lot's price was requested by the landowner for tax purposes. As the breakdown of the payment is not material to the City and was important to the landowner, the City agreed to this request.

Conformance with the General Plan, Area Plan, and Requirements under CEQA

The proposed resolution finds the purchase and improvements on the property at 1995 Evans Street are in conformance with the City's General Plan and the priority policies of Planning Code Section 101.1. The property is located within the Bayview Hunter's Point Area Plan within the Oakinba Activity Node.[2] The industrial nature of the proposed project is consistent with the objectives of the Bayview Hunter's Point Area Plan.

In November 2013, the Planning Department determined the proposed project at 1995 Evans Street would not have a significant effect on the environment under the California Environmental Quality Act (CEQA), and adopted a Final Mitigated Negative Declaration.

Except for the subject request for Board of Supervisors approval, no further approvals are required to finalize the purchase of the property.

FISCAL IMPACT

The proposed purchase price of $15,475,000 is part of the total $165,000,000 budget for development of 1995 Evans Street as shown in Table 3. The project will be funded by ESER II bond proceeds. The Board of Supervisors approved sale and appropriation of $106,095,000 in ESER II bonds in August 2014 (Files 14-0801, 14-0802, 14-0811, 14-0812, and 14-0840), of which

[2] An "Activity Node" is a community-identified catalyst area in which to focus public investment. SF Planning Department, Environmental Planning Division, Bayview Hunters Point Area Plan Available online at: http://www.sf-planning.org/ftp/General_Plan/Bayview_Hunters_Point.htm.

$30,319,674 was allocated to the Forensic Services Division and Traffic Company project at 1995 Evans Street.

Table 3: SFPD's Traffic Company and Forensic Services Division Project Budget

Service/Task Description	Amount
Purchase, Construction, & Installation	$103,345,991
Project Control	$38,399,373
Site Control (Property Purchase and Associated Costs)	$16,500,000
Other Program Costs	$3,949,636
Finance Costs	$2,805,000
Total Program Budget	**$165,000,000**

Source: DPW

<u>January 2015 Rent During Closing Period</u>

Closing for the property will not be complete until January 2015, which is after the December 31, 2014 purchase option date identified in the original lease. The City and the landowner have agreed that the City will continue to pay the landowner a prorated rental amount between December 31, 2014 and the closing of the property.

<u>Ongoing Costs of Ownership</u>

According to Mr. Updike, the ongoing costs to the City, as owner of the property, have not yet been determined, as this property will not be ready for occupancy until approximately 2018. When the design process is farther along closer to this date, future costs will be better known. Ongoing costs will be built into the FY 2017-2018 budget once the facility is constructed and ready for occupancy.

POLICY CONSIDERATIONS

<u>Property Appraisal and Purchase Option</u>

The Real Estate Division selected CBRE through a competitive process to prepare an appraisal of the three lots under consideration. The appraisal in August, 2014 concluded the value of the property to be $11,360,000. This amount is $4,640,000 less than the agreed upon price in the current lease's purchase option of $16,000,000 negotiated in the summer of 2013. Mr. Updike reported that after negotiations with the landowner, the two parties mutually agreed to a purchase price of $15,475,000. This is $525,000 less than the original purchase option of $16,000,000 agreed upon in the current lease, but $4,115,000 more than the CBRE appraised value. The purchase options and appraisal values are outlined in Table 4 below.

Table 4: Purchase Option & Appraisal Values for 1995 Evans Street

Purchase Option	Price	Price per Square Foot for 89,198 Square Feet
Original Purchase Option (2013)	$16,000,000	$179.38
CBRE Appraisal (2014)	$11,360,000	$127.36
Renegotiated Purchase Option (2014)	$15,475,000	$173.49
Reduction between Original and Renegotiated Purchase Options	$525,000	-
Increase between CBRE Appraisal and Renegotiated Purchase Option	$4,115,000	-

Mr. Updike has expressed concerns with the methodology and conclusion of the CBRE appraisal, including:

- The CBRE appraisal considered the value of the three lots separately, rather than as one contiguous 89,198 sf site. Mr. Updike believes the ability to assemble 89,189 sf greatly increases the value of the property as a whole, and that is not reflected in the appraisal.
- The comparable sales used were some of the lowest in the market at the time. Mr. Updike found other sales he thought to be more comparable to this site that were valued closer to the purchase option price of $16,000,000. However the appraiser disagreed, and did not find Mr. Updike's suggestions to be comparable.

