



Memorandum

Date: 06.19.15

RE: Citizens Advisory Committee
June 24, 2015

To: Citizens Advisory Committee

From: Maria Lombardo – Chief Deputy Director *mel*

Subject: **ACTION** – Adopt a Motion of Support to Authorize the Executive Director to Execute a Partial Release of the Transportation Authority's Agreement for Quitclaim of Interest in Portions of 77-79 Natoma Street, 564 Howard Street, and 568 Howard Street Parcels To Be Sold as Part of Parcel F by the Transbay Joint Powers Authority

Summary

The Transportation Authority granted the Transbay Joint Powers Authority (TJPA) Prop K sales tax funds to acquire 77-79 Natoma Street, 564 Howard Street, and 568 Howard Street properties in February 2009 and January 2011 respectively. The Metropolitan Transportation Commission also contributed funds toward 568 Howard Street. Each Prop K grant required a Quitclaim Agreement, allowing the transfer of TJPA's interest in these properties to the Transportation Authority if the Transbay Transit Center was not constructed as planned. In September 2015, TJPA is planning to conduct an auction of the real estate known as "Parcel F" which includes portions of Transbay Parcel F, 75 Natoma, 546 Howard, and portions of the aforementioned parcels for which the Transportation Authority has a Quitclaim Agreement (See Attachment 1). The consolidation of these parcels into a larger Parcel F will maximize the value and usefulness of the property. Revenues from the sale of Parcel F, which originally were earmarked for Phase 2 (Caltrain Downtown Extension) of the project, will be used to fund construction of Phase 1 once the bridge loan from Goldman Sachs has been repaid. TJPA anticipates the receipt of a federal Transportation Infrastructure Finance and Innovation Act (TIFIA) loan in Fiscal Year 2016, and this is part of a strategy to fill an estimated \$225.1 million funding increase in Phase 1 costs over the \$1.9 billion Phase 1 budget approved in July 2013. The estimated budget increase was presented to the TJPA Board on June 19, with the very active construction market being cited as a key contributing factor. TJPA anticipates presenting a revised Phase 1 budget and funding plan to its Board in September. In the meantime, TJPA will be able to obtain more information on costs for bid packages not yet awarded and will continue to refine its strategy to close the funding gap with project partners.

BACKGROUND

The Transbay Transit Center/Caltrain Downtown Extension (TTC/DTX) consists of three interconnected elements: replacing the outmoded terminal with a modern terminal; extending Caltrain 1.3 miles from Fourth and King streets to the new TTC at First and Mission Streets, with accommodations for future high-speed rail service; and creating a new transit-friendly neighborhood with 3,000 new homes (35 percent of which will be affordable) and mixed-use commercial development.

The total program budget is currently estimated at \$4.5 billion in year-of-expenditure dollars. In May 2010, the Transbay Joint Powers Authority (TJPA) Board adopted a \$1.6 billion budget for Phase 1, which consists of the TTC, bus and pedestrian ramps, and the train box, which is the underground portion of the TTC building that will house the Caltrain and high-speed rail station. On July 11, 2013, the TJPA Board approved a revised budget of \$1.9 billion for Phase 1 of the project. This revision was to respond to drastically changed market conditions, modifications necessitated by an updated Risk and Vulnerability Assessment, and resetting contingencies and program reserve at prudent levels. TJPA funding strategy to cover the cost increase and resulting \$1.9 billion Phase 1 budget involved a combination of value engineering, phasing, identification of funding and financing strategies, and reducing costs by re-bidding the steel superstructure.

Phase 1 is under construction and bus operations in the new Transbay Transit Center are scheduled to start in August 2017. The current estimate for Phase 2 (DTX) is \$2.6 billion. Work on Phase 2 is on hold due to a significant funding gap. TJPA is exploring the feasibility of alternative project delivery options, including Public Private Partnership (P3) as a means to reduce cost and accelerate delivery. The Transportation Authority, the City and County of San Francisco, and other funding partners are working with TJPA to advance strategies to close the funding gap for Phase 2.

