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 25, 2018 Budget and Finance Committee Meeting

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Item 4 **File 17-1322**	**Department:** Real Estate Division

EXECUTIVE SUMMARY

Legislative Objectives

The proposed resolution would authorize an amendment to the existing lease of the Bill Graham Civic Auditorium between the City as landlord and BGCA Management, LLC as tenant to: (1) increase the annual base rent to $300,000 per year, with annual adjustments of 2.5 percent; and (2) require the tenant to be responsible for all utilities and a minimum of $10,250,000 in building improvements.

Key Points

- In July 2010, the Board of Supervisors approved the lease of the Bill Graham Civic Auditorium to BGCA Management, LLC for a term of approximately 20 years through December 31, 2030, with two five-year extension options, as a concert and special events venue.
- The tenant is interested in making improvements to Polk Hall to install a smaller venue. In amending the lease to include the new venue, City staff renegotiated certain terms that are no longer favorable to the City.
- The proposed lease amendment increases the base rent, increases the participation for non-ticketed events, and eliminates the tenant improvement rent credit and utility rent credit provisions.
- Although City Administrative Code Section 23.33 provides for leases of City property to be awarded through competitive bidding procedures, the Budget and Legislative Analyst finds it reasonable that a new competitive bidding process would be impractical.

Fiscal Impact

- Under the existing lease, the utility rent credit is anticipated to exceed base and participation rent in each lease year, resulting in net rent revenue to the City of $0.
- The proposed amended lease is estimated to result in total rent revenue to the City of $5,679,808 over the remaining 13 years of the lease.
- Under the proposed lease amendment, the tenant agrees to complete at least $10 million in improvements including approximately $6 million in improvements that are not related to the conversion of Polk Hall, but these expenses will not be credited against participation rent. To date, the tenant has incurred a total of $1,034,328 in costs that would be credited towards the $6 million improvement requirement.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Administrative Code 23.30 states that City property shall be leased to the highest responsible bidder in accordance with competitive bidding procedures and for no less than the Director of Property's opinion of market rent if there is no appraisal, unless the Board of Supervisors finds by resolution that (a) competitive bidding procedures are impractical or impossible, or (b) a lesser sum will further a public purpose.

City Administrative Code Section 23.33 provides for leases of City property to be awarded through competitive bidding procedures unless competitive bidding procedures are impractical or impossible.

BACKGROUND

In July 2010, following a competitive bidding process, the Board of Supervisors approved the lease of the Bill Graham Civic Auditorium located at 99 Grove Street to BGCA Management, LLC, an affiliate of Another Planet Entertainment (tenant), for a term of approximately 20 years, with two five-year extension options, as a concert and special events venue (File No. 10-0649; Resolution No. 289-10).

The lease includes (1) base rent of $100,000 per year, with an annual increase of 2.5 percent per year subject to a rent abatement period during the construction of building improvements; and (2) participation rent of the sum of (i) 50 percent of naming rights revenue in excess of $500,000, (ii) $5 per ticket, increased each year by CPI, for each ticket sold in excess of 337,000 per year, and (iii) $2,500, increased each year by CPI, for each non-ticketed event. Since 2010, the tenant has not received any naming rights revenue and has sold over 337,000 tickets only in 2016.

The lease also requires the tenant to spend at least $10 million on interior renovations and capital improvements to the building, with a credit against participation rent if the tenant completes the improvements by March 10, 2020. The City has granted several extensions for the performance of the required improvements, of which the City has approved total improvement expenditures of approximately $1.6 million to date. Under the lease, the credit is only applied once all of the $10 million in improvements have been constructed, so nothing has been credited against participation rent to date.

The City retains the right to use the building 50 days per year for civic events without paying rent, but the City is required to pay for the costs of use, such as cleaning and security during the events. Since 2010, the City has not used more than 24 days in any lease year.

The lease requires the tenant to pay for utilities, but if utility costs exceed $200,000, adjusted each year by CPI, in any lease year, then the tenant receives a rent credit of 50 percent of such excess costs. Due to a significant increase in utility rate charges since the lease was negotiated, the tenant has received a rent credit for excess utility costs each year since 2011, resulting in a rent credit of over $500,000, or equivalent to five years of current base rent. The utility rent credit has exceeded the sum of base rent and participation rent since 2016. As a result, the City is not projected to receive revenue under the original lease structure over the remaining term of the lease.

The major terms of the existing lease are summarized in Table 1 below.