The landowner was not required to reduce the price of 1995 Evans Street based on the CBRE appraisal after the City exercised its option to acquire the property. However, Mr. Updike was able to renegotiate the purchase option price down to $15,475,000, $525,000 less than the originally agreed upon price due to the appraisal information.

However, the proposed purchase price of $15,475,000 is $4,115,000 or 36.2 percent more than the CBRE appraised price of $11,360,000.

Given the difference between the originally negotiated price and the CBRE appraisal of the property, Mr. Updike believes the renegotiated purchase option of $15,475,000 ($173.49 per sf) is a fair price for the City to pay for the subject property at 1995 Evans Street.

<u>Comparison with Five Other Industrial Properties</u>

The negotiated purchase price of $173.49 per sf is higher than five other comparable industrial properties identified in the appraisal. As shown in Table 5 below, the average price per sf is $154 for five comparable industrial properties, which would translate into an estimated $13,736,492 for the 89,198 sf property at 1995 Evans Street. If the lowest priced property at 6000 3rd Street at $113 per sf is not included, the average price for the other four properties is $164 per sf, or an estimated $14,628,472 for the 89,198 sf property at 1995 Evans Street. The $15,475,000 proposed purchase price is still $846,528 or 5.8 percent more than the $14,628,472 amount.

Table 5: Comparison of Properties

Address	Size of Property (acres)	Price per Square Foot
1995 Evans Street	**89,198 (2.05 acres)**	**$173**
6000 3rd Street	2.00	113
1680 Evans Street	0.68	172
400 Alabama	0.57	175
888 Tennessee	0.87	156
200 Kansas	1.50	155
Average of 5 Other Properties		$154
Average of 4 Other Properties		$164

Option to Purchase Did Not Include Appraisal

As noted above, when the Board of Supervisors approved the lease for the 1995 Evans Street property in November of 2013, the lease included the option to purchase the property for $16,000,000 (File 13-1038). The Real Estate Division indicated the $16,000,000 option price was based on negotiations regarding land values of approximately $180 per square foot for comparable properties and anticipated market conditions in 2014 or 2015. However, at that time, the Real Estate Division also advised that an appraisal would be conducted prior to entering into a purchase agreement. In addition, the Real Estate Division advised that the purchase of the property would be subject to other evaluations and “substantial due diligence”.

This language in the option to purchase agreement has not allowed the Real Estate Division to base the actual purchase price on the August 2014 appraised value of $11,360,000. Rather, according to Mr. Updike, the option to purchase agreement simply allows the City not to exercise the option if the due diligence process discovers a matter that is not satisfactory to the City and cannot be mitigated.

The proposed purchase of 1995 Evans Street is now being requested for $15,475,000, an average price of $173.49 per sf. This price is $4,115,000 or 36.2 percent more than the recent appraised value of $11,360,000 ($127.36 per sf), and 5.8% more than four other comparable industrial properties’ average value of $14,628,472 ($164 per sf).

Ideally, when options to purchase properties are included in future lease agreements, such options should not specify agreed purchase prices, without actual appraisals and/or ability to employ subsequent due diligence regarding the specified price. An appraisal of current day value does not mitigate the fact that both parties to a purchase agreement are taking risks as to future price increases or decreases in the real estate market. The Board of Supervisors should request the Director of Real Estate to include language in future purchase option agreements to require appraisals, and other due diligence procedures, prior to negotiating and agreeing to specified purchase prices for the City.

Eminent Domain

Eminent domain legally provides the City with the power to take private property for public use, with fair compensation to the private property owner for the taking of the property. According to Mr. Updike, the City most recently used eminent domain to acquire the Transbay Terminal properties and in 2005, the City used eminent domain to acquire private property for the new North Beach Branch Library. Over the past ten years, the City has also infrequently used eminent domain to purchase property for water and wastewater lines for the Public Utilities Commission. However, Mr. Updike notes that it is generally the City's policy to not use eminent domain except in extreme circumstances, when there is no other alternative.