TTC/DTX is the largest project in the Prop K Expenditure Plan, which designates up to \$270 million (in 2003 dollars) for this purpose. The Expenditure Plan specifies that the TTC and the DTX are to be built as a single integrated project. To date, the Transportation Authority has allocated \$174 million in Prop K funds to the project, in addition to state Regional Improvement Program funds.

DISCUSSION

The purpose of this memorandum is to brief the Citizens Advisory Committee (CAC) on the request for a motion of support to authorize the Executive Director to execute a release of the Transportation Authority's reversionary interest in the 77-79 Natoma Street and 564 and 568 Howard Street parcels to be sold as part of "Parcel F" by TJPA. Parcel F is an aggregation of several parcels. It includes all or most of the formerly State-owned Parcel F, acquired from the California Department of Transportation (Caltrans), 75 Natoma and 546 Howard Streets, funded by the Metropolitan Transportation Commission (MTC), portions of 77-79 Natoma (Resolution 08-47) 564 Howard Street (Resolution 14-29) and 568 Howard Street (Resolution 14-29), funded by the Transportation Authority. Parcels 81-83 Natoma Street, which were also purchased using Prop K funds are intended to be used by the project and will not be included in the sale of the aggregated Parcel F.

Parcel F contains approximately 29,000 square feet of net developable area. It is located mid-block between First, Second, Howard, and Natoma Streets, directly across from the new Transbay Transit Center. The height limit is generally 750 feet and Parcel F is zoned for at least two-thirds commercial use. Parcel F will have the opportunity to connect to the 5.4 acre rooftop park on the Transit Center by a pedestrian bridge.

Quitclaim Agreements: Upon funding the acquisition of the properties, the Transportation Authority and TJPA entered into Agreements for Quitclaim of Interest to revert the interest in these properties to the Transportation authority if 1) TJPA abandoned the Transbay Transit Center project by a vote of its Board prior to commencement of actual passenger bus service at the project site, or 2) Caltrans filed a written notice of its intent to exercise its Power of Termination to re-take title to the formerly State-owned parcels for failure to construct the project on a timely basis. Thus, the Transportation Authority's reversionary interest in the properties purchased through the grants will expire when the Transbay

Transit Center is completed in late 2017. Caltrans and MTC entered into similar agreements with TJPA for right of way acquisitions which they funded. The intent of the quitclaim agreements is to protect the interests of the funding programs (e.g. Prop K) in the event the project was not completed.

With the first phase of the project nearing completion, scheduled for late 2017, and the opportunity to maximize land sale proceeds by creating a more attractive parcel, TJPA has requested the removal of the reversionary language from portions of several properties purchased with Prop K funds (see Attachment 1). TJPA has requested that the Transportation Authority approve the changes to the Quitclaim Agreements in July so that Parcel F can be sold at a live auction scheduled for September 2, 2015.

Maximizing the proceeds from the sale of Parcel F is critical to close an anticipated Phase 1 cost increase (see below) and to manage cashflow of anticipated expenditures for the project. With respect to the latter, TJPA secured a \$171 million loan through the Transportation Infrastructure Finance and Investment Act (TIFIA) for the implementation of the Transbay Transit Center., anticipated to be received in late 2015 or early 2016. To ensure the project construction stayed on schedule prior to receiving the TIFIA loan disbursement, TJPA negotiated and closed on an interim bridge financing with Goldman Sachs Bank USA and Wells Fargo Securities LLC (Goldman Sachs) in January 2015. To accommodate offering former State-owned Parcel F as partial security for the bridge loan with Goldman Sachs, Caltrans released its Power of Termination over this property at the closing of the bridge loan, and TJPA deposited approximately \$124.5 million into a trust account to be used for project construction. Similarly, MTC released its reversionary interest in the parcels it funded at the close of the bridge loan, except for the 568 Howard parcel. TJPA has asked MTC to release its interest in the 568 Howard parcel. MTC staff has indicated that this action will go to its Programming and Allocations Committee on July 8 and to the full commission for approval on July 22.

