

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

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**TO:** Budget and Finance Sub-Committee

**FROM:** Budget and Legislative Analyst



**SUBJECT:** July 27, 2016 Budget and Finance Sub-Committee Meeting

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<b>Item 2</b> <b>File 16-0829</b>	<b>Department:</b> San Francisco Municipal Transportation Agency (SFMTA)
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <p>The proposed resolution would approve the third amendment to the contract the SFMTA and Alstom for Alstom to purchase light rail vehicle (LRV) parts and manage LRV parts inventory on behalf of the SFMTA.</p> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The SFTMA entered into the original contract with Alstom for Alstom to purchase LRV parts and manage parts inventory on behalf of the SFMTA in 2013 following a competitive solicitation process (File 13-0743). The original contract was for \$39,158,000 and an initial two-year term from September 1, 2013 through August 31, 2015, with three one-year options to extend the term. The SFMTA previously exercised the first option to extend the term by one year through August 31, 2016.</li> <li>• The third amendment to the contract would: (1) exercise the two remaining one-year options to extend the contract through August 31, 2018, (2) add an option to extend the contract by two years on a sole source basis from September 1, 2018 through August 31, 2020; and (3) increase the contract not-to-exceed amount by \$41,540,000, from \$39,158,000 to \$80,698,000.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• SFMTA has spent \$29,818,000 on the contract with Alstom during the initial three-year term through August 31, 2016. If the SFMTA exercises the remaining two one-year options to extend the term through August 31, 2018, the contract would increase by \$25,380,000 to \$55,198,000. If the Board of Supervisors approves the additional two-year extension on a sole source basis through August 31, 2020, the contract would increase by an additional \$25,500,000 to \$80,698,000.</li> </ul> <p style="text-align: center;"><b>Policy Considerations</b></p> <ul style="list-style-type: none"> <li>• SFMTA decided not to issue a new RFP for the Vendor Managed Inventory (VMI) services to purchase LRV parts and manage parts inventory, and instead added an option to extend the contract with Alstom on a sole source basis from September 1, 2018 through August 31, 2020 because (a) Alstom has provided services that resulted in efficient and cost-effective purchase of LRV parts, and (b) SFMTA has not identified other contractors to provide the services for SFMTA's LRVs.</li> </ul> <p style="text-align: center;"><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>• Amend the proposed resolution to (a) specify that the contract end date is August 31, 2018, and (b) reduce the contract not-to-exceed amount by \$25,500,000, from \$80,698,000 to \$55,198,000.</li> <li>• Approve the proposed resolution as amended.</li> </ul>	

**MANDATE STATEMENT**

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that requires expenditures of \$10 million or more or requires a modification of more than \$500,000 is subject to Board of Supervisors approval.

**BACKGROUND**

The San Francisco Municipal Transportation Agency (SFMTA) directly oversees five municipal transit modes: (1) buses, (2) trolley buses, (3) light rail vehicles, (4) historic streetcars, and (5) cable cars. The maintenance and repair of the vehicles for these transit modes require the continuous procurement and inventory of vehicle parts from a variety of vendors. According to the SFMTA's July 12, 2016 letter to the Board of Supervisors, parts procurement for the Light Rail Vehicle (LRV) fleet is particularly complex. The complexity is driven by factors such as parts being obsolete or difficult to find because of the LRV fleet's age, vendors' volume constraints for frequently needed parts, and long delivery times.

In 2012, to address the difficulties in LRV parts procurement, SFMTA issued a competitive Request-for-Proposals (RFP) to solicit vendors for Vendor Managed Inventory (VMI) services for LRV parts, in which the contractor (vendor) would purchase LRV parts and manage LRV parts inventory. According to Mr. Ashish Patel, SFMTA Contracts and Procurement Manager, VMI services streamline the purchasing process, assist with purchasing difficult to obtain parts, and improve inventory and purchasing planning. Based on the RFP process, SFMTA awarded the VMI services contract for LRV parts to Alstom Transportation, Inc. (Alstom).

The Board of Supervisors approved a five-year contract between SFMTA and Alstom in 2013 (File 13-0743) including a two-year term from August 1, 2013 through July 31, 2015 and three one-year options to extend through July 31, 2018, for a not-to-exceed amount of \$39,158,000.

The contract had two amendments that were not subject to Board of Supervisors approval, as follows:

- The first amendment in October 2013 modified the initial term to September 1, 2013 through August 31, 2015.<sup>1</sup>
- The second amendment in September 2015 (1) exercised the first one-year option to extend the contract through August 31, 2016, (2) revised the fixed costs for parts purchased through the contract, and (3) increased the annual fixed management fee by \$680,000 or 42 percent, from \$1,620,000 to \$2,300,000. According to the SFMTA's July 14, 2016 letter, the increase in the fixed management fee was based on an evaluation by a third-party consultant, One Vision Enterprises, which recommended an increase in the fee due to Alstom's higher than expected procurement volume for SFMTA.

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<sup>1</sup> According to Mr. Patel, SFMTA executed the first amendment to more accurately reflect the actual dates of service provision. Because there was no change to the not-to-exceed amount of the contract, the first amendment was not subject to Board of Supervisors approval.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would approve the third amendment to the contract for Alstom to purchase LRV parts and manage LRV parts inventory on behalf of the SFMTA. Pending approval by the Board of Supervisors, the third amendment would: (1) exercise the two remaining one-year options to extend the contract through August 31, 2018, (2) add an option to extend the contract by two years on a sole source basis from September 1, 2018 through August 31, 2020; and (3) increase the contract not-to-exceed amount by \$41,540,000, from \$39,158,000 to \$80,698,000.

**FISCAL IMPACT**

Actual contract expenditures in the first three years of the contract from September 1, 2013 through August 31, 2016 are \$29,818,000. The contract budget for the two remaining one-year options through August 31, 2018 is \$25,380,000, resulting in a total contract amount of \$55,198,000 for the five-year contract. Adding an option to extend the contract on a sole-source basis through August 31, 2020 would increase the contract amount by \$25,500,000 for a total contract amount of \$80,698,000, as shown in Table 1 below.

**Table 1: Breakdown of VMI Contract Budget over Full Seven-Year Term**

	Parts	Fixed/ Variable Management Fees	Other Costs*	As-needed parts/ services	Total
<u>Initial Term</u>					
Year 1	\$900,000	\$1,620,000	\$2,761,568	-	\$5,281,568
Year 2	9,396,432	1,620,000	-	-	11,016,432
<u>1<sup>st</sup> Extension</u>					
Year 3	10,700,000	2,820,000	-	-	13,520,000
Subtotal Actual Expenditures	\$20,996,432	\$6,060,000	\$2,761,568	-	\$29,818,000
<u>2<sup>nd</sup> and 3<sup>rd</sup> Extension</u>					
Year 4	\$9,000,000	\$2,940,000	\$250,000	\$500,000	\$12,690,000
Year 5	9,000,000	2,940,000	250,000	500,000	12,690,000
Subtotal 2 <sup>nd</sup> and 3 <sup>rd</sup> Extensions	\$18,000,000	\$5,880,000	\$500,000	\$1,000,000	\$25,380,000
<b>Subtotal 5-Year Contract</b>	<b>\$38,996,432</b>	<b>\$11,940,000</b>	<b>\$3,261,568</b>	<b>\$1,000,000</b>	<b>\$55,198,000</b>
<u>Sole Source Extension</u>					
Year 6	\$9,000,000	\$3,000,000	\$250,000	\$500,000	\$12,750,000
Year 7	9,000,000	3,000,000	250,000	500,000	12,750,000
Subtotal Sole Source Extension	\$18,000,000	\$6,000,000	\$500,000	\$1,000,000	\$25,500,000
<b>Total</b>	<b>\$56,996,432</b>	<b>\$17,940,000</b>	<b>\$3,761,568</b>	<b>\$2,000,000</b>	<b>\$80,698,000</b>

\*Other costs include: one-time mobilization costs, liability insurance, maintenance engineering, and IT support costs

SFMTA's FY2016-2017 and FY2017-2018 budgets include funds for the Alstom VMI contract under the Rail Maintenance Division.

**POLICY CONSIDERATION**

SFMTA decided not to issue a new RFP for purchasing and inventory management services for LRV parts, and instead added an option to extend the contract with Alstom on a sole source basis from September 1, 2018 through August 31, 2020, because (a) Alstom has provided services that resulted in efficient and cost-effective purchase of LRV parts, and (b) SFMTA has not identified other contractors to provide the services for SFMTA's LRVs.

SFMTA conducted a survey of 15 transit agencies<sup>2</sup> and six rail service consultants to evaluate potential VMI contractors for the VMI program. According to Mr. Patel, the survey identified that (1) no other transit agencies currently use contractors for parts purchasing and inventory management, and (2) only two rail consultants are currently interested in providing parts purchasing and inventory management services: Alstom and Siemens, Inc. SFMTA currently has a contract with Siemens for design and construction of 215 new LRVs, for which Siemens is able to provide parts purchasing and inventory management services. However, Siemens is unable to provide parts purchasing and inventory management services for SFMTA's existing Breda light rail vehicles.

According to Mr. Patel, the evaluation by the third party consultant, One Vision Enterprises, found that the VMI program under Alstom showed sustained and measurable improvement in the level of service delivery for LRV parts, and cost savings over the alternative of SFMTA staff managing parts procurement as they had before the VMI program.