Alternative Options

Based on the above discussion, the Board of Supervisors has four alternative policy options:

1. Continue the Proposed Resolution and Exercise Eminent Domain - While generally not the City's policy unless there is no other alternative, the City could legally use eminent domain procedures to obtain the subject property at a potentially lower cost than the proposed $15,475,000. However, the City has an existing lease agreement with the private owner of the property, which includes a purchase option for $16,000,000 that the City has exercised. In addition, the use of eminent domain is a legal procedure, which will require significant legal time and expense, resulting in considerable delay in obtaining this property. Mr. Jim Buker, Senior Architect at the Department of Public Works advises that each 12 month delay results in an estimated 5% increase in the remaining project costs, or an estimated $7 million per year.

2. Continue the Proposed Resolution and Request Further Negotiations – Although the existing lease agreement includes a purchase option for $16,000,000, the Real Estate Division was able to negotiate a price reduction of $525,000, to $15,475,000 based on the recent appraisal. The recent appraised value was $11,360,000 ($127.36 per sf). Four other comparable industrial properties' reflect an average value of $14,628,472 ($164 per sf) for the subject property. Mr. Updike advises that he believes the proposed $15,475,000 purchase price is a fair price for the subject property, given there are not any other properties of this size on the market. However, the Board of Supervisors could request the Real Estate Division to renegotiate with the existing property owner to attempt to further reduce the City's purchase price for the subject property.

3. Do Not Approve the Proposed Resolution – The proposed purchase price of $15,475,000 is $4,115,000 or 36.2 percent more than the recent appraised value of $11,360,000 ($127.36 per sf) and $846,528 more than the $14,628,472 ($164 per sf) average price for four comparable industrial properties. When the Board of Supervisors approved the lease agreement, with the $16,000,000 purchase option, the Real Estate Division advised that a subsequent appraisal and other evaluations and "substantial due diligence" would be conducted prior to entering into a purchase agreement. As noted, not approving the subject resolution will delay the completion of the subject project, resulting in additional costs.

4. Approve the Proposed Resolution – San Francisco voters approved General Obligation bonds for the subject Crime Lab and Traffic Company project in June 2014. The CEQA process for the proposed project has now been completed for the 1995 Evans Street site and Mr. Buker

advises that the City has expended an estimated $1.1 million for site-specific design and related environmental review expenses for the project at 1995 Evans Street. If the Crime Lab and Traffic Company project is relocated to a different site, the estimated $1.1 million of site-specific design and environmental expenses already incurred would be forfeited and new design and environmental expenses at a different site would be incurred. According to Mr. Buker, the project schedule would also be delayed by an estimated 12-30 months, resulting in building construction inflation costs of an estimated 5% per year, or between $7 million to $19 million in additional costs to the overall project, depending on the length of the delay. In addition, Mr. Updike notes that there are no comparable properties of this size (2 acres) on the market for a comparable price, and any further negotiations with the existing owner are not realistic.

RECOMMENDATIONS

1. Request the Director of Real Estate to include language in future purchase option agreements to require appraisals, and other due diligence procedures, prior to negotiating and agreeing to specified purchase prices for the City.
2. Approval of the proposed resolution is a policy decision for the Board of Supervisors.

File 14-0946 Item 7	Department: San Francisco International Airport

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve amendments to each of the existing five leases between the San Francisco International Airport (Airport) to provide food and beverage services in Airport Terminal 3: (1) Bay Area Restaurant Group, JV (BARG), (2) Bayport Concessions, LLC (Bayport), (3) Gotham Enterprises, LLC (Gotham), (4) Sankaku, Inc. (Sankaku), and (5) SSP America, Inc. (SSP).

Key Points

- The Airport entered into ten-year leases in 2005 with BARG, Bayport, Gotham, Sankaku, and SSP to provide food and beverage services in Airport Terminal 3 East. These leases will expire in 2015.
- The Airport began construction for the expansion of Terminal 3 East In January 2014, which required the closure, demolition, and relocation of the existing food and beverage tenants in Terminal 3 East from February 2014 through November 2015. The Airport now seeks to amend the existing leases to set terms for the new premises in the renovated Terminal 3 East.
- The amended leases would: (1) retroactively suspend the Minimum Annual Guarantee rent (MAG) and other fees during the renovation period, (2) provide an Unamortized Construction Reimbursement to each tenant, (3) provide a new ten-year lease term in replacement premises, (4) delete the option to extend the lease for an additional two years, (5) adjust the square footage for each tenant, (6) reinstate the MAG and other fees upon completion of renovations, and (7) adjust the Minimum Investment Amount for replacement premises to $350 per square foot.

