INFORMATIONAL MEMORANDUM

TO: Agency Commissioners

FROM: Fred Blackwell, Executive Director

SUBJECT: To update the Commission on staff’s proposed long-term management/ownership plan for the Agency-owned public parking garage located in the Fillmore Heritage Center on Agency Parcel 732-A; Former Western Addition Redevelopment Project Area A-2

PURPOSE OF INFORMATION

The purpose of this Informational Memorandum is to update the Commission on staff’s proposed long-term management/ownership plan for the Agency-owned public parking garage (the “Garage”) located in the Fillmore Heritage Center on Agency Parcel 732-A in the former Western Addition Redevelopment Project Area A-2. The Agency’s agreement with the current garage operator expires in October 2009.

DISCUSSION

Garage Overview

The Garage has 112 parking stalls and was completed in June 2007 at a cost of $5.7 million in Agency grant funds. It was built primarily to serve the commercial tenants in the Fillmore Heritage Center (i.e., “Yoshi’s” jazz club/restaurant and the “1300 on Fillmore” restaurant). The Garage was financed with Agency grant funds because revenue bonds were not feasible. The Agency owns the Garage and has an agreement with EJI-HSM Property Management Company (the “Manager”) to manage the Garage. The Manager then in turn has an agreement with DAJA International Inc. (“DAJA”) which manages the day-to-day operations at the Garage. Both agreements, which are discussed in greater detail below, are set to expire on October 24, 2009.

Existing Garage Management Agreements

Before the Garage was completed, the Agency had anticipated that the Parking Authority of the City and County of San Francisco (the “Parking Authority”) would purchase or lease the Garage from the Agency and hire an operator to manage it upon its completion. Over several months in late 2006 and early 2007, Agency staff discussed a number of management/ownership alternatives with the Parking Authority and the Municipal Transportation Agency (“MTA”). However, the Agency was unable to effect this expected transfer to the Parking Authority at that time because of changes in the way the MTA owns and manages public garages and MTA’s concerns about the economic feasibility of the garage and its revenue-generating potential.

After negotiations with MTA failed to produce results, staff examined other alternatives to ensure that the Garage would be open in November 2007 when Yoshi’s and 1300 on Fillmore were set to open for business. Because there was not enough time for the Agency to issue a
competitive solicitation through a standard Request for Proposals process, Agency staff proposed a non-competitively negotiated agreement with the Manager to manage and operate the Garage. The Commission, by Resolution No. 121-2007, approved a two-year agreement with the Manager and the Manager’s two-year agreement with DAJA. Both agreements are set to expire on October 24, 2009.

**Actual and Projected Garage Operating Budgets**

A summary of the actual and projected Garage operating budgets from January 2008 through December 2009 is presented below in Table Nos. 1 and 2. The numbers, which are based on staff’s analysis of DAJA’s monthly profit and loss statements, show how the Garage is performing with and without the common area maintenance charges (“CAM Charges”). As shown, the “operating profit/loss” line excludes the CAM Charges and the “net income/loss” line includes the CAM Charges.

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<th>Table No. 1: Fillmore Heritage Garage - 2008 Operating Statement</th>
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<td>Revenues</td>
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<td>Operating Profit/Loss</td>
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<th>Table No. 2: Fillmore Heritage Garage - 2009 Operating Statement</th>
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<td>Net Income/Loss</td>
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* The Third and Fourth Quarter 2009 projections are from DAJA and assume slight rate changes to be more competitive.

As shown, the Garage initially ran an operating deficit but by the Third Quarter 2008 the Garage began making an operating profit, which is expected to reach about $25,000 by the Fourth Quarter of 2009. Revenues more or less hold steady during this period, while expenses have been reduced by about 35%. However, this operating profit is not enough to cover the CAM

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1 CAM Charges are the operating costs (i.e., management, maintenance, repair, and insurance) associated with managing the common areas at the Fillmore Heritage Center building. The Garage shares these costs on a pro-rata basis with the owner of the commercial space and the condominium owners represented by the HOA.
Charges, which were increased by 20% in May 2009 by the project’s Homeowners’ Association (“HOA”). As shown, the Garage’s net income (which includes the CAM Charges) is negative throughout this period, although the deficit is expected to decline by nearly 70% by the end of this year.

In total, the Agency has paid about $332,000 to cover the Garage’s operating deficits to date, of which $308,000 has gone to cover the CAM Charges and $24,000 has gone to cover other operating expenses. Over the last two years, staff has worked diligently with the Manager and DAJA to improve the performance of the Garage in an effort to eliminate the deficit. Some of these efforts include:

- Consolidating the two valet operations to increase the Garage’s utilization and reduce its operating expenses.

- Reducing the valet operations from seven days a week to four days a week (Thursday, Friday, Saturday and Sunday) to further reduce operating expenses.

- Reducing the number of Garage staff in the daytime to match the level of parking demand.

- Securing a monthly lease with California Pacific Medical Center (“CPMC”) for 50 to 100 parking spaces at $100/stall to generate much-needed daytime revenue. This two-year lease was projected to generate $5,000 to $10,000 per month beginning in January 2009. Unfortunately, due to low participation, CPMC decided to cancel this lease as of August 1, 2009. DAJA is now marketing the Garage to other firms in an effort to lease the bulk of the daytime parking spaces.

The Garage continues to face a number of challenges that are causing reoccurring deficits, most notably the CAM Charges and the current economic downturn. One key element of staff’s long-term management/ownership plan for the Garage is to generate positive net income. This plan is more fully explored in the next section of this Informational Memorandum.