Because the requested option to extend the contract by an additional two years on a sole source basis through August 31, 2020 is two years into the future, the availability of contractors to provide parts purchasing and inventory management services could change. Therefore, the Budget and Legislative Analyst recommends that SFMTA issue a Request for Proposals (RFP) to select a new VMI contractor prior to the expiration of the final one-year contract extension, which expires on August 31, 2018.

**RECOMMENDATIONS**

1. Amend the proposed resolution to (a) specify that the contract end date is August 31, 2018, and (b) reduce the contract not-to-exceed amount by \$25,500,000, from \$80,698,000 to \$55,198,000. This would eliminate the \$25,500,000 required for the two-year sole source option in order to allow a new RFP process prior to August 31, 2018.
2. Approve the proposed resolution as amended.

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<sup>2</sup> New York MTA, Washington Metro (WMATA), Chicago Transit (CTA), Massachusetts Bay (MBTA), BART, SEPTA, PATH (Port Authority of NY, NJ), LA Metro, Miami Dade Metrorail, Baltimore Metro, Tren Urbano, Manila, Staten Island Railway, Greater Cleveland RTA, and PATCO (NJ).

<b>Item 5</b> <b>File 16-0796</b>	<b>Department:</b> Mayor's Office
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution would authorize a Seven-Party Supplement to the 2013 MOU between the Joint Powers Board (which consists of the City and County of San Francisco, the San Mateo County Transit District, and the Santa Clara Valley Transportation Authority), the San Mateo County Transportation Authority, the Santa Clara Valley Transportation Authority, the San Francisco County Transportation Authority, the Metropolitan Transportation Commission, the City and County of San Francisco, and the California High-Speed Rail Authority to increase the total contribution of the seven parties by \$210,400,000 for the Peninsula Corridor transit system, consisting of Caltrain and future high speed rail. The City would need to increase its contribution by \$20,000,000 from \$60,000,000 to \$80,000,000 to fund the Early Investment Strategy.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• In 1988, the City, the San Mateo County Transit District, and the Santa Clara Valley Transportation Authority entered into a Joint Powers Agreement creating the Joint Powers Board to operate Caltrain and conduct planning studies related to Peninsula commute service. The members of the Joint Powers Board agreed to share the costs of capital projects that are not covered by outside sources.</li> <li>• The Early Investment Strategy consists of two projects: the Communications-Based Overlay Signal System (CBOSS), and the Peninsula Corridor Electrification Project (PCEP).</li> <li>• Based on the revised 2016 cost projections, the total estimated costs for the Early Investment Strategy increased by \$755 million from \$1.456 billion estimated in 2008 to \$2.21 billion, due to PCEP project cost increases.</li> <li>• The total CBOSS budget of \$231 million has been fully expended. Parson Transportation Group, the CBOSS project contractor, anticipates that the CBOSS project will be delayed and incur additional project costs.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• Of the total \$20,000,000 in new funding requested from the City, \$3,900,000 comes from the San Francisco Transportation Authority's Proposition K Strategic Plan. The City has not yet identified funding sources for \$16,100,000 of the total contribution of \$20,000,000.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approval of the proposed resolution is a policy matter for the Board of Supervisors because the funding source for \$16,100,000 of the City's total contribution of \$20,000,000 has not yet been identified.</li> </ul>	

## MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of \$10 million or more, or (3) requires a modification of more than \$500,000 is subject to Board of Supervisors approval.

## BACKGROUND

### Peninsula Corridor Joint Powers Board

In 1988, the City and County of San Francisco, the San Mateo County Transit District, and the Santa Clara Valley Transportation Authority entered into a Joint Powers Agreement creating the Peninsula Corridor Joint Powers Board (Joint Powers Board) to operate Caltrain and conduct planning studies related to Peninsula commute service. Through this agreement, the members of the Joint Powers Board have agreed to share the costs of capital projects that are not covered by outside sources.

### Early Investment Strategy

In 2013, the City entered into a conditional nine-party Memorandum of Understanding (MOU) with the Joint Powers Board, the California High-Speed Rail Authority, the Metropolitan Transportation Commission, the San Francisco County Transportation Authority, and four other local and regional entities to establish a funding framework for an Early Investment Strategy for the Peninsula Corridor transit system, consisting of Caltrain and future high speed rail.<sup>1</sup>

The Early Investment Strategy for the future California statewide high-speed rail system consists of two projects including:

- (1) the Communications-Based Overlay Signal System (CBOSS), also referred to as positive train control project, and
- (2) the Peninsula Corridor Electrification Project (PCEP).

CBOSS tracks train locations and prevents unsafe train movements through the use of equipment on-board moving trains. CBOSS began in February 2012 and is anticipated to be completed in November 2016.

PCEP electrifies the Caltrain Corridor from San Francisco's 4th and King Streets Caltrain Station to approximately the Tamien Caltrain Station in San Jose, and replaces diesel-hauled trains with electric multiple unit trains, thereby placing one additional Caltrain train into service in each direction during peak hours (6 total additional trains). PCEP environmental clearance was completed in January 2015 and the first electric trains are expected to be completed and in service in December 2020. The rollout of the remaining 75 percent of the trains will be completed in 2021.

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<sup>1</sup> The four other local and regional entities include the San Mateo County Transportation Authority, the Santa Clara Valley Transportation Authority, the City of San Jose, and Transbay Joint Powers Authority.



### **Increases in the Estimated Cost of the Early Investment Strategy**

The Early Investment Strategy was initially estimated to cost \$1.456 billion based on 2008 cost projections completed by Caltrain staff. The estimated costs of PCEP were \$1.225 billion and the estimated costs of CBOSS were \$231 million. The nine parties of the 2013 MOU agreed to share the costs for these projects.

#### *Increase in Estimated Electrification Project Costs*

Caltrain staff updated PCEP cost estimates in 2014 to account for inflation and new industry information and analysis. Based on the 2014 cost projections, the revised total estimated costs for the Early Investment Strategy increased from \$1.456 billion to \$1.762 billion. The estimated costs of PCEP increased from \$1.225 billion to \$1.531 billion. The estimated costs of CBOSS were unchanged at \$231 million.

In 2016, Caltrain staff updated the cost estimates for PCEP once again to include contingency funds and to account for the project prices included in the bids submitted. Based on the revised 2016 cost projections, the total estimated costs for the Early Investment Strategy increased from \$1.762 billion to \$2.21 billion. The estimated costs of PCEP increased from \$1.531 billion to \$1.979 billion. The estimated costs of CBOSS were unchanged at \$231 million.

The 2016 cost estimate of \$1.979 billion for PCEP is an increase of \$755 million or 38.1 percent compared to the original 2008 cost estimate for PCEP of \$1.225 billion.

### **The City and County of San Francisco's Share of Cost**

The three members of the Joint Powers Board, including the City and County of San Francisco, the San Mateo County Transit District, and the Santa Clara Valley Transportation Authority, are required to each contribute \$60,000,000 to the costs of CBOSS and PCEP. Of the City's \$60,000,000 cost share:

- \$39,000,000 comes from Proposition A Transportation and Road Improvement General Obligation Bond funds, previously approved by the San Francisco voters in November 2014, of which \$7,760,000 was appropriated by the Board of Supervisors in May 2015 (File 15-0459); and \$31,240,000 has not yet been appropriated; and
- \$21,000,000 was previously authorized by the San Francisco County Transportation Authority.<sup>2</sup>

The Board of Supervisors approved an agreement between the San Francisco Municipal Transportation Agency (SFMTA) and the Joint Powers Board in January 2016 in which the SFMTA acts as a fiscal agent and disburses up to \$39,000,000 to the Joint Powers Board as costs are incurred for CBOSS and PCEP (File 15-1148).<sup>3</sup> The initial disbursement was \$7,760,000 in previously appropriated Proposition A bonds.

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<sup>2</sup> The additional \$21,000,000 from SFCTA was authorized through SFCTA resolutions 15-28, 14-29, 13-17 and 07-52.

<sup>3</sup> The agreement terminates on December 31, 2020 but may be extended until three and a half years after the sale of the last issuance of a Transportation and Road Improvement General Obligation Bond, if that date is later than December 31, 2020.

Both CBOSS and PCEP are included in San Francisco's 10-Year Capital Plan. The City has no obligation to make funding allocations under the agreement between the SFMTA and the Joint Powers Board should the City fail to appropriate funds for CBOSS or PCEP.<sup>4</sup>

### **Re-allocation of Early Investment Strategy Funds to Caltrain Operations**

The 2013 MOU identified \$125 million in Federal Transit Administration (FTA) funds that could be allocated to the Early Investment Strategy. However, the Joint Powers Board has determined that \$125 million in FTA funds are now needed make state-of-good repair improvements to existing Caltrain rail systems. The Joint Powers Board has requested the removal of these funds from the Early Investment Strategy, which creates a \$125 million funding gap.