Fiscal Impact

- The Airport has suspended the MAG and any fee revenue during the renovation period because the tenants' premises were closed during this time. Additionally, the Airport is providing an Unamortized Construction Reimbursement to the tenants for the previous improvements made under the original lease term. The Airport's costs for the suspended MAG and fee revenue, and unamortized construction reimbursement total $1,037,090. Because of the Airport's rate setting methodology, this will not have an impact on the Airport's overall budget.
- The total MAG and fee revenues paid by the five tenants to the Airport in the first year are $658,419. The MAG is adjusted annually by a formula based on the Consumer Price Index.

Recommendations

- Amend the proposed resolution to provide for retroactivity to February 2014.
- Amend the title of the proposed resolution on lines 5, 7, 9, 11 and 13 to delete the references to "plus one two-year option".
- Amend the proposed resolution on pages 2 and 3 to change the Reimbursement of Unamortized Construction Costs to read $57,335, $57,066, $198,685, $23,203, and $52,077, respectively.
- Approval of the proposed resolution as amended is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

City Charter Section 9.118(a) states that contracts entered into by a department, board or commission that will generate revenue in excess of $1 million or any modification of that contract is subject to Board of Supervisors approval.

BACKGROUND

The San Francisco International Airport (Airport) entered into five leases in 2005 to provide food and beverage services in Airport Terminal 3 based on a competitive process. The five leases are with (1) Bay Area Restaurant Group, JV (BARG) for Max's Eatz and Max's the Greek, (2) Bayport Concessions, LLC (Bayport) for Willow Creek Grill, (3) Gotham Enterprises, LLC (Gotham) for Peet's Coffee & Tea, (4) Sankaku, Inc. (Sankaku) for Sankaku, and (5) SSP America, Inc. (SSP) for Anchor Steam. Although the specific month for commencing and ending each lease varies, all five of these leases extend for ten years, from 2005 to 2015 and include one option to extend for an additional two-year period.

Each lease stipulates the rent to be paid by each tenant to the Airport on an annual basis, which includes the greater of Minimum Annual Guarantee (MAG) rent[1] or percentage rent based on gross revenues[2], and various fees and charges, including a Tenant Infrastructure Fee ($15 per square foot), Food Court Fee ($15 per square foot), and a Promotional Charge ($1 per square foot). Each lease also requires each tenant to commit a Minimum Investment Amount ($250 per square foot) to build out their premises.

The Airport began construction for the expansion of Terminal 3 East, Boarding Area F, in January 2014. This Terminal 3 East expansion project is part of the larger Terminal 3 renovation project and includes expanding the security checkpoint and Gates 68 through 71 in Boarding Area F. This construction requires the closure, demolition, and relocation of the existing food and beverage tenants in Terminal 3 East from February 2014 through November 2015. The overall Terminal 3 renovation project is estimated to cost $224,637,390 and is being funded with Airport Revenue Bonds.

DETAILS OF LEGISLATION

The proposed resolution would approve amendments to each of the existing five leases between the Airport and the following five tenants that provide food and beverage services in Terminal 3 East: (1) BARG, (2) Bayport, (3) Gotham, (4) Sankaku, and (5) SSP. The proposed leases require each tenant to renovate their individual premises in Terminal 3 East to coincide with the Airport's Terminal 3 East renovation project.

Specific Lease Amendments

The proposed lease amendments will make the following changes to the five existing leases during the time that Terminal 3 East is being renovated:

[1] The MAG rent is also subject to annual adjustments based on the Consumer Price Index and the number of total enplanements that year, with MAG rent never being lower than the MAG rent of the prior year.
[2] Percentage rent is calculated as a range of six to 12 percent or gross revenues.

(1) Suspend the MAG, Tenant Infrastructure Fee, Food Court Fee and Promotional Charges paid by the tenants during the renovation period because each of the tenants were required to close and renovate their premises for approximately 22 months, from February 2014 through November 2015. Because tenant operations will be closed during the renovation period, no sales will be made, and therefore percentage rent will not be applied;

(2) Provide an Unamortized Construction Reimbursement by the Airport to each tenant to compensate for the tenant's initial improvements required under the existing leases, as shown in Table 4 below;

(3) Provide replacement premises and a new ten-year lease term commencing upon completion of renovations;

(4) Delete the option to extend each lease for an additional two years;

(5) Adjust the square footage leased by each tenant based on the renovations as shown in Table 2 below;

(6) Reinstate and adjust the MAG rent and other fees for each tenant upon completion of renovations, as reflected in Table 2 below[3]; and

(7) Adjust the Minimum Investment Amount to $350 per square foot to renovate the tenants' individual premises, an increase of $100 as compared to the $250 per square foot Minimum Investment Amount under the existing leases.