Table 1: Terms of Existing Lease

Term	Existing Lease
Expiration Date	December 31, 2030
Options to Extend	Two five-year options
Premises	Bill Graham Civic Auditorium, excluding Room 202
Annual Base Rent	$100,000 (starting in 2010)
Participation Rent	• 50 percent of naming rights revenue in excess of $500,000 • $5 for each ticket sold in excess of 337,000 tickets per year • $2,500 for each non-ticketed event
Annual Rent Increase	2.5 percent per year
Tenant Improvements	Tenant receives a credit against participation rent for up to $10 million in improvements if tenant applies for credit by March 10, 2020
Utilities	Tenant receives a credit against base and participation rent in the amount of 50 percent of utility costs that exceed $200,000 in a given year
Annual Days for City Use	Up to 50 days

According to Ms. Claudia Gorham, Assistant Director of Real Estate, the renegotiation of the existing lease was triggered by the tenant's interest in making improvements to Polk Hall to install a smaller venue. In amending the lease to include the new venue, City staff renegotiated certain terms that are no longer favorable to the City.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize an amendment to the existing lease of the Bill Graham Civic Auditorium at 99 Grove Street between the City as landlord and BGCA Management, LLC as tenant to:

(1) Increase the annual base rent to $300,000 per year, with annual adjustments of 2.5 percent; and

(2) Require the tenant to be responsible for all utilities and a minimum of $10,250,000 in building improvements.

The proposed lease amendment will include Room 202/Polk Hall within the leased premises. According to Ms. Gorham, although the City intended to use the space for a small office, setting up the space with equipment, furniture, and City-secured interest was too costly and Room 202/Polk Hall has never been occupied and rarely used by the City during the existing lease term.

The proposed lease amendment increases the participation rent for non-ticketed events from $2,500 (starting in 2010, increasing 2.5 percent per year), to $3,500 for each non-ticketed event in the Main Hall and $2,500 for each non-ticketed event in Polk Hall (starting in 2018, increasing 2.5 percent per year).[1]

The proposed lease amendment eliminates the tenant improvement rent credit provision, including for previously completed improvements. As a result, the tenant would receive no participation rent credit for any previously completed or future completed tenant improvements.

The proposed lease amendment eliminates the utility rent credit. As noted above, due to the substantial increase in utility rate charges since the original lease was negotiated, the tenant did not owe base rent or participation rent in 2016 and 2017.

As noted above, the City has not used more than 24 days in any lease year, so the City days are reduced to 25 days per year under the proposed lease amendment.

Table 2 below summarizes the major lease terms of the proposed amended lease, with changes shown in <u>underline</u>.

Table 2: Terms of Proposed Lease Amendment

Term	Amended Lease
Expiration Date	December 31, 2030
Options to Extend	Two five-year options
Premises	Bill Graham Civic Auditorium, <u>including</u> Room 202/Polk Hall
Annual Base Rent	<u>$300,000</u> (starting in 2018)
Participation Rent	• 50 percent of naming rights revenue in excess of $500,000 • <u>$3,500 for each non-ticketed event in the Main Hall</u> • <u>$2,500 for each non-ticketed event in Polk Hall</u>
Annual Rent Increase	2.5 percent per year
Tenant Improvements	<u>No rent credit</u>; tenant must complete at least $10.25 million in improvements, <u>including $6 million in improvements not related to the conversion of Polk Hall</u>
Utilities	<u>No credit; tenant pays for utilities</u>
Annual Days for City Use	<u>Up to 25 days</u>

FISCAL IMPACT

Comparison of Existing Lease and Amended Lease Revenue

Under the existing lease, the utility rent credit is anticipated to exceed base and participation rent in each year, resulting in net rent revenue to the City of $0. Under the proposed amended

[1] As of 2017, the initial rent of $2,500 for each non-ticked event in the Bill Graham Civic Auditorium was $2,972, based on annual increases of 2.5 percent.

lease, the utility rent credit is eliminated and base and participation rents are increased, resulting in estimated total rent revenue to the City of $5,679,808 over the remaining 13 years of the lease. A comparison of projected revenues over the remaining 13 years of the lease is shown in Table 3 below.

Table 3: Projected Revenues of Existing and Amended Lease

	Exiting Lease				Amended Lease		
Year	Base Rent	Participation Rent	Utility Rent Credit	Total	Base Rent	Participation Rent	Total
2018	$120,117	$27,140	$(192,649)	$0	$300,000	$31,500	$331,500
2019	123,120	27,818	(197,465)	0	307,500	45,100	352,600
2020	126,198	28,514	(202,402)	0	315,188	54,107	369,295
2021	129,353	29,227	(207,462)	0	323,067	63,537	386,604
2022	132,586	29,957	(212,648)	0	331,144	73,404	404,547
2023	135,901	30,706	(217,964)	0	339,422	83,724	423,147
2024	139,299	31,474	(223,413)	0	347,908	94,515	442,423
2025	142,781	32,261	(228,999)	0	356,606	105,793	462,399
2026	146,351	33,067	(234,724)	0	365,521	111,484	477,005
2027	150,009	33,894	(240,592)	0	374,659	114,271	488,930
2028	153,759	34,741	(246,607)	0	384,025	117,128	501,153
2029	157,603	35,610	(252,772)	0	393,626	120,056	513,682
2030	161,544	36,500	(259,091)	0	403,467	123,057	526,524
Total	$1,818,620	$410,911	$(3,104,737)	**$0**	$4,542,133	$1,137,675	**$5,679,808**

Participation Rent

Two of the participation rent provisions under the existing lease, (1) naming rights revenue and (2) fees on tickets sold above a threshold, are not included in the projections above because the tenant has not received any naming rights revenue and does not anticipate naming rights revenue through the remainder of the lease, and the tenant does not anticipate exceeding the ticket sale threshold in the future. According to the tenant, the higher ticketed sales in 2016 are partly attributed to the unavailability of Moscone Center due to renovations. The tenant anticipates ticket sales will decline beginning in 2018 due to new competitor venues that have recently come online, such as the San Francisco Armory, with a larger decline in 2019 when construction of the Chase Center is completed.