## **DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would authorize a Seven-Party Supplement to the 2013 MOU between the (1) Joint Powers Board (which consists of the City and County of San Francisco, the San Mateo County Transit District, and the Santa Clara Valley Transportation Authority), (2) the San Mateo County Transportation Authority, (3) the Santa Clara Valley Transportation Authority, (4) the San Francisco County Transportation Authority, (5) the Metropolitan Transportation Commission, (6) the City and County of San Francisco, and (7) the California High-Speed Rail Authority to increase the total contribution of the seven parties by \$210,400,000.<sup>5</sup>

The proposed Seven-Party Supplement to the 2013 MOU would commit each of the three members of the Joint Powers Board to increase their contribution by \$20,000,000, from \$60,000,000 to \$80,000,000. Therefore, the City would need to increase its contribution to the Early Investment Strategy by \$20,000,000 for the Peninsula Corridor transit system, consisting of Caltrain and future high speed rail. Each Joint Powers Board member's contribution of the additional \$20,000,000 is contingent on the commitment of \$20,000,000 from each of the other two Joint Powers Board members, with the exact manner and timing of the contributions to be decided by the Joint Powers Board.

### **Funding Partners Oversight Protocol**

As a precondition to the Seven-Party Supplement to the 2013 MOU, the parties have agreed on a Funding Partners Oversight Protocol for Caltrain's CalMod Program, under which the funding partners will be able to closely monitor the Early Investment Strategy projects, have access to

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<sup>4</sup> The City and County of San Francisco's obligations to the agreement automatically terminates without expense of any kind to the City, if at the end of any fiscal year the funds are not appropriated for the succeeding fiscal year. In the event of default by the Joint Powers Board, the City may withhold any portion of Bond funds not yet disbursed, and may also demand immediate return of any previously disbursed Bond funds that have been claimed or expended by the Joint Powers Board in breach of the agreement.

<sup>5</sup> According to Caltrain representatives, the following five parties to the Seven-Party Supplement to the 2013 MOU have voted to approve the Seven-Party Supplement: (1) Joint Powers Board, (2) the San Mateo County Transportation Authority, (3) the Santa Clara Valley Transportation Authority, (4) the San Francisco County Transportation Authority, and (5) the Metropolitan Transportation Commission. The California High-Speed Rail Authority is scheduled to vote on the Seven-Party Supplement to the 2013 MOU at their August 9, 2016 meeting.

all project information, and participate in the decision-making process, especially when related to changes in scope, schedule, or cost.

## FISCAL IMPACT

The revised total estimated cost for the Early Investment Strategy projects for the Peninsula Corridor transit system, consisting of Caltrain and future high speed rail, is now \$2.21 billion, of which \$1.979 billion is for Peninsula Corridor Electrification Project (PCEP) and \$231 million is for Communication-Based Overlay Signal System (CBOSS). Table 1 below shows the proposed project budgets for the PCEP and CBOSS projects.

**Table 1. Proposed CBOSS and PCEP Project Budgets**

Project Costs	Original MOU Funding Strategy	Proposed Changes in Seven-Party Supplemental MOU	Revised Total Project Costs
Peninsula Corridor Electrification Project (PCEP)	\$1,225,000,000	\$755,000,000	\$1,980,000,000
Communication-Based Overlay Signal System (CBOSS)	\$231,000,000	0	\$231,000,000
<b>Total</b>	<b>\$1,456,000,000</b>	<b>\$755,000,000</b>	<b>\$2,211,000,000</b>

Source: Seven-Party Supplement to 2013 MOU, Exhibit B.

### CBOSS and PCEP Actual Expenditures

The total CBOSS budget is \$231,000,000, which has been fully expended. Parson Transportation Group, the CBOSS project contractor, anticipates that the CBOSS project may extend beyond the anticipated completion date of November 2016 and will incur additional project costs. Caltrain staff is currently in negotiations with Parson Transportation Group to ensure that the MOU funding partners will not be liable for any new costs due to CBOSS project delays. In response to requests from funding partners, Caltrain convened an American Public Transportation Association (APTA) Peer Review Panel to evaluate the CBOSS project scope, schedule, budget, and management, according to Ms. Gillian Gillet, Mayor's Director of Transportation Policy. The panel's report is not yet published.

The total PCEP budget is \$1.98 billion, of which \$76,765,678 has been expended.

Total funding for the Early Investment Strategy projects is shown in Table 2 below.

**Table 2. Proposed Changes to Funding Sources for Early Investment Strategy Projects**

Funding Source	Original MOU Funding Strategy <sup>6</sup>	Proposed Changes in Seven-Party Supplemental MOU	Revised Costs & Funding Sources
<b>Local Funds</b>			
Joint Powers Board Member Contributions <sup>a</sup>	\$180,000,000	\$60,000,000	\$240,000,000
Joint Powers Board Local Contributions	11,000,000	9,000,000	20,000,000
Caltrain	4,000,000	0	4,000,000
<i>Subtotal Local</i>	<i>\$195,000,000</i>	<i>\$69,000,000</i>	<i>\$264,000,000</i>
<b>State Funds</b>			
Proposition 1A Connectivity	\$106,000,000	\$0	\$106,000,000
Proposition 1A HSRA	600,000,000	0	600,000,000
California High-Speed Rail Authority Cap & Trade/Other	0	113,000,000	113,000,000
Cap & Trade Transit and Inter City Rail Program	0	20,000,000	20,000,000
Proposition 1B Caltrain	24,000,000	0	24,000,000
<i>Subtotal State</i>	<i>\$730,000,000</i>	<i>\$133,000,000</i>	<i>\$863,000,000</i>
<b>Federal Funds</b>			
Federal Railroad Administration	\$17,000,000	\$0	\$17,000,000
Federal Highway Administration Prior/Current Obligations	45,800,000	0	45,800,000
Federal Transit Administration Future Obligations <sup>b</sup>	440,000,000	(125,000,000)	315,000,000
Federal Transit Administration Core Capacity	0	647,000,000	647,000,000
<i>Subtotal Federal</i>	<i>\$502,800,000</i>	<i>\$522,000,000</i>	<i>\$1,024,800,000</i>
<b>Regional Funds</b>			
Metropolitan Transportation Commission Bridge Tolls	11,000,000	28,400,000	39,400,000
Bay Area Air Quality and Management District	20,000,000		20,000,000
<i>Subtotal Regional</i>	<i>\$31,000,000</i>	<i>\$28,400,000</i>	<i>\$59,400,000</i>
<b>Grand Total</b>	<b>\$1,458,800,000</b>	<b>\$752,400,000</b>	<b>\$2,211,200,000</b>

Source: Seven-Party Supplement to 2013 MOU, Exhibit B.

<sup>a</sup> \$240,000,000 in contributions from Joint Power Board members consists of \$80,000,000 from each of the three Joint Power Board members. The City's \$80,000,000 contribution includes \$60,000,000 previously authorized by the Board of Supervisors and \$20,000,000 that is the subject of the proposed resolution.

<sup>b</sup> \$125,000,000 in FTA funds are re-allocated to current Caltrain state-of-good repair projects.

Table 3 below summarizes the total funding sources of \$80 million for the City's share of costs for the Early Investment Strategy Projects.

<sup>6</sup> Original MOU funding of \$1,458,800,000 was \$2.8 million more than the original MOU budget of \$1,456,000,000.

**Table 3. Funding Sources for City's Revised Share of Costs**

<b>Funding Source</b>	<b>Amount</b>
<b>Previously Authorized Contribution (File 15-1148)</b>	
Proposition A Transportation and Road Improvement General Obligation Bond funds	\$39,000,000
San Francisco County Transportation Authority	21,000,000
Subtotal	\$60,000,000
<b>New Contribution (File 16-0796)</b>	
San Francisco Transportation Authority Proposition K Strategic Plan	\$3,900,000
To be determined	16,100,000
Subtotal	\$20,000,000
<b>Total</b>	<b>\$80,000,000</b>

Source: Caltrain staff

The City has not yet identified funding sources for \$16,100,000 of the new contribution of \$20,000,000. The City's obligations to the Seven-Party Supplement to the 2013 MOU will terminate without penalty, liability, or expense of any kind to the City at the end of any fiscal year if funds are not appropriated for the next succeeding fiscal year.

The Budget and Legislative Analyst considers approval of the proposed resolution to be a policy matter for the Board of Supervisors because the funding source for \$16,100,000 of the total new contribution of \$20,000,000 has not yet been identified.

## RECOMMENDATION

Approval of the proposed resolution is a policy matter for the Board of Supervisors because the funding source for \$16,100,000 of the City's total new contribution of \$20,000,000 has not yet been identified.