As noted above, the renovation period is expected to extend from February 2014 through November 2015, approximately 22 months. The Airport has not collected the MAG or percentage rent and other fees from these five tenants since February 2014 as contemplated in the proposed lease amendments. Therefore the proposed resolution should be amended to be retroactive to February 2014.

Mr. Tomasi Toki, Principal Property Manager at the Airport, advises that the proposed amendments to the existing leases would provide a new ten-year lease term, but remove the existing option to extend each lease for an additional two years. However, the title of the proposed resolution references a term of ten years plus one two-year option for each of the subject leases. Therefore, the title of the proposed resolution should be amended on lines 5, 7, 9, 11 and 13 to delete the references to "plus one two-year option".

Tenants Area to be Renovated and Changes to the MAG

Mr. Toki reports that only leased premises located in Terminal 3 East will be closed during the renovation period. Premises leased by these same five tenants, under the same lease, in other areas of the Airport outside of Terminal 3 East will not be renovated and will therefore continue to pay the MAG or percentage rent, Tenant Infrastructure Fees, Food Court Fees and Promotional Charges during the Terminal 3 East renovation period. Table 1 below shows the

[3] As in the existing leases, the tenants will continue to pay the Airport the greater of the MAG or percentage rent based on gross revenues.

total square footage for each of the five tenants and the Terminal 3 East square footage to be closed during the renovation period.

Table 1: Leased Tenant Square Footage in Airport

Tenant	Terminal 3 East Square Feet Closed During Renovations	Square Feet Open During Renovations	Total Airport Square Footage
BARG	669	1,440	2,109
Bayport	633	1,440	2,073
Gotham	250	477	727
Sankaku	705	N/A	705
SSP	2618	N/A	2,618
Total	**4,875**	**3,357**	**8,232**

Under the proposed amendments, the replacement locations for the five tenants would increase the total square feet by 725, as shown in Table 2 below.

Table 2: Changes to Square Footage

Tenant	Existing Square Feet	Replacement Square Feet	Increase
BARG	2,109	2,123	14
Bayport	2,073	2,092	19
Gotham	727	1,159	432
Sankaku	705	707	2
SSP	2,618	2,876	258
Total	**8,232**	**8,957**	**725**

FISCAL IMPACT

The Airport suspended the MAG and fees for the five tenants during the 22-month renovation period, and will reimburse the tenants for their unamortized construction costs for the original lease location. These costs to the Airport are offset by percentage rent paid by the five tenants during the period in which the lease locations were operating. The reduced revenues to the Airport are $1,037,090, as shown in Table 3 below.

Table 3: Suspended Revenues and Unamortized Construction Reimbursement During the 22-month Renovation Period

Tenant	Suspended MAG During Renovation Period*	Suspended Fees During Renovation Period	Collected Rent* and Fees Prior to Closure	Unamortized Construction Reimbursement	Estimated Loss of Revenue to Airport
BARG	$64,906	$38,021	($3,484)	$57,335	$156,779
Bayport	60,996	35,975	-3,676	57,066	150,361
Gotham	24,530	14,208	-4,077	23,203	57,864
Sankaku	67,934	40,067	-4,943	52,077	155,135
SSP	251,119	76,795	-9,648	198,685	516,951
Total	**$469,485**	**$205,067**	**($25,828)**	**$388,366**	**$1,037,090**

The Airport's reimbursement to each of the tenants for unamortized construction costs listed in the proposed resolution is different than the amounts included in the lease amendments, which are shown in Table 4 above. Mr. Toki confirms that the amounts listed in Table 4 above are the correct amounts. Therefore the proposed resolution should be amended on pages 2 and 3 to state the following corrected Unamortized Construction Reimbursements amounts:

- BARG (Max the Greek) – Delete $66,058, and substitute $57,335;
- Bayport (Willow Creek Grill) – Delete $63,595 and substitute $57,066;
- Gotham (Peet's Coffee & Tea) – Delete $26,208 and substitute $23,203;
- Sankaku – Delete $60,000 and substitute $52,077;
- SSP (Anchor Steam) – Delete $221,667 and substitute $198,685.