The participation rent projections shown in Table 3 include the assumption that there will be 9 non-ticketed events each year in the Main Hall. The tenant intends to renovate and rent Polk Hall as a separate venue for private events and concerts. The tenant anticipates holding 5 non-ticketed events in Polk Hall in 2019 increasing each year to an average of 24 events per year beginning in 2026.

Tenant Improvements

Under the existing lease, the tenant is eligible for up to $10.25 million in credit against participation rent for each dollar expended on building improvements within 10 years of lease commencement (until March 2020). To date, the tenant has completed $1.6 million in improvements that have been approved by the City.

As noted above, the proposed lease amendment eliminates the tenant improvement rent credit provision. Under the proposed lease amendment, the tenant agrees to complete at least $10 million in improvements including approximately $6 million in improvements that are not related to the conversion of Polk Hall, but these expenses will not be credited against participation rent. Under the amended lease, costs incurred by the tenant in 2015 through 2017 for approved improvements would be credited towards the $6 million in improvements to the Main Hall required under the proposed amendment. According to Ms. Gorham, the tenant has incurred a total of $1,034,328 in costs that would be credited towards the $6 million improvement requirement.

POLICY CONSIDERATION

City Administrative Code Section 23.33 provides for leases of City property to be awarded through competitive bidding procedures unless competitive bidding procedures are impractical or impossible. The original lease between BGCA Management, LLC, and the City was awarded through a competitive bidding process for an initial 20 1/2 year term from approximately July 2010 to December 2030. The existing lease is now being amended because BGCA Management, LLC is requesting to add Room 202/Polk Hall to the lease.

The proposed resolution finds that competitive bidding procedures would be impractical in light of the existing lease agreement between the City and the tenant. The Real Estate Division engaged Century Urban, LLC to perform an economic analysis of the proposed lease amendment compared to the potential revenue to the City under a business-as-usual case where the tenant continues to perform under the existing lease terms. The Century Urban analysis concluded that the business-as-usual case would result in $0 in base rent and participation rent over the remaining lease term, whereas the amended lease would result in $5,069,543 in total nominal base rent and participation, or $3,228,836 in net present value at a 6 percent discount rate.

The Budget and Legislative Analyst finds it reasonable that a new competitive bidding process would be impractical because the lease renegotiation was triggered by a request from the tenant to add space and make improvements to the premises. If the tenant continued business as usual under the existing lease, the City would likely not receive any rent revenue over the remaining 13 years of the lease term, so the amended lease results in a better outcome for the City than the status quo.

RECOMMENDATION

Approve the proposed resolution.

Item 6 **File 17-1288**	**Department:** Department of Homelessness and Supportive Housing

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a lease between the City, as tenant, and WYL Orion Properties, LLC, as landlord, for a former warehouse site at 125 Bayshore Boulevard for use by the Department of Homelessness and Supportive Housing for a new Navigation Center. The lease is for an initial six month term plus five one-year annual renewals thereafter, commencing from approximately January 30, 2018 to no later than September 30, 2023.

Key Points

- Navigation Centers provide unsheltered San Franciscans room and board while case managers work to connect them to services. The Department of Homelessness and Supportive Housing currently oversees four Navigation Centers. The Department has identified three more Navigation Centers to open in the future, including one at 125 Bayshore Boulevard. The Department of Homelessness is also working on securing two additional sites on Caltrans property at 5th and Bryant Streets, and Division Circle.

Fiscal Impact

- The Department intends to convert the warehouse to a 128-bed Navigation Center, and to make changes to the office building to provide dining and office space for staff. The City's Department of Public Works estimates the City's costs for improvements to be $3,219,000.
- The total cost to the City over the five year and six month term of the lease would be $6,174,036, including $2,955,036 in rent and associated costs, and $3,219,000 in tenant improvements. The Department has introduced a resolution to accept a $10 million State grant for the expansion of Navigation Centers, and has $8 million in the FY 2018-19 budget for new Navigation Center operating and lease costs.