Anticipated Phase 1 Cost Increase: At a special meeting on June 19, TJPA staff presented an anticipated Phase 1 cost increase of \$225.1 million over the \$1.9 billion Phase 1 budget approved in July 2013. The staff presentation cites the very active construction market, which is limiting competition and driving up costs as a key contributing factor. TJPA staff have been working with the City and other funding partners, including the Transportation Authority, on a strategy to close the anticipated funding gap. Thus far, that strategy includes land sales (including Parcel F), continued value engineering, scope deferral, and seeking additional funds (e.g. sponsorship, discretionary grants, more funding from the existing Mello-Roos district). TJPA anticipates presenting a revised Phase 1 budget and funding plan to its Board in September. Over the next few months, TJPA will be able to obtain more information on costs for several bid packages not yet awarded and will continue to refine a strategy to close the estimated project funding shortfall with project partners.

We plan to bring a project update to the Plans and Programs Committee on July 21 and to the CAC on July 22 when we have better information available on the anticipated cost increase and strategy to close the Phase 1 funding gap. We are very supportive of the proposed additions to Parcel F to maximize its resale value and the September auction. We note that while this makes eminent sense as a means of closing the Phase 1 funding gap, the net result is reducing funds that were originally committed to Phase 2. Further tapping into the Mello-Roos funds, if needed, would have the same effect.

ALTERNATIVES

1. Adopt a motion of support to authorize the Executive Director to execute a partial release of the Transportation Authority's Quitclaim of Interest in Portions of 77-79 Natoma Street,

564 Howard Street, and 568 Howard Street parcels to be sold as part of Parcel F by TJPA, as requested.

2. Adopt a motion of support to authorize the Executive Director to execute a partial release of the Transportation Authority's Quitclaim of Interest in Portions of 77-79 Natoma Street, 564 Howard Street, and 568 Howard Street parcels to be sold as part of Parcel F by TJPA, with modifications.
3. Defer action, pending additional information or further staff analysis.

FINANCIAL IMPACTS

There is no impact on the Transportation Authority's adopted budget by the recommended action. The Quitclaim Agreements were put into place to protect the interests of the Prop K Expenditure Plan in the event that the Transbay Transit Center project is cancelled. As noted above, the Transbay Transit Center is currently under construction and the intent of the recommended action is to maximize revenues available from the sale of Parcel F to fill an anticipated funding shortfall for the Transbay Transit Center.

RECOMMENDATION

Adopt a motion of support to authorize the Executive Director to execute a partial release of the Transportation Authority's Quitclaim of Interest in Portions of 77-79 Natoma Street, 564 Howard Street, and 568 Howard Street parcels to be sold as part of Parcel F by TJPA.

Attachment:

1. Exhibit indicating the locations of the properties that aggregate into a single Parcel F to be auctioned by TJPA in September 2015.

Transbay Transit Center

Natoma St

Outside Face of Train Box Shoring Wall

Train Box Easement

PORTION OF LOT 015A
3192 O.R. 15A

TRANSBAY PARCEL F PROPERTY

State Parcel F
AB 3721
Lot 015A

PORTION OF LOT 015A
3171 O.R. 484

PORTION OF LOT 015A
2966 O.R. 336

546 Howard
AB 3721
Lot 016

540 Howard
AB 3721
Lot 015

530 Howard
AB 3721
Lot 014

81-83 Natoma
AB 3721
Lot 108

77-79 Natoma
AB 3721
Lot 029

75 Natoma
AB 3721
Lot 031

Venting Facilities Easement

Bus Ramp Easement

564 Howard
AB 3721
Lot 019

Bike Ramp to Lower Concourse

BUS RAMP PROPERTY

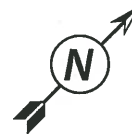
568 Howard
AB 3721
Lot 020

Controlled Vehicle Ramp to Lower Concourse

SITE PLAN PARCEL F PROPERTY

Howard St

Bus Ramp



GRAPHIC SCALE

(IN FEET)
1 inch = 20 ft.