Impact on City General Fund

In accordance with the Lease and Use Agreement between the Airport and the airlines, 15 percent of all concessions revenues realized by the Airport are transferred to the City's General Fund as an Annual Service Payment. According to Mr. Bruce Robertson, Budget Director at the Airport, due to the closure of the tenants' operations as part of the Airport's Terminal 3 East renovation, the Airport will lose concessions revenue at these locations. However, Mr. Robertson reports that this loss of revenues will be offset by higher concessions revenues elsewhere in the Airport. In FY 2014-15, the Airport estimates providing an Annual Service Payment of approximately $38,400,000, based on 15 percent of the Airport's total concessions revenue, to the City's General Fund.

Collected MAG and Fees during the Lease Term

According to the new ten-year leases, the tenants will pay the MAG and/or percentage rent based on gross revenues whichever is greater, Tenant Infrastructure Fee, Food Court Fee, and Promotional Charge upon completion of the renovations of Terminal 3 East. The total MAG and fee revenues paid by the five tenants to the Airport in the first year are $658,419. The MAG is adjusted annually by a formula based on the Consumer Price Index.

Table 4: Estimated Revenues to be Realized by Airport in the First Lease Year

BARG	$154,995
Bayport	153,103
Gotham	94,936
Sankaku	59,042
SSP	196,345
Total	**$658,419**

Impact of Suspended MAG and Fees on Airport Budget

As a result of the Airport's "residual rate setting methodology" (breakeven policy) used by the Airport to determine rental rates, landing fees, and related fees for all Airlines, the proposed resolution amending the concession leases, will not result in any budgetary shortfall for the Airport. The residual rate setting methodology is a formula which sets the schedule of all rental rates, landing fees, and related fees to a level which ensures that Airport revenues received from all of the airlines at the Airport, plus the non-airline revenues received by the Airport, is equal to the Airport's total costs, including debt service and operating expenditures. Therefore, any reduction to concession revenues, such as the subject suspension of the MAG and fees

POLICY CONSIDERATION

The existing leases between the Airport and the five concession tenants – BARG, Bayport, Gotham, Sankaku, and SSP – expire in 2015[4] with one two-year option to extend, at the Airport's discretion, through 2017. Under the proposed amendments to each of the five leases, the lease terms would be extended for ten years, from approximately November 2015, when construction in Terminal 3 East, Boarding Area F is completed, to November 2025, or approximately 8 years longer than the existing termination dates with extensions in 2017.

Under the original leases for the Terminal 3 East, Boarding Area F space, the five concession tenants had ten years to amortize their tenant improvement costs. According to Ms. Cheryl Nashir, Airport Director, Revenue Development and Management, the Airport offered new ten-year lease terms to these five concession tenants to provide the same ten-year amortization period for the tenants' improvement costs for the replacement space. According to Ms. Nashir, the Airport's practice is to provide for amortized construction costs to equal no more than 4 percent of the tenant's annual sales, which the Airport estimates will require an amortization period of at least ten years.[5]

[4] The existing expiration dates for each of the five concession tenants range from February 23, 2015 to July 14, 2015.

[5] According to Ms. Nashir, a shorter amortization period would increase the amortization costs to more than 4 percent of the tenant's annual sales.

The Budget and Legislative Analyst considers approval of the proposed resolution to be a policy matter for the Board of Supervisors because it extends the lease terms for each of the five tenants by at least 8 years without a competitive process.

RECOMMENDATIONS

1. Amend the proposed resolution to provide for retroactivity to February 2014.
2. Amend the title of the proposed resolution on lines 5, 7, 9, 11 and 13 to delete the references to “plus one two-year option”.
3. Amend the proposed resolution on pages 2 and 3 to change the Reimbursement of Unamortized Construction Costs to replace: (1) $66,058 with $57,335; (2) $63,595 with $57,066; (3) $221,667 with $198,685; (4) $26,208 with $23,203, and (5) 60,000 with $52,077.
4. Approval of the proposed resolution as amended is a policy matter for the Board of Supervisors.