Policy Consideration

- The Department currently utilizes sites for Navigation Centers on an interim basis and prefers a mix of short- and long-term Navigation Centers to meet emergency shelter needs, with a preference for sites to be available for at least three year.
- According to Department staff, the estimated tenant improvement costs to the City of $3.2 million for a lease term of up to 5 ½ years are reasonable because the lease rate for 125 Bayshore Boulevard is low compared to the overall real estate market in San Francisco. The estimated tenant improvement costs at 125 Bayshore Boulevard are comparable to other Navigation Center sites, including the Central Waterfront and two proposed sites on Caltrans property at 5th and Bryant Streets, and Division Circle.

Recommendation

- Approve the proposes resolution

MANDATE STATEMENT

Administrative Code Section 23.27 requires Board of Supervisors approval of leases that are longer than one year where the City is the tenant. If the base rent is more than $45 per square foot per year, the City must obtain a third party appraisal to determine fair market value of the lease.

BACKGROUND

The 2017 San Francisco Point in Time Count found that approximately 7,499 experience homelessness in San Francisco on a given night and 4,353 of these people are unsheltered. The City of San Francisco currently has 1,200 adult shelter beds.

In 2015, the City of San Francisco opened its first Navigation Center, a temporary residential facility for people experiencing homelessness. Navigation Centers provide unsheltered San Franciscans room and board while case managers work to connect them to income, public benefits, health services, shelter, and housing. The Department of Homelessness and Supportive Housing currently oversees four Navigation Centers: 1950 Mission Street in the Mission District (Mission Navigation Center), at the Civic Center Hotel (Civic Center Navigation Center), in the Dogpatch neighborhood (Central Waterfront Navigation Center), and at 1515 South Van Ness Avenue in the Mission District (South Van Ness Navigation Center). The Department of Public Health operates a fifth Navigation Center called Hummingbird located near the Zuckerberg San Francisco General Hospital. The four Navigation Centers run by the Department of Homelessness and Supportive Housing have 353 temporary and emergency beds.[1] The Department has identified three more Navigation Centers to open in the future, including one at 125 Bayshore Boulevard.

125 Bayshore Boulevard is an empty industrial warehouse and a two-story office building at the corner near US Route 101 and Cesar Chavez Street in Bayview-Hunters Point.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a lease between the City, as tenant, and WYL Orion Properties, LLC, as landlord, for a former warehouse site at 125 Bayshore Boulevard for use by the Department of Homelessness and Supportive Housing for emergency shelter purposes. The proposed lease site is approximately 31,200 square feet, with buildings totaling approximately 22,965 square feet. The lease is for an initial six month term plus five one-year annual renewals thereafter, commencing from approximately January 30, 2018 to no later than September 30, 2023.

The terms of the proposed lease are summarized in Table 1 below.

[1] Emergency beds are for people who SFHOT, the Police Department, or the Homeward Bound bring to a Navigation Center for a variety of crisis situations or immediate needs. These stays are typically limited to 7 days. Temporary beds are for people in need of respite from the street and people referred from encampments. These stays are typically time-limited to 30 or 60 days.

Table 1: Proposed Lease Provisions

	Proposed Lease Provisions
Lease term	Six months, approximately January 30 through July 30, 2018
Square feet	22,965 rentable square feet
Options to extend	Five (5) one-year options to extend through 2023 with a three percent increase annually
Base rent paid by City	$21.29 per square foot per year $489,000 per year
Rent Increase	Three percent annually
Tenant improvements paid by City	Constructed by the landlord up to $3,500,000 at the City's cost
Estimated utilities and services in first full year paid by City	$22,965 (approximately $1/square foot/year)

The Department of Homelessness and Supportive Housing has the right to extend the initial term of the lease for five (5) consecutive additional terms of one year each, through July 30, 2023 for a total term of 5 ½ years. Mr. John Updike, Director of Real Estate, the City has no plan to lease the property beyond 2023.

According to Mr. Updike, the City continuously looks for sites for Navigation Centers. 125 Bayshore provides the City with the ground square footage desired at a competitive price, and with a flexible term of the lease. The City did not make any other offers for this particular use in the Bayview/Hunter's Point area, but did analyze the efficacy of use of other properties.

FISCAL IMPACT

Tenant Improvements

The Department of Homelessness and Supportive Housing intends to convert the warehouse to a 128-bed Navigation Center, and to make changes to the office building to provide dining and office space for staff. According to the draft of the lease, the landlord will construct tenant improvements up to $3,500,000 at the City's cost. The construction drawings and construction budget are subject to the City's approval, and the City is not obligated to pay any costs exceeding $3,500,000.[2]

The City's Department of Public Works estimates construction costs for City improvements to be $3,219,000, as seen in Table 2 below.

[2] Under the draft lease, the landlord is liable only for construction costs exceeding $3,500,000 attributable to the building's HVAC systems.