<b>Item 7</b> <b>File 16-0795</b>	<b>Department:</b> Mayor's Office of Housing and Community Development (MOHCD)
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <p>The proposed resolution would: (1) authorize a purchase and sale agreement for 1036 Mission Street L.P., an affiliate of Tenderloin Neighborhood Development Corporation (TNDC), to sell 1036 Mission Street to the City for \$5,476,250; and (2) authorize an 85-year ground lease, with one 14-year option to extend, between the City and 1036 Mission Associates to construct an 83-unit 100 percent affordable housing development at the site.</p> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The Mayor's Office of Housing and Community Development (MOHCD) and the former Redevelopment Agency awarded TNDC \$5,576,250 for site acquisition and predevelopment costs in 2006 to purchase land at 1036 Mission Street in the South of Market Area (SOMA) neighborhood in order to develop a 100 percent affordable housing development.</li> <li>• TNDC was unable to secure capital financing for construction of the project in 2010 due to the economic conditions at the time. In 2013, TNDC was able to secure partial permanent financing from state and federal sources, and move forward with the project. MOHCD approved a \$14,046,092 loan to the project to fill the remaining gap in financing.</li> <li>• The proposed development is a 9-story, 83-unit 100 percent affordable housing project, which includes 40 units specifically for homeless families. The development also includes on-site management and services for residents, and commercial retail space.</li> <li>• MOHCD proposes to purchase 1036 Mission Street from TNDC, and enter into an 85-year ground lease, with one 14-year option to extend with TNDC for use of the property, for a 99-year ground lease.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• MOHCD would purchase 1036 Mission Street from 1036 Mission Associates, an affiliate of TNDC, for \$5,476,250, which is the same amount that was loaned to TNDC to purchase the property in 2006 (\$5,576,250 less the \$100,000 loan from the Redevelopment Agency).</li> <li>• The total rent payable by TNDC to MOHCD over the term of the 85-year lease would be \$15,000 per year or \$1,275,000 over 85 years.</li> </ul> <p style="text-align: center;"><b>Policy Consideration</b></p> <ul style="list-style-type: none"> <li>• TNDC's proposal to construct a nine-story, 83-unit building is three to four stories lower, and results in 39 to 70 fewer affordable housing units than is permitted under the current C-3-G Downtown General Zoning. MOHCD staff cites increased cost constraints related to building taller than nine stories that could make the project infeasible at this time.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	

## MANDATE STATEMENT

City Charter Section 9.118(c) states that any lease of real property for a period of ten or more years, including options to renew, or having anticipated revenue to the City of \$1 million or more, and the modification of such lease, is subject to Board of Supervisors approval.

Administrative Code Section 23.4 authorizes the Director of the City's Real Estate Division to accept deeds granting real property to the City subject to Board of Supervisors approval.

## BACKGROUND

1036 Mission Associates, L.P., an affiliate of Tenderloin Neighborhood Development Corporation (TNDC), a non-profit organization, currently owns a 15,200 square foot (SF) vacant parking lot at 1036 Mission Street between Sixth and Seventh Streets in the South of Market Area (SOMA) neighborhood of the City. TNDC intends to develop a 9-story, 83-unit 100 percent affordable housing development for low-income and formerly homeless families on the site.

### Site Acquisition & Predevelopment

The former Redevelopment Agency issued a Notice of Funding Availability (NOFA) in 2006 for permanent affordable housing for very-low income and homeless families. Based on a competitive process, TNDC was awarded \$5,800,000 to cover site acquisition and predevelopment costs of 1036 Mission Street. \$5,700,000 in funding was from MOHCD, and \$100,000 was from the Redevelopment Agency.

TNDC purchased the property at 1036 Mission Street from a private owner for \$5,576,250 in 2007.<sup>1</sup> In 2009, TNDC secured entitlements from the Planning Department for a 7-story, 88 unit building. The total costs for the original development were expected to be \$40,313,989.

### Project Delays

TNDC was unable to secure capital financing for the construction of the project in 2010 due to the economic conditions at the time, and chose to hold the land instead. During this time, TNDC leased the site on a month-to-month basis to Priority Parking, which operated a pay-per-space parking lot. This lease terminated in May 2016.

In 2013, TNDC secured partial permanent financing from state and federal sources for the remaining phases of the project, and notified MOHCD that it would begin to move forward with the construction of the project.

### Proposed Development at 1036 Mission Street

Entitlements for the original project expired by 2013, so TNDC secured entitlements for a revised design in 2014. The revised proposal consists of 83 total units. 40 units will be set aside for homeless families earning no more than 30 percent of area median income as determined by the U.S. Department of Housing and Urban Development (HUD). Operating expenses for the 40 units are anticipated to be subsidized through the Human Service Agency's Local Operating

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<sup>1</sup> The remaining \$123,750 in funding not expended for the purchase price of the land was used for payment of transfer tax and other related costs.

Subsidy Program (LOSP). The remaining 43 units will be for families earning less than 50 percent of San Francisco area median income.

The proposed development will include on-site management and services for residents in addition to 1,061 square feet (SF) of commercial retail space.

#### 1036 Mission Street Property Appraisal

TNDC hired James G. Palmer Appraisals, Inc. to prepare an updated appraisal for the property in 2016 based on the highest and best use of the site. The appraisal valued the property at \$17,480,000 (or \$1,150/SF for 15,200 SF lot) based on an analysis of five comparable sales from 2013 to 2015 in SOMA, Potrero Hill, Nob Hill and Pacific Heights.

### **DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would:

- (1) Authorize a purchase and sale agreement for 1036 Mission Street L.P., an affiliate of TNDC, to sell 1036 Mission Street to the City for \$5,476,250,
- (2) Authorize an 85-year ground lease, with one 14-year option to extend, between the City and 1036 Mission Associates to construct an 83-unit 100 percent affordable housing development;
- (3) Adopt findings that the purchase, sale and lease of the property are consistent with the California Environmental Quality Act (CEQA), the General Plan and the eight policy priorities of Planning Code Section 101.1, and
- (4) Authorize the Director of the City's Real Estate Division and the Director of the Mayor's Office of Housing and Community Development (MOHCD) to execute documents and take action to further the proposed resolution.

#### City Purchase of Site from TNDC

According to the original 2006 loan agreement between TNDC and the Redevelopment Agency, TNDC would transfer the fee title to 1036 Mission Street to the Redevelopment Agency before TNDC closes construction financing. Transfer of the fee title to 1036 Mission Street would be used as a payment of the \$100,000 loan from the Redevelopment Agency. In addition, the MOHCD loan of \$5,476,250 provided to TNDC to purchase the property would be forgiven when the property was transferred to the Redevelopment Agency at construction closing.

Consistent with State Dissolution Law that went into effect in February 2012, MOHCD has been designated as the Housing Successor Agency, and the Successor Agency to the Redevelopment Agency (Office of Community Investment and Infrastructure or OCII) transferred all of its housing obligations and related assets to MOHCD as of February 1, 2012.

Now that the obligations related to the proposed project at 1036 Mission Street have been fulfilled under the Redevelopment Agency Loan Agreement, OCII will assign the Loan Agreement to MOHCD through an approval of the Oversight Board and the California Department of Finance, which will take place after construction financing has closed.



MOHCD will purchase 1036 Mission Street from TNDC for the amount of of \$5,476,250. The outstanding balance and accrued interest on the MOHCD loan to TNDC of \$5,476,250 will be credited against the purchase of 1036 Mission Street.

Ground Lease between the City and TNDC

The proposed resolution would approve an 85-year ground lease between the City and 1036 Mission Associates for 1036 Mission Street. Key terms for the lease are shown in Table 1 below.

**Table 1: Key Lease Terms**

<b>Lease Term</b>	
Size of Property	15,200 SF
Lease Period	85 years (July 2016 to July 2101)
Options to extend the lease	One 14-year option to extend the lease through 2115 for a total lease term of 99 years
Annual base rent paid by TNDC to MOHCD	\$15,000 annually, or \$1,275,000 over the 85-year period
Annual rent adjustments to base rent	None

Source: MOHCD

Planning Department Findings

The Planning Department adopted a Mitigated Negative Declaration on May 14, 2009. The Planning Department additionally determined the acquisition and ground lease are consistent with the City’s General Plan, and the eight priority policies of the Planning Code.

**FISCAL IMPACT**

Under the proposed resolution, MOHCD would purchase 1036 Mission Street from 1036 Mission Associates, an affiliate of TNDC at 1036 Mission Street for \$5,476,250, which is the same amount that was loaned to TNDC to purchase the property in 2006 (\$5,576,250 less the \$100,000 loan from the Redevelopment Agency).

After purchasing the property, MOHCD would enter into an 85-year ground lease with TNDC with a base rent payable by TNDC to MOHCD of \$15,000 per year in exchange for TNDC’s agreement to construct the affordable housing development and rent the residential units at affordable levels of up to 50 percent San Francisco area median income, as determined by HUD. According to Ms. Sara Amaral, MOHCD Project Manager, the \$15,000 base rent is the standard fee MOHCD charges non-profit developers.

The total amount of rent to be paid by TNDC to MOHCD over the term of the 85-year lease would be \$1,275,000, as shown in Table 2 below.

**Table 2: Total Rent Paid by TNDC to MOHCD**

Annual Rent	\$15,000
Lease Term	85 years
<b>Total Rent</b>	<b>\$1,275,000</b>

Should the project's income exceed expenses, the project would pay MOHCD for financing provided to the project<sup>2</sup> based on a residual receipt repayment method, which divides residual receipts between the various sources that financed the project, including the City, the State, and tax credit investors.

### Sources and Uses of Funds

The proposed development at 1036 Mission Street, excluding predevelopment and acquisition costs, is estimated to cost \$50,823,427, as shown in Table 3 below.

**Table 3: 1036 Mission Street Development Sources and Uses of Funds**

Sources of Funds	Amount
<b>Permanent</b>	
MOHCD Gap Financing Permanent Loan to TNDC	\$14,046,092
Deferred Interest	\$727,776
Multifamily Housing Program Loan (CA HCD)	\$3,000,000
Transit-Oriented Development Loan (CA HCD)	\$7,000,000
Affordable Housing Program	\$1,000,000
Pre-Construction Income	\$1,058,212
4% Low-Income Housing Tax Credits	\$22,891,347
TNDC Equity	\$1,100,000
<b>Total Sources of Funds</b>	<b>\$50,823,427</b>
<b>Uses of Funds</b>	
<b>Permanent</b>	
Hard Costs	\$37,719,705
Soft Costs	\$10,603,722
TNDC Developer Fee	\$2,500,000
<b>Total Uses of Funds</b>	<b>\$50,823,427</b>
Cost Per Unit (83 units)	\$612,330

Source: MOHCD

According to Ms. Amaral, the cost per unit of \$612,330 to construct the development is \$10,474, or two percent, higher than the average per unit cost of \$601,856 for other multifamily affordable projects in MOHCD's portfolio.