Table 2: Estimated Cost to City For Tenant Improvements

Site prep and utilities	$337,000
Warehouse, office, restroom building work	1,700,000
Construction contingency	204,000
Project deliver, oversight and fees	336,000
Fixtures, fittings and equipment	350,000
Contingency reserve	292,000
Total	**$3,219,000**

The tenant improvements include work on the warehouse and office building. The scope of the work at the warehouse includes interior partitions to divide the space in order to build a dormitory area and two offices for staff, as well as converting approximately one-third of the warehouse into storage area for client personal belongings and Navigation Center supplies. The Department plans on utilizing modular bathrooms and showers, as was done at the Waterfront Navigation Center. Finally, the funds will be used for new lighting, heating, a fire sprinkler system, and plumbing and electrical work.

The office building work will consist of construction of a dining area, lounge and resting area, and office space for the care providers.

The Department of Homelessness and Supportive Housing plans to begin construction in March, with the potential opening date of the Navigation Center in May. The Department has filed an application to City Planning for a conditional use permit that would allow the warehouse to be used as a shelter on a short term basis, and Planning is performing an expedited review of that application.

Total Cost

The total cost to the Department of Homelessness and Supportive Housing over the five year and six month term of the lease, assuming the Department exercises all the options to renew, would be $6,174,036, or $48.88 per square foot per year, as seen in Table 3 below.

Table 3: Total Cost to the City From April 1, 2018 through June 30, 2023

Time Period	Base Rent	Additional (Services)*	Tenant Improvements	FY Total
April 1, 2018 – June 30, 2018**	$122,250	$5,742	$3,219,000	$3,346,992
FY2018-19	499,998	22,965	-	522,963
FY2019-20	515,004	23,654	-	538,658
FY2020-21	530,457	24,364	-	554,821
FY2021-22	546,372	25,095	-	571,467
FY2022-23	562,764	25,848	-	588,612
July 1, 2023 – July 30, 2023	48,304	2,219	-	50,523
Total	**$2,825,149**	**$129,887**	**$3,219,000**	**$6,174,036**

*Assumes a three percent yearly increase

**According to the lease, the rent will commence after the substantial completion of the tenant improvements or April 1, 2018, whichever comes first.

Real Estate did not obtain an appraisal for the market rent as allowed by Administrative Code 23.27,[3] but did recently complete an analysis for a similar property. The analysis found that the leasing of similar sized warehouse space is between $1.10 to $1.75 per square foot per month. The base rent for the proposed lease is $1.78 per square foot per month, which is a blended rate of warehouse space at $1.50 per square foot per month and office space at $3.00 per square foot per month.

However, fifty two percent of the total cost to the City comes from tenant improvements that occur in the first six months of the lease. According to Mr. Updike, tenant improvements are not reported in real estate reports, and tenant improvements are unique to each tenant user. The Department of Real Estate has noted that office relocation tenant improvement costs have ranged from $20 per square foot to $150 per square foot. The cost of tenant improvements of this proposed lease would be approximately $139 per square foot per year.

[3] According to Administrative Code 23.27, the Director of Property must obtain an appraisal for the market rent of the lease only if the base rent is more than $45 per square foot per year. The average base rent is $22.37 per year.

Funding

The Department of Homelessness and Supportive Housing has introduced a resolution to accept and expend a grant in the amount of $10,000,000 from the California Department of Housing and Community Development for the expansion of Navigation Centers (File 18-0055). According to Ms. Gigi Whitley, Department of Homeless and Supportive Housing Deputy Director, the grant will be used to cover near term lease costs as well as tenant improvements. Additionally, the Department has budgeted $8,000,000 in FY2018-19 base budget for new Navigation Center operating costs including annual lease costs.

POLICY CONSIDERATION

Department of Homelessness and Supportive Housing Navigation Centers

The Department of Homelessness and Supportive Housing oversees four operating Navigation Centers, none of which have leases. The City has a permit to operate the 1515 South Van Ness site and owns the properties at 1950 Mission and the Waterfront in the Dogpatch. The Civic Center Navigation Center is run by a third party, and the City is not a party to that lease.

The Navigation Centers are not permanent sites. According to Ms. Emily Cohen, Manager for Policy and Special Projects for the Department of Homelessness and Supportive Housing, the Department currently utilizes sites for Navigation Centers on an interim basis, some of which have been designated for other permanent uses such as market rate and affordable housing. The existing four Navigation Center sites have terms of use ranging from approximately nine months for 1515 South Van Ness up to three years and eight months for 1950 Mission Street. According to Ms. Cohen, the Department of Homelessness and Supportive Housing prefers a mix of short- and long-term Navigation Centers to meet emergency shelter needs, with a preference for sites to be available for at least three years.

According to Ms. Cohen, the estimated tenant improvement costs to the City of $3.2 million at 125 Bayshore Boulevard for a lease term of up to 5 ½ years are reasonable because the lease rate for 125 Bayshore Boulevard is low compared to the overall real estate market in San Francisco. Ms. Cohen notes that the estimated tenant improvement costs at 125 Bayshore Boulevard are comparable to other Navigation Center sites, including the Central Waterfront that had a budget of $3.2 million, and two proposed sites on Caltrans property at 5th and Bryant Streets, and Division Circle that have estimated budgets of $4.2 million and $3.7 million respectively. Also, according to Ms. Cohen, the restroom trailers and furniture, fixtures, and equipment to be installed at 125 Bayshore Boulevard can be used elsewhere after the 125 Bayshore Boulevard lease terminates.

Total Department of Homelessness and Supportive Housing Navigation Center Beds

If the three Navigation Centers at 125 Bayshore Boulevard, 5th and Bryant Streets, and Division Circle are completed, an additional 333 temporary and emergency beds would be added, for a total of 1,886 temporary and emergency beds, 686 of which would come from temporary Navigation Centers.

As noted above, the four existing Navigation Centers are temporary. Two Navigation Centers, 1950 Mission Street and 1515 South Van Ness, are scheduled to close in 2018, and a third Navigation Center, Civic Center, is scheduled to close in 2019. The three Navigation Centers currently have a combined 288 temporary and emergency beds. Central Waterfront is scheduled to close by June 2020 (File 16-0961).

RECOMMENDATION

Approve the proposed resolution

Item 7 File 17-1275	Department: San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance appropriates $1,100,000 from in Airport Asset Forfeiture funds to partially fund the new Police Training Support facility.

Key Points

- The Airport collects Asset Forfeiture Funds when the San Francisco Police Department's Airport Bureau assists in the seizure of assets in narcotics trafficking enforcement. The funds may be used for capital projects and other one-time expenditures related to narcotics enforcement. The Board of Supervisors previously appropriated $766,837 in Asset Forfeiture funds from 2009 through 2013 that were never spent. The proposed ordinance would re-appropriate $766,837 and appropriate $333,163 in Asset Forfeiture funds, totaling $1,100,000 to partially fund the new Police Training Support Facility.
- The new Police Training Support Facility will replace the existing Shooting Range, which is in dilapidated condition. The Airport's Five-Year and Ten-Year Capital Improvement Plans include approximately $7,200,000 in funding for the new Police Training Support Facility. The Police Department's Airport Bureau has requested the Airport to provide $1,600,000 in additional improvements to the facility, of which $1,100,000 would be Asset Forfeiture funds and the balance of $500,000 would be previously appropriated Airport Revenue Bonds. These additional improvements include high ground training facilities, a simulator room, an observation tower, a 25-yard shooting range extension, and an improved range lighting system. The Airport Commission and U.S. Department of Justice Asset Forfeiture and Money Laundering Section (DOJ-AFMLS) have already approved of the use of funds.

Fiscal Impact

- The proposed ordinance would appropriate $1,100,000 towards the new Police Training Support Facility. This is in addition to approximately $7,200,000 budgeted in the Capital Improvement Plan for the original scope of the project. The Airport would also contribute approximately $500,000 of Airport Revenue Bond funds for the improvements, bringing the total project budget to approximately $8,800,000.

Recommendation

- Approve the proposed ordinance.

MANDATE STATEMENT

City Administrative Code Section 10.100-310 requires approval of the Board of Supervisors for Asset Forfeiture Fund expenditures in excess of $10,000.

BACKGROUND

When the San Francisco Police Department-Airport Bureau (SFPD-AB) assists in the seizure of assets related to narcotics trafficking enforcement, it receives Asset Forfeiture Funds from the United States Department of Justice (DOJ) and deposits these funds into the San Francisco Narcotics Forfeiture and Asset Seizure Fund for the account of the Airport. These funds may be used for capital projects and one-time expenses to enhance SFPD-AB's narcotics enforcement, but may not be spent on ongoing operations.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance appropriates $1,100,000 in Asset Forfeiture Funds, including $333,163 in fund balance and $766,837 in prior appropriations, to partially fund construction of a new Police Training Support Facility at the Airport. According to Mr. Ian Hart, Airport Capital Planning Manager, the Asset Forfeiture Funds are used infrequently and include a balance of $766,837 that was appropriated from 2009 through 2013 but never spent.

The SFPD-AB Police Training Support Facility will be a single story, 7,500 square foot building, including classroom spaces, offices, firearm cleaning, armory, vault, break room, and work spaces. It will replace three portable trailers in poor condition, which do not have permanent restrooms, are not accessible, and have rot issues. The Airport's FY 2017-18 Five-Year and Ten-Year Capital Plans include $7,200,000 for a new SFPD-AB Police Training Support Facility.

SFPD-AB has requested approximately $1,600,000 in additional improvements beyond the original scope and budget of $7,200,000, of which $1,100,000 would be paid with Asset Forfeiture Funds, and $500,000 would be paid with Airport Capital Funds previously appropriated by the Board of Supervisors[1]. The Airport Commission and United States Department of Justice Asset Forfeiture and Money Laundering Section (DOJ-AFMLS) have both approved of this proposed use of Asset Forfeiture Funds. The additional $1,600,000 (including the $1,100,000 appropriated in the proposed ordinance) would fund high ground training facilities, a simulator room, an observation tower for range command and control, a 25-yard shooting range extension, and an improved range lighting system for night training. With the additional improvements, the total project budget would be approximately $8,800,000.