The total City financing to the project of \$19,622,342 (\$5,576,250 in acquisition loan and \$14,046,092 in permanent financing) results in an investment of \$236,414 per unit for the 83 total units of housing, which is \$16,843 or 7.7 percent, higher than the average per unit subsidy of \$219,571 in MOHCD's current affordable housing portfolio.

<sup>2</sup> As shown in Table 3, MOHCD is providing a loan of \$14,046,092 to TNDC to construct the project.

**POLICY CONSIDERATION**

The proposed affordable housing development is an 83-unit nine-story (85 foot) building. Developments within C-3-G Downtown General Zoning have an allowable height of 120 feet, or 12 or 13 stories, depending on other factors such as bulk and height. At the maximum height, projects can accommodate between 122 and 153 units. TNDC's proposal to construct 83 units is three to four stories lower, and 39 to 70 fewer affordable housing units than the maximum zoning allowed.

According to Mr. Benjamin McCloskey, MOHCD Deputy Director of Finance and Administration, a taller project with additional units as allowed by current zoning was deemed infeasible in May 2014, when the project was entitled, and again in April 2016 when TNDC received approval for their construction loan from MOHCD, due to the increased costs for high-rise construction.

**RECOMMENDATION**

Approve the proposed resolution.

<p><b>Items 9 and 11</b> <b>Files 16-0798 and 16-0833</b></p>	<p><b>Departments:</b> Public Library Real Estate Division</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p><b>Legislative Objectives</b></p>	
<p>File <u>16-0798</u> would authorize (1) a new lease between the Public Library, as tenant, and 750 Brannan Street Props, LLC, as landlord, to provide retail, production, warehouse and related office space at 750 Brannan Street; and (2) a sublease between the Public Library and the Friends &amp; Foundation. The lease is for ten years with three five-year options to extend, totaling 25 years.</p>	
<p>File <u>16-0833</u> is a request to release \$1,227,344 on Budget and Finance Committee reserve for FY 2016-17 to pay the Library’s tenant improvement costs and six months of rent at 750 Brannan Street.</p>	
<p><b>Key Points</b></p>	
<ul style="list-style-type: none"> <li>• The Library plans to relocate three Library programs – the City’s Archives, the Community Redistribution Program, and Mobile Outreach Services – from the Main Library and Brooks Hall to the new lease space at 750 Brannan Street. The new lease space consists of 24,173 square feet of building space and 6,430 square feet of yard space, totaling 30,603 square feet. First year rent is \$39 per square foot or \$942,747 for 24,173 square feet of building space. Rent increases by 3 percent per year.</li> <li>• Friends &amp; Foundation would sublease 2,833 square feet from the Library, of 11.7 percent of the building space, and pay the Library for rent and operating expenses equal to 11.7 percent of the Library’s total rent and operating expenses.</li> <li>• The Budget and Finance Committee placed \$1,772,592 on Budget and Finance Committee reserve during the FY 2016-17 budget deliberations, pending the submission of a lease for a site to consolidate the Library’s operations in one location. The Library is requesting release of \$1,227,344 on Budget and Finance Committee reserve.</li> </ul>	
<p><b>Fiscal Impact</b></p>	
<ul style="list-style-type: none"> <li>• The Library’s total costs over the initial ten-year lease term are \$10,452,694.</li> </ul>	
<p><b>Policy Consideration</b></p>	
<ul style="list-style-type: none"> <li>• Approval of the proposed resolution (File 16-0798) and release of \$1,227,344 on Budget and Finance Committee reserve (File 16-0833) are a policy matter for the Board of Supervisors because the proposed new lease results in new costs to the Library of \$10,452,694 over ten years.</li> </ul>	
<p><b>Recommendations</b></p>	
<ul style="list-style-type: none"> <li>• Approval of the proposed resolution and requested release of \$1,227,344 on Budget and Finance Committee reserve is a policy matter for the Board of Supervisors.</li> <li>• If the Board of Supervisors approves the release of \$1,227,344 on Budget and Finance Committee reserve, the balance of \$545,250 should be returned to the Library fund balance.</li> </ul>	

## MANDATE STATEMENT

City Administrative Code 23.27 states that leases 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.

Section 3.3 of the City's Administrative Code provides that the committee of the Board of Supervisors that has jurisdiction over the budget (i.e., Budget and Finance Committee) may place requested expenditures on reserve until released by the Budget and Finance Committee of the Board of Supervisors.

## BACKGROUND

### Three Existing Public Library Programs and Services

The Public Library collects, maintains and provides public access to the City's Archives, historical records and photographs, some of which date back to the mid-1800s. The City's Archives are currently stored in the basement of Brooks Hall at no cost, across from the Main Public Library. Library staff archivists retrieve City Archive materials for patrons, as requested.

The Public Library's Community Redistribution Program provides schools, nonprofits, community-based and other organizations both locally and abroad with approximately 75,000 books and materials annually for re-use. As Library staff de-select volumes to allow room for new books and materials in the Public Libraries, these recycled materials are kept out of landfills and repurposed for use by others. The Community Redistribution Program, which has limited staff hours, is currently housed in the basement of Brooks Hall at no lease cost.

The Public Library's Mobile Outreach Services provide bookmobile visits for an average of 2,243 patrons monthly, with four vehicles: (1) Green Bookmobile, serving Treasure Island community and special events, (2) Early Literacy Mobile, serving children 0-5 years and their caregivers at child care centers and parks, (3) Library on Wheels, serving seniors and mobility impaired individuals, (4) Techmobile, providing digital literacy with high-tech devices. The Mobile Outreach Services staff is currently located on two floors in the Main Library. Two bookmobiles are parked in the Main Library's underground garage and two bookmobiles are currently parked at Pier 19½, under an existing sublease with Space Plus, LLC at a cost of \$15,000 per year.

### The Friends & Foundation

The Friends & Foundation of the San Francisco Public Library (Friends & Foundation) is a nonprofit organization that advocates, fundraises and provides financial support of approximately \$720,000 annually to the Public Library. The Friends & Foundation currently operate a small public bookstore in the Main Library from donated books, with the revenue from these book sales provided to the Public Library. The Friends & Foundation currently lease private office space at 710 Van Ness for their administrative staff for \$7,549 per month, which extends through November 30, 2021. Anticipating a significant rent increase in December of 2016, the Friends & Foundation are currently negotiating with their landlord to terminate this existing lease and relocate to less expensive and more suitable space.

## DETAILS OF PROPOSED LEGISLATION

**File 16-0798** is a resolution that would authorize (1) a new lease between the Public Library, as tenant, and 750 Brannan Street Props, LLC, as landlord, to provide retail, production, warehouse and related office space at 750 Brannan Street; and (2) a sublease between the Public Library and the Friends & Foundation. The lease is for ten years with three five-year options to extend, totaling 25 years. The terms of the proposed lease and sublease are shown in Table 1 below.

The resolution also finds this transaction conforms to the City's General Plan and Planning Code Section 101.1.

**File 16-0833** is a request to release \$1,227,344 on Budget and Finance Committee reserve for FY 2016-17 to proceed with the lease agreement at 750 Brannan Street and related sublease with the Friends & Foundation, including tenant improvements.

Table 1 below shows the key provisions of the lease.

**Table 1: Key Provisions of Lease for 750 Brannan Street**

Permitted Uses	Library archival collection, community redistribution program, bookmobile parking, general office and Friends & Foundation bookstore and book donation drop-off
Premises	24,173 square feet of building <u>6,430 square feet of yard area</u> 30,603 total square feet
Term	Ten years, from January 1, 2017 through December 31, 2026 Lease will commence upon completion of tenant improvements
Options to Extend	Three five-year options to extend through December 31, 2041 Rent adjusted to 95 percent of Fair Market Value, subject to Board of Supervisors approval
Rent in First Year	\$78,562 per month or \$942,747 first year (\$39 per square foot annually for 24,173 square feet of building space)
Annual Increase to Rent	3 percent
Estimated Expenses	\$2,518 per month or \$30,216 annually City pays for utilities, janitorial, security and maintenance
Library's Tenant Improvement Costs	\$755,970, equal to total estimated tenant improvement costs of \$997,700 less landlord allowance of \$241,730
Purchase Option	City has First Right of Negotiation if landlord decides to sell property
Sublease with Friends & Foundation	2,833 square feet (approximately 11.7% of total building) Rent and operating expenses paid by Friends & Foundation to Library equals 11.7% of Library's base rent and operating expenses

According to Ms. Maureen Singleton, Chief Financial Officer of the Public Library, the proposed lease at 750 Brannan Street would enable the Library to relocate and consolidate the City Archives, Community Redistribution Program and Mobile Outreach Services into one space. In addition, the Friends & Foundation staff would provide a neighborhood book donation drop off and bookstore at the 750 Brannan Street location. Overall, the Library currently occupies 34,728 square feet of space, including portions of two different floors in the Main Library and space in Brooks Hall that would be vacated. In the proposed lease, the Library would occupy 24,173 square feet of space, a reduction of 10,555 square feet, or 30.4 percent, because the Library would be able to reorganize and consolidate space and use space more efficiently than in the current Brooks Hall location.

### **Release of Reserve**

The Budget and Finance Committee recommended a Budget and Finance Committee reserve of \$1,772,592 in the Library's proposed FY 2016-17 budget, pending details on the proposed lease. Of the \$1,772,592, the Library is requesting release of \$1,227,344 to pay for the City's share of tenant improvement expenses and six months of rent in FY 2016-17 (see Table 4 below). If approved, \$545,250 would remain on reserve.

## **FISCAL IMPACT**

### **Comparable Lease Costs and Operating Expenses**

According to Mr. Charlie Dunn, Senior Property Officer in the Real Estate Division, in order to determine fair market value for rent of the 750 Brannan Street facility, the Real Estate Division reviewed six other comparable property leases. The annual rent per square foot for these six other properties ranged from \$24.00 to \$68.00 per square foot. At \$39 per square foot, the 750 Brannan Street facility is in the lower portion of this range.

To estimate the monthly utility, janitorial, security and maintenance expenses as \$2,518 or \$30,216 annually, Mr. Dunn reviewed the current expenses for various comparable properties leased by the City.

### **Proposed Lease and Operating Expenses**

Rent for the first year of the lease would be \$942,747 or \$78,562 per month and will increase by three percent each subsequent year. Annual operating expenses of \$30,216 are projected to increase by three percent annually. As shown in Table 2 below, the Library's expected total lease costs are \$11,153,931 for the initial ten-year term of the lease.

**Table 2: Ten-Year Library Lease and Operating Expenses**

<u>Year</u>	<u>Lease Costs</u>	<u>Operating</u>	<u>Total Costs</u>
2017	\$942,747	\$30,216	\$972,963
2018	971,029	31,122	1,002,151
2019	1,000,160	32,056	1,032,216
2020	1,030,165	33,018	1,063,183
2021	1,061,070	34,009	1,095,079
2022	1,092,902	35,029	1,127,931
2023	1,125,689	36,080	1,161,769
2024	1,159,460	37,162	1,196,622
2025	1,194,244	38,277	1,232,521
2026	1,230,071	39,425	1,269,496
<b>Total</b>	<b>\$10,807,537</b>	<b>\$346,394</b>	<b>\$11,153,931</b>

Under the proposed sublease, the Friends & Foundation would sublet 2,833 square feet of space or 11.7 percent of the total 24,173 square feet of lease space. Friends & Foundation would pay rent and operating expenses to the Library equal to their 11.7 percent share of the lease space. First year rent paid by Friends & Foundation to the Library is \$110,487. The rent and operating expenses paid by the Friends & Foundation to the Library would increase at the same 3 percent incurred by the Library.

In addition, the Library will realize offsetting savings of \$15,000 per year by eliminating the Pier 19 ½ lease where two Library bookmobiles are currently parked.

The Library's FY 2016-17 and FY 2017-18 budget includes funding for rent and custodial and security services that would be provided by existing Library staff, who already provide custodial and security services in Brooks Hall. The Library will absorb any utility costs within its existing budget.

### **Tenant Improvements**

Under the proposed lease, the landlord will perform tenant improvements, which have estimated one-time costs of \$997,700, and include:

- Heating and ventilation improvements;
- Electrical upgrades;
- Security coordinated with Main Library system;
- Seismic upgrades and shelving bracing; and
- Leadership in Energy and Environmental Design (LEED) upgrades.

The landlord will provide \$241,730 toward these tenant improvements for a \$755,970 net cost to the City, as shown in Table 3 below. Tenant improvement costs to the City equal \$31.27 per square foot based on 24,173 square feet of building space.



**Table 3: Budget for Tenant Improvements**

<b>Category</b>	<b>Amount</b>
<b>Project Costs</b>	
Construction Costs	\$732,000
Planning, Design, Permitting and Other Soft costs	<u>175,000</u>
Subtotal Project Costs	\$907,000
Contingency (10% of project costs)	<u>90,700</u>
Total Cost of Tenant Improvements	\$997,700
Landlord Credit	(241,730)
<b>Net Cost to City</b>	<b>\$755,970</b>

**Release of Reserve**

The Public Library's FY 2016-17 budget, pending before the Board of Supervisors, includes \$1,772,592 for the new lease, which the Budget and Finance Committee recommended be placed on reserve. If the Board of Supervisors approves the Public Library budget at the July 26, 2016 meeting, the Budget and Finance Committee can release \$1,227,344 of the \$1,772,592 recommended for Budget and Finance Committee reserve. The balance of \$545,250 can be returned to the Library fund balance.

**Table 4: Requested Release of Reserve**

<b>Category</b>	<b>Amount</b>
Funds on Reserve	\$1,772,592
City portion of tenant improvements	755,970
Rent of approximately \$78,562 per month x 6 months	<u>471,374</u>
Subtotal City Tenant Improvement and Lease Costs	\$1,227,344
<b>Remaining Funds on Reserve</b>	<b>\$545,250</b>

**POLICY CONSIDERATION**

The proposed lease would result in net new costs to the Library for rent and associated operating expenses of \$843,935 in the first year, totaling \$9,696,724 over ten years, as shown in Table 5 below. Total net new costs to the Library over ten years, including rent, operating expenses, and tenant improvements are \$10,452,694.

**Table 5: Increased Costs to Library**

	<b>Year One</b>	<b>Ten-Year Total</b>
Rent and operating expenses (Table 2)	\$972,963	\$11,153,930
Pier 19 ½ rent savings	(15,000)	(150,000)
Friends & Foundation rent and operating expenses <sup>a</sup>	<u>(114,028)</u>	<u>(1,307,206)</u>
Subtotal	\$843,935	\$9,696,724
Tenant improvements (Table 3)	<u>755,970</u>	<u>755,970</u>
<b>Total</b>	<b>\$1,599,905</b>	<b>\$10,452,694</b>

<sup>a</sup> Assumes Friends & Foundation pay approximately 11.7 percent of annual rent and operating expenses

According to the Library, as noted above, the proposed new lease would allow the Library to consolidate the City Archives, Community Redistribution Program, Mobile Outreach Services, and the Friends & Foundation neighborhood book donation drop-off and bookstore into one location.

The Library currently has use of Books Hall for the City Archives and Community Redistribution Program at no cost to the Library, and use of Pier 19 ½ for Mobile Outreach Services at a cost of \$15,000 per year. According to the Director of the City's Real Estate Division, the Real Estate Division does not have a specific plan at this time for reuse of the Brooks Hall space to be vacated by the Library. The reuse of the Brooks Hall space will be part of the Real Estate Division's Civic Center Plan, which is expected to be completed in 2017.

Approval of the proposed resolution (File 16-0798) and release of \$1,227,344 on Budget and Finance Committee reserve (File 16-0833) are a policy matter for the Board of Supervisors because the proposed new lease results in new costs to the Library of \$10,452,694 over ten years.

## RECOMMENDATIONS

1. Approval of the proposed resolution and requested release of \$1,227,344 on Budget and Finance Committee reserve is a policy matter for the Board of Supervisors.
2. If the Board of Supervisors approves the release of \$1,227,344 on Budget and Finance Committee reserve, the balance of \$545,250 should be returned to the Library fund balance.

<b>Item 10</b> <b>File 16-0710</b>	<b>Department:</b> Department of Public Health (DPH)
<b>EXECUTIVE SUMMARY</b>	
<b>Legislative Objectives</b>	
<ul style="list-style-type: none"> <li>• The proposed resolution would authorize a new lease between DPH and Townsend Associates, LLC, for continued use of 650 Fifth Street by DPH's Jail Health Services.</li> </ul>	
<b>Key Points</b>	
<ul style="list-style-type: none"> <li>• DPH's Jail Health Services provides medical, psychiatric, and substance abuse care to prisoners in the San Francisco County Jails. Jail Health Services has leased space at 650 Fifth Street since 2007. The lease expired on June 30, 2015 and has been in holdover status since that time.</li> <li>• The new lease will provide the same 3,060 square feet of space for office, counseling, and public service use. The term of the lease is for five years from July 1, 2016 through June 30, 2021, with one option for an additional three year term through June 30, 2024.</li> </ul>	
<b>Fiscal Impact</b>	
<ul style="list-style-type: none"> <li>• Annual base rent for the lease is \$177,780, which is approximately 32.4 percent more than the annual rental rate of \$134,303 paid during the current holdover period. The lease does not provide for increases to the annual base rent during the initial five-year term of the lease. The rent amount of \$177,780 is included in DPH's FY 2016-17 budget</li> <li>• The Real Estate Division reviewed three recently executed transactions that occurred in the South of Market neighborhood. The annual rent for these spaces ranged from \$72 to \$74 per square foot. The proposed annual rent of \$58 per square foot for the proposed lease is lower than any of the comparable leases that were reviewed by the Real Estate Division.</li> </ul>	
<b>Policy Consideration</b>	
<ul style="list-style-type: none"> <li>• The proposed lease is for five years with one option to extend the lease by an additional three years. The proposed resolution states that approval of the option to extend the lease by three years is subject to approval by resolution of the Board of Supervisors.</li> <li>• DPH may not require continued use of the lease space for Jail Health Services after the end of the initial five-year lease term. According to DPH, the lease location at 650 Fifth Street is necessary to the operations of the Jail Health Services due to the proximity to County Jails 3 and 4 in the Hall of Justice. Currently, the Board of Supervisors policy is to not construct new jails to replace County Jails 3 and 4. Because County Jails 3 and 4 may permanently close in the future, DPH may not have an ongoing need for Jail Health Services space at 650 Fifth Street after the end of the initial five-year term in June 2021.</li> </ul>	
<b>Recommendation</b>	
<ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	

**MANDATE STATEMENT**

San Francisco Administrative Code section 23.27 states that the Board of Supervisors shall approve leases on behalf of the City as tenant by resolution.