FISCAL IMPACT

The proposed ordinance would (1) de-appropriate $766,837 from the Asset Forfeiture Fund's Programmatic Projects Budget and re-appropriate the funds to the Buildings, Structures, and

[1] The Board of Supervisors appropriated $4.8 billion in Airport Revenue Bonds in May 2017, which included $489.2 million to fund improvements to Airport support facilities (File 17-0200).

Improvements Projects Budget, and (2) appropriate $333,163 from the Asset Forfeiture Fund's balance to the Buildings, Structures, and Improvements Projects Budget. The total appropriation of $1,100,000 is shown in Table 1 below.

Table 1: Sources and Uses of Appropriation

Sources	
Programmatic Projects-Budget	$766,837
Unappropriated Fund Balance	333,163
Total Sources	**$1,100,000**
Uses	
Buildings, Structures, and Improvements-Budget	$1,100,000
Total Uses	**$1,100,000**

The total project budget is approximately $8,800,000. This includes approximately $7,200,000 budgeted in the Airport's Five-Year and Ten-Year Capital Improvement Plans, $1,100,000 from the Asset Forfeiture Fund that would be appropriated under this proposed ordinance, and approximately $500,000 in further improvements to be paid by the Airport's Capital Fund. The project budget is shown in Table 2 below.

Table 2: Sources and Uses Table for Total Project Budget

Sources	**Amount**
General Airport Revenue Bonds	$7,700,000
Asset Forfeiture Funds	1,100,000
Total Sources	**$8,800,000**
Uses	
Existing Project	
Architectural Services	$580,000
Engineering Services	300,000
Construction Services	100,000
Contracted Construction Services	6,120,000
Equipment	100,000
Subtotal—Existing Project	$7,200,000
Supplemental Construction Component	
High Ground Training Facilities	$650,000
Simulator Room	550,000
Observation Tower	225,000
25 Yard Shooting Range Extension	150,000
Improved Range Lighting System	25,000
Subtotal—Supplemental Construction Components	$1,600,000
Total Uses	**$8,800,000**

RECOMMENDATION

Approve the proposed ordinance.

Item 8 File 17-1242	Department: San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution retroactively approves Modification No. 1 to the 2012 lease agreement between San Francisco International Airport (Airport) as landlord and the Transportation Security Administration (TSA) as tenant, extending the term for an additional three years, beginning November 1, 2017 and expiring October 31, 2020, for an annual rental rate of $1,996,112.

Key Points

- On November 20, 2007, the Board of Supervisors approved a five-year lease with TSA to occupy 7,200 square feet of office space in the International Terminal for a five-year term and annual rent of $990,804. On October 30, 2012, the Board of Supervisors approved a new five-year lease with TSA, adding 1,104 square feet of office space in Terminal 2, for a total area of 8,304 square feet and annual rent of $1,692,038. The 2012 lease expired October 31, 2017, and the Airport and TSA wish to extend the lease.
- The proposed resolution would extend the 2012 lease for an additional three years, with a term beginning retroactive to November 1, 2017 and expiring October 31, 2020, and annual rent of $1,996,112. The total rent includes a Surcharge Fee of $23,714 annually to recover the Airport's costs of improvements during the Terminal 2 Renovation Project. It also includes an annual Operating Cost of $89,185 to provide for maintenance, janitorial service, and utilities. The lease also provides 52 parking permits to TSA free of charge.

Fiscal Impact

- Over the three-year term of the lease extension, the Airport would receive $5,988,335 in rent from TSA. The annual rent of $1,996,112 is an increase of $304,074 over the 2012 lease annual rent of $1,692,038.

Policy Consideration

- The proposed resolution continues the practice of providing 52 parking permits to TSA free of charge, as is typical for other Federal agencies that provide critical services at the Airport. By providing the 52 free permits, the Airport forgoes $69,888 annually in potential revenue it could receive if it were to charge for permits. By providing 1,023 total free permits to various Federal agencies, the Airport forgoes $1,374,912 in potential revenue per year.

Recommendation

- Approve the proposed resolution.

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 Transportation Security Administration (TSA) is required, pursuant to the Federal Aviation and Transportation Security Act, to oversee security measures at the San Francisco International Airport (Airport), including airline passenger and baggage screening services.