**BACKGROUND**

In August 2007, the Department of Public Health (DPH), as tenant, entered into a lease with Townsend Associates, LLC (Townsend), as landlord, for 3,060 square feet of space, located at 650 Fifth Street in the South of Market neighborhood, to provide office space for its Jail Health Services. DPH's Jail Health Services provides medical, psychiatric, and substance abuse care to prisoners in the San Francisco County Jails. The term of the lease was for five years, to expire on June 30, 2012, with one option for an additional three-year term through June 30, 2015.

In 2010, DPH amended the lease to set a new expiration date of June 30, 2013. In 2013, DPH exercised its option to extend the lease, with a new expiration date of June 30, 2016. The annual rent during the extension period was set at \$122,094.

The lease is currently in holdover status after it expired on June 30, 2016. Rent paid during the holdover period is \$11,191.95 per month, equivalent to \$134,303 annually, or 10 percent more than the previous rent of \$122,094. According to Ms. Claudine Venegas, Senior Property Officer at the Real Estate Division, the draft lease was completed on May 9, 2016 but not submitted to the Board of Supervisors until June 20, 2016 due to administrative delays, which did not allow sufficient time for Board of Supervisors approval of the lease prior to the expiration date on June 30, 2016.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would authorize a new lease between DPH and Townsend Associates, LLC, for continued use of 650 Fifth Street by DPH's Jail Health Services. The new lease will provide the same 3,060 square feet of space for office, counseling, and public service use. The term of the lease is for five years from July 1, 2016 through June 30, 2021, with one option for an additional three year term through June 30, 2024. Annual base rent for the lease is \$177,780, which is approximately 32.4 percent more than the annual rental rate of \$134,303 paid during the current holdover period. The lease does not provide for increases to the annual base rent during the initial five-year term of the lease. Table 1 below shows the key provisions of the lease.

**Table 1: Key Provisions of DPH Lease**

<b>Provision</b>	<b>Proposed Lease</b>
Premises	Suites 307-309, including four parking stalls
Use	Office, counseling, public services, and related uses
Rentable Area	3,060 square feet
Term	July 1, 2016 – June 30, 2021 (five years)
Extension	1 additional 3 year term Rent to be 95% of Fair Market Value during this period
Annual Base Rent	\$177,780 (Approximately \$58 per square foot)
Utilities	Electricity to be paid by City. Landlord pays all other costs.
Services	Landlord to provide janitorial services.

According to Mr. Frank Patt, Deputy Director of DPH's Jail Health Services, the current space at 650 Fifth Street is advantageous because it is in close proximity to the County Jails located at the Hall of Justice, which allows staff to attend meetings with jail officials and respond to medical emergencies in a timely fashion. Mr. Patt states that DPH sought to relocate their space into the Hall of Justice, however no space was available.

#### **FISCAL IMPACT**

As shown in Table 2 below, the total rent to be paid by DPH to the Landlord under the proposed new lease will be \$888,900 for the initial five year lease term. As stated above, the lease will adjust to 95 percent of fair market value during the extension period, should DPH choose to exercise its one three-year option.

**Table 2: Total Rent to be Paid by DPH to Landlord for Five- Year Lease Term**

<b>Year</b>	<b>Amount</b>
FY 2016-17	\$ 177,780
FY 2017-18	177,780
FY 2018-19	177,780
FY 2019-20	177,780
FY 2020-21	177,780
<b>Total</b>	<b>\$888,900</b>

The proposed annual rent of \$177,780 is \$43,477 higher than the current rent of \$134,303, or an increase of 32.4 percent. In order to determine the fair market rent for the lease, Ms. Venegas reports that the Real Estate Division reviewed three recently executed transactions that occurred in the South of Market neighborhood. The annual rent for these spaces ranged from \$72 to \$74 per square foot. The proposed annual rent of \$58 per square foot is lower than any of the comparable leases that were reviewed by the Real Estate Division.

According to Ms. Jenny Louie, Budget Director at DPH, the rent amount of \$177,780 is included in DPH's FY 2016-17 budget.

**POLICY CONSIDERATION**

The proposed lease is for five years with one option to extend the lease by an additional three years. The proposed resolution states that approval of the option to extend the lease by three years is subject to approval by resolution of the Board of Supervisors.

DPH may not require continued use of the lease space for Jail Health Services after the end of the initial five-year lease term. According to DPH, the lease location at 650 Fifth Street is necessary to the operations of the Jail Health Services due to the proximity to County Jails 3 and 4 in the Hall of Justice. Currently, the Board of Supervisors policy is to not construct new jails to replace County Jails 3 and 4. Because County Jails 3 and 4 may permanently close in the future, DPH may not have an ongoing need for Jail Health Services space at 650 Fifth Street after the end of the initial five-year term in June 2021.

**RECOMMENDATION**

Approve the proposed resolution.

<b>Item 12</b> <b>File 16-0310</b>	<b>Department:</b> San Francisco International Airport (Airport)
<b>EXECUTIVE SUMMARY</b>	
<b>Legislative Objectives</b>	
<ul style="list-style-type: none"> <li>The proposed resolution would approve the early termination of a concession lease between the Airport and Legends Bar of San Francisco, LLC (Legends), and reimburse Legends for \$70,270 in unamortized construction costs. Legends is expected to relinquish its premises to the Airport on approximately August 23, 2016, and will cease to pay rent to the Airport for the premises at that time.</li> </ul>	
<b>Key Points</b>	
<ul style="list-style-type: none"> <li>In 2005, the Board of Supervisors approved a lease between the Airport and Legends to operate Legends of San Francisco Bar &amp; Grill in Terminal 1. The lease extended through December 2017, including options to extend. The Airport now wants to terminate the lease as of August 2016 to accommodate the Airport's Terminal 1 Redevelopment Program to modernize Boarding Areas B and C.</li> </ul>	
<b>Fiscal Impact</b>	
<ul style="list-style-type: none"> <li>The reimbursement of \$70,270 in unamortized construction costs reflects the total \$632,430 in construction costs paid by Legends to improve the premises in Terminal 1 for the remaining term on the lease. The Airport agreed to reimburse Legends for the unamortized construction costs through December 2017, when the second one-year option to extend the lease terminates, rather than December 2015, when the original ten-year lease terminated because after exercising the options, Legends had a contractual expectation of continued revenue through December 2017. The Airport has sufficient funding in its budget for the \$70,270 reimbursement of unamortized construction costs to be paid to Legends.</li> <li>Due to the Airport's residual rate-setting methodology (breakeven policy) which establishes rental rates for airlines and concessionaires at the Airport, the loss in rental revenue resulting from the termination of the Legends lease will be absorbed by adjusting the rental rates to the Airlines.</li> </ul>	
<b>Recommendation</b>	
<ul style="list-style-type: none"> <li>Approve the proposed resolution.</li> </ul>	

**MANDATE STATEMENT**

City Charter Section 9.118(c) states that leases of real property for a period of ten or more years, including options to renew, and the amendments to such leases, are subject to Board of Supervisors approval.

**BACKGROUND**

In 2005, the Board of Supervisors approved a lease between the San Francisco Airport (Airport) and Legends Bar of San Francisco, LLC (Legends) to operate Legends of San Francisco Bar & Grill in Terminal 1 at the Airport. The lease was for 1,075 square feet of space in Terminal 1 for a ten-year term, expiring in December 2015, with two one-year options to extend the term through December 2017, for a total term of 12 years. The Airport exercised these options in 2009. Base rent for the lease is the greater of Minimum Annual Guarantee (MAG) of \$43,000 per year, or Percentage Rent.<sup>1</sup> The lease also required Legends to invest a minimum of \$268,750 for improvements to the premises. According to Mr. Tomasi Toki, Principal Property Manager at the Airport, Legends spent \$632,430 for such improvements.

In 2015, the Airport commenced construction for the Terminal 1 Redevelopment Program to modernize Boarding Areas B and C in Terminal 1. The Redevelopment Program will provide improved passenger circulation with access to 24 gates, new passenger loading bridges, and new concessions. The estimated cost of the Redevelopment Program is \$2,400,000,000, and is expected to be completed in 2020. The Terminal 1 Redevelopment Program requires Legends to permanently close in order to accommodate the Airport's construction in the area. On January 19, 2016, the Airport Commission approved the early termination of the Legends lease.

The Airport submitted the proposed resolution to terminate the existing lease between the Airport and Legends to the Board of Supervisors on March 28, 2016. Ms. Cathy Widener of the Airport's Governmental Affairs Office requested that other more time sensitive Airport matters be heard by the Budget and Finance committee, thereby delaying this item.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would approve the early termination of a lease between the Airport and Legends, and reimburse Legends for \$70,270 in unamortized construction costs. Legends is expected to relinquish its premises to the Airport on approximately August 23, 2016, and will cease to pay rent to the Airport for the premises at that time.