On November 20, 2007, the Board of Supervisors approved a five-year lease for TSA to occupy 7,200 square feet of Category II[1] office space on the fifth floor of the International Terminal (Parcel A) for administrative offices, including 52 parking permits in the Airport parking garage (File 07-1461, Resolution No. 647-07). TSA paid annual rent of $990,804, or $137.61 per square foot annually. On October 30, 2012, the Board of Supervisors approved a new lease with TSA, for an additional five-year term through October 31, 2017 (File 12-0986, Resolution No. 399-12). The lease included an additional 1,104 square feet of Category III office space on the first floor of Terminal 2 (Parcel B), for a total of 8,304 square feet, along with the existing 52 parking permits. TSA paid annual rent of $1,692,038, or $203.76 per square foot. The lease expired on October 31, 2017, and the Airport and TSA wish to extend the lease for another three years. The Airport Commission approved the lease extension on September 5, 2017.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would retroactively approve the first modification to the existing lease between the Airport and TSA to extend the term of the existing 2012 lease for an additional three years, with a term starting November 1, 2017 and expiring October 31, 2020. Under the proposed modification, TSA would pay the Airport annual rent of $1,996,112, or $240.38 per square foot. This total rental rate includes (1) a Surcharge Fee of $21.48 per square foot annually for the Parcel B space to pay for construction of basic finishes, and (2) an Operating Cost of $10.74 per square foot annually for the full premises to provide janitorial services, maintenance, and utilities. No other provisions of the 2012 lease would change.

The resolution to approve the lease modification was introduced at the Board of Supervisors on December 5, 2017, or more than one month after the start date of the lease modification. According to Ms. Diane Artz, Airport Senior Property Manager, the delay in introducing the proposed lease modification to the Board of Supervisors, was due to administrative delays. TSA will pay the updated rent amount retroactively to November 1, 2017. The key provisions of the lease are shown in Table 1 below.

[1] Categories are defined by the Airport's Rates and Charges. Category II includes enclosed space departure level and above, and Category III includes enclosed space arrivals level and below.

Table 1: Key Provisions of Lease Extension

Term	Three years, retroactive to November 1, 2017 and expiring October 31, 2020
Premises	8,304 total square feet, including 7,200 square feet of Category II space in Parcel A and 1,104 square feet of Category III space in Parcel B
Total Annual Rent	$1,996,112 per year, or $240.38 per square foot
Surcharge Fee	$23,714 per year, or $21.48 per square foot per year for Parcel B (included in total rent)
Operating Cost	$89,185 per year, or $10.74 per square foot per year (included in total rent)
Janitorial Service, Maintenance, and Utilities	Provided by Airport (paid by tenant through Operating Cost)
Parking Permits	52
Early Termination	TSA may terminate with 60 days written notice if defunded

FISCAL IMPACT

Under the proposed resolution, TSA would pay the Airport $1,996,112 in rent per year, which equates to $5,988,335 over the three-year term of the lease extension. The annual rent is an increase of $304,074, or approximately 18 percent, over the previous annual rent of $1,692,038 in the 2012 lease. The rental rate was calculated using the Airport's FY 2017-18 Rates and Charges for Category II and III space ($222.43 and $148.29 per square foot, respectively) and escalating annually[2] based on the Airport's three-year projected operating budget to arrive on an average rate fixed over the three-year term. According to Mr. Brian Kramer, Airport Property Manager, the Surcharge Fee was added to the Parcel B space in 2012 for ten years to recover the costs of improvements provided by the Airport in its Terminal 2 Renovation Project. The Operating Cost provides reimbursement for maintenance, janitorial services, and utilities, which will be provided by the Airport. According to Mr. Kramer, decreases in janitorial and maintenance costs reduced the Operating Cost from $11.45 per square foot in the 2012 lease to $10.74 per square foot in the proposed extension. The breakdown of the rent is shown in Table 2 below.

[2] The Airport's finance department projects rental rate increases of 6 percent in FY 2018-19 and 7.6 percent in FY 2019-20. The janitorial and maintenance costs are projected to increase 3.9 percent in FY 2018-19 and 4.2 percent in FY 2019-20. Electricity costs are projected to increase 5 percent each year, and water and sewer costs are projected to increase 7 percent each year.

Table 2: Breakdown of Annual Rent

Rate Category	Square Footage	Annual Rate per Square Foot	Total Annual Rent
Parcel A (Category II)	7200	$237.30	$1,708,561
Parcel B (Category III)	1104	158.20	174,653
Parcel B Surcharge Fee	1104	21.48	23,714
Operating Cost	8304	10.74	89,185
Total	**8304**	**$240.38**	**$1,996,112**

**Totals may not add due to rounding.*

POLICY CONSIDERATION

The proposed resolution continues the practice of providing 52 parking permits to TSA free of charge, which is typical for Federal agencies which provide critical service at the Airport. The Airport's FY 2017-18 Rates and Charges state that employee parking permits in the Domestic and International Terminal Garages cost $112 per month. If the Airport were to charge TSA the full rate for each permit, it would receive an additional $69,888 per year, or $209,664 over the course of the three-year term of the lease extension. According to Ms. Artz, the Airport provides a total of 1,023 free parking permits to Federal agencies, including 52 allocated to TSA. This practice of providing parking permits to Federal agencies free of charge represents an opportunity cost of $114,576 per month, or $1,374,912 per year to the Airport.

RECOMMENDATION

Approve the proposed resolution.