The reimbursement of \$70,270 in unamortized construction costs reflects the total \$632,430 in construction costs paid by Legends to improve the premises in Terminal 1 for the remaining term on the lease.<sup>2</sup> According to Mr. Tomasi Toki, Airport Principal Property Manager, the Airport agreed to reimburse Legends for the unamortized construction costs through December

<sup>1</sup> Percentage rent is calculated at eight percent of gross revenues up to \$600,000, 10 percent of gross revenues from \$600,000 to \$1,000,000, and 12 percent of gross revenues above \$1,000,000.

<sup>2</sup> The monthly amount of Legend's construction cost to build out their premises is \$4,391.88. The reimbursement of \$70,270 applies this monthly amount to the remaining sixteen months of the lease term from September 2016 through December 2017.



2017, when the second one-year option to extend the lease terminates, rather than December 2015, when the original ten-year lease terminated because after exercising the options, Legends had a contractual expectation of continued revenue through December 2017.

### FISCAL IMPACT

As noted above, legends paid a total of \$632,430 to improve the leased space at the Airport. The proposed resolution would authorize the Airport to pay Legends \$70,270 for the unamortized improvement costs.

Legends has paid percentage rent of \$1,447,625 to the Airport over the five-year lease period from 2011 through 2015 as shown in Table 1 below.

**Table 1: Rent Paid by Legends to Airport since 2011**

<b>Year</b>	<b>Percentage Rent Paid to Airport</b>
2011	\$241,831
2012	270,351
2013	334,118
2014	319,709
2015	281,616
<b>Total</b>	<b>\$1,447,625</b>

Due to the Airport's residual rate-setting methodology (breakeven policy) which establishes rental rates for airlines and concessionaires at the Airport, the loss in rental revenue resulting from the termination of the Legends lease will be absorbed by adjusting the rental rates to the Airlines. Mr. Toki states that the Airport has sufficient funding in its budget for the \$70,270 reimbursement of unamortized construction costs to be paid to Legends.

### RECOMMENDATION

Approve the proposed resolution.

<b>Item 13</b> <b>File 16-0312</b>	<b>Department:</b> San Francisco International Airport (Airport)
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution would approve Amendment No. 1 to the lease previously approved by the Board of Supervisors between Hudson New Company (Hudson) and the San Francisco International Airport (Airport), reducing the minimum annual guarantee to \$1,320,973.20, the annual promotional charge to \$2,506, and reimbursing Hudson \$173,022.24 for unamortized construction costs.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The Board of Supervisors approved a lease in 2009 between Hudson and the Airport for Hudson to operate (a) a gift shop, (b) a newsstand, and (c) a combined newsstand/convenience store at three locations in Terminal 1 in the Airport.</li> <li>• The Airport and Delta Airlines entered into an agreement in 2013 to expand Delta’s premium class lounge in a location above the gift shop occupied by Hudson. As a result, the Airport required Hudson to vacate the gift shop with the understanding that a new gift shop space would be available in approximately one year. Airport staff worked with Hudson over the past three years to find an alternate space that would be suitable to relocate these premises but was unsuccessful. The Airport now seeks to amend the lease to formally eliminate the gift shop site that was vacated by Hudson on January 2, 2014.</li> <li>• With the closure of the gift shop, Hudson would retain 510 square feet for the newsstand and 1,996 square feet for the combined newsstand/convenience store, resulting in the total remaining 2,506 square feet to continue being leased by Hudson.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The proposed first amendment to the lease sets the MAG at \$1,032,973, equal to \$412.20 per square foot for 2,506 square feet. The first amendment reduces the total MAG based on the reduction in square feet, but the MAG per square foot remains unchanged.</li> <li>• Hudson paid \$365,631.90 to construct tenant improvements to the gift shop, equal to \$4,352.76 per month for the 84 month (seven-year) term of the lease. The proposed first amendment would reimburse Hudson \$173,022 in unamortized tenant improvement costs for the approximately 40-month period from the date when Hudson vacated the gift shop in January 2014 to the lease expiration date of April 22, 2017. The Airport has sufficient funding in its budget for the \$173,022 reimbursement of unamortized construction costs to be paid to Hudson</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	

## MANDATE STATEMENT

City Charter Section 9.118(c) states that any modification, amendment or termination of a lease that had an initial term of ten years or more, including options to extend, or that had anticipated revenues of \$1 million or more is subject to Board of Supervisors approval.

## BACKGROUND

The Board of Supervisors approved a lease in 2009 between Hudson News Company (Hudson) and the San Francisco International Airport (Airport) for Hudson to operate (a) a gift shop, (b) a newsstand, and (c) a combined newsstand/convenience store at three locations in Terminal 1. The lease commenced in April 2010 for a term of seven years, expiring in April 2017, with one option to extend the term for an additional two years, for a total term of nine years, expiring in April 2019.

The Airport and Delta Airlines entered into an agreement in 2013 to expand Delta's premium class lounge in a location above the gift shop occupied by Hudson. As a result, the Airport required Hudson to vacate the gift shop with the understanding that a new gift shop space would be available in approximately one year. According to Ms. Clarissa Mamaril, Airport Principal Property Manager, Airport staff worked with Hudson over the past three years to find an alternative space that would be suitable to relocate these premises but was unsuccessful. The Airport now seeks to amend the lease to formally eliminate the gift shop premises that was vacated by Hudson on January 2, 2014. Ms. Mamaril states that it has taken the Airport approximately two years and six months to amend the lease because the length of time for studies and design for the new gift shop space took longer than anticipated.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Amendment No. 1 to the lease previously approved by the Board of Supervisors between Hudson and the Airport, making the following changes:

- Reduce the leased location by 1,283 square feet from 3,789 square feet to 2,506 square feet to account for the space previously leased for the gift shop;
- Set the MAG at \$1,032,973;
- Reduce the annual promotional change by \$1,283 per year for the space being relinquished by Hudson, to \$2,506 to equal \$1 per square foot for the remaining 2,506 square feet still being leased by Hudson for a newsstand ad combined newsstand/convenience store;
- Reimburse Hudson \$173,022 for unamortized construction costs.

With the closure of the gift shop, Hudson would retain 510 square feet for the newsstand and 1,996 square feet for the combined newsstand/convenience store, resulting in the total remaining 2,506 square feet to continue being leased by Hudson.

**FISCAL IMPACT****Proposed Reduction in MAG**

The proposed first amendment to the lease sets the MAG at \$1,032,973, equal to \$412.20 per square foot for 2,506 square feet. The Airport set the MAG in the original lease in 2010 at \$1,385,000, equal to \$365.53 per square foot for 3,789 square feet. The MAG per square foot increased annually by a formula based on the Consumer Price Index (CPI). The total MAG was reduced in 2014 to reflect the reduction in square footage when the Airport had Hudson vacate the gift shop location to allow for expansion of the Delta Airlines premises, as shown in Table 1 below, but the MAG per square foot remained unchanged.

As shown in Table 1 below, Hudson has paid the Airport total percentage rent of \$9,157,624, which exceeded the total MAG of \$7,374,203 by \$1,783,421 between 2010 and 2016.

**Table 1: Rent Paid by Hudson to Airport since 2009**

Year	News/ Convenience Store	Gift Shop	Newsstand	Total Rent Paid by Hudson to the Airport	MAG <sup>a</sup>	Rent Paid > MAG
2010	\$789,932	\$51,313	\$338,227	\$1,179,473	\$593,901	\$585,572
2011	899,861	60,102	501,191	1,461,155	1,403,059	58,096
2012	924,531	57,783	512,728	1,495,041	1,440,781	54,260
2013	955,022	57,638	520,005	1,532,665	1,477,987	54,678
2014	780,136	0	464,296	1,244,433	1,001,460	242,973
2015	1,029,198	0	552,343	1,581,540	1,026,608	554,932
2016 (Jan to May)	451,914	0	211,403	663,317	430,407	232,910
<b>Total</b>	<b>\$5,830,594</b>	<b>\$226,836</b>	<b>\$3,100,193</b>	<b>\$9,157,624</b>	<b>\$7,374,203</b>	<b>\$1,783,421</b>

<sup>a</sup> MAG in 2010 was prorated to reflect opening dates of the three locations. MAG in 2014 was reduced to reflect the removal of the gift shop location.

As shown in Table 1 above, the total rental rent paid by Hudson to the Airport from 2010 to 2016 was \$9,157,624, which exceeded the MAG rent in each year.

**Amortization of Tenant Improvement Costs**

According to Ms. Mamaril, Hudson paid \$365,631.90 to construct tenant improvements to the gift shop, equal to \$4,352.76 per month for the 84 month (seven-year) term of the lease. The proposed first amendment would reimburse Hudson \$173,022 in unamortized tenant improvement costs for the approximately 40-month period from the date when Hudson vacated the gift shop in January 2014 to the lease expiration date of April 22, 2017.

**Airport Residual Rate-Setting Methodology**

As a result of the Airport's residual rate-setting methodology (breakeven policy), which establishes rental rates for airlines and concessionaires at the Airport, the reduction in rental

revenue resulting from the relinquished space of 1,283 for of Hudson's gift shop will be absorbed by adjusting the rental rates of the airlines operating at the Airport. Ms. Mamaril states that the Airport has sufficient funding in its budget for the \$173,022 reimbursement of unamortized construction costs to be paid to Hudson.

**RECOMMENDATION**

Approve the proposed resolution.