**Proposed Long-term Management/Ownership Plan**

In November 2007, when the agreements with the Manager and DAJA were approved, staff indicated to the Commission that it would continue to explore long-term management/ownership alternatives and apprise the Commission of its findings. However, staff’s efforts have been hampered over the last two years by economic circumstances. While the Garage’s operating results had slowly improved in mid-2008/early-2009, the severe current economic downturn has negatively affected revenues. Due to declining revenues and the additional burden of the CAM Charges, the Garage does not break even, as discussed above. Therefore, staff believes it would not have been possible to discuss any kind of long-term management/ownership plan with outside parties. Staff believes that it is essential to first take the necessary steps to generate positive net income before disposition is possible. With that in mind, the following summarizes staff’s proposed plan for the Garage over the next two to three years.
Proposed Management Plan

1. **Enter into a Memorandum of Understanding with the MTA to manage the Garage.** Agency staff has spoken with the MTA about the MTA managing the Garage for the Agency, and the MTA has agreed to explore a Memorandum of Understanding (“MOU”) (See Attachment 1). The Agency still would be responsible for any deficits, since the Agency would still own the Garage, but the Agency would get the benefit of the MTA’s garage management expertise and full-time garage management staff. This MOU would be similar to other MOUs MTA has with other City agencies, including one currently being developed for the Recreation and Park Department, which has hired the MTA to manage some of its garages. Under this proposed MOU, the Agency would join a recent Request for Proposals (“RFP”) issued by the MTA that is soliciting garage operators to manage several City-owned garages. MTA would then select a garage operator for the Garage and enter into a contract with an incentive-based fee structure with the selected operator (the Agency’s current agreement with DAJA does not include an incentive-based fee structure that sufficiently motivates the operator to improve the Garage’s performance). The MTA and the Agency will be looking for an operator who can more aggressivley and creatively increase revenues (i.e., more aggressive marketing and promotional opportunities, more aggressive solicitation of daytime monthly parkers) and cut expenses (i.e., lower payroll costs, lower base management fee, tiered incentive fee).

Agency staff believe MTA management of the Garage makes sense for a number of reasons: (1) the MTA’s expertise in managing and operating garages is more likely to result in profitability for the Garage, (2) economies of scale are achieved when one operator is managing several garages, which can help reduce operating expenses, and (3) the Agency would have to expend significant human resources to issue its own RFP in an area of very limited staff expertise. Under this proposed plan, the MTA’s management of the Garage would begin sometime in early 2010 when the garage operators are selected under MTA’s RFP. Until then, the Agency’s agreement with DAJA can continue on a month-to-month basis. Staff intends to bring this MOU before the Commission for its consideration as soon as possible. Agency staff also hope to include in the MOU provisions allowing for good-faith negotiations with the MTA over the terms and conditions of an eventual transfer of the Garage to the MTA (which is discussed below).

2. **Work with the HOA to lower the Garage’s CAM charges.** The Reciprocal Easement Agreement (the "REA") governs the relationship and obligations between the Agency (as the owner of the Garage), Fillmore Development Commercial, LLC (as the owner of the project’s commercial space), and the HOA, which represents the residential condominium owners. The REA includes procedures and controls for assessing CAM Charges, and allows all three parties to provide input into the process for calculating and billing CAM Charges. This process allows the Agency to form an “Advisory Committee” with the owner of the commercial space. This Advisory Committee can then “meet and confer” with the HOA over issues related to the common areas, such as the CAM Charges. The Advisory Committee plans to meet with the HOA in coming days to discuss the recent 20% increase in CAM Charges from $11,985 to $14,382, the allocation of CAM Charges among the three uses, and the line-item charges billed to each use, among other things. Agency staff hopes to reach an amicable solution with the HOA without having to go to binding arbitration as provided in the REA.
Proposed Ownership Plan
Assuming the CAM charges are reduced and an operator under an incentive-based fee structure is managing the Garage, and assuming the economy improves over the next 12-18 months, Agency staff believe the Garage will generate positive net income and become attractive to outside parties, including the MTA. The following outlines the proposed next steps toward disposition.

1. **Explore a possible transfer of the Garage to the MTA.** As mentioned above, Agency staff hope to include in the MOU provisions allowing for good-faith negotiations with the MTA over the terms and conditions of an eventual transfer of the Garage to the MTA. Transferring ownership of the Garage to the City makes sense for a number of reasons: the Garage would remain publicly owned, the City is in the business of owning and operating garages, and the City already owns the nearby garage in Japantown, opening up the possibility for a more synergistic relationship with that garage. Although the Agency explored this idea with City officials more than two years ago, staff believes it is appropriate to open discussions again. Agency staff intend to negotiate as many community benefits as possible. Staff will keep the Commission apprised of how these discussions progress. On a side note, the project’s developer, Fillmore Development Associates, expressed no interest in owning the Garage.

2. **If transfer to the MTA doesn’t occur, consider selling the garage within two to three years when economy improves.** If the Agency and the MTA are not able to reach agreement on transferring the Garage, then the Agency will remain the owner and the MTA will continue to manage the Garage for the Agency. Once the economy improves, and the Garage generates positive net income, Agency staff could then sell the Garage on the open market. The Garage would still have to remain public until 2018 since the Garage was financed with tax increment dollars.

Agency staff is interested in getting the Commission’s feedback on the proposed approach discussed above.

*Originated by Ricky Tijani, Senior Development Specialist, and Tracie Reynolds, Manager, Real Estate and Development Services Division*

Fred Blackwell  
Executive Director

Attachment:

Attachment 1:  
Letter dated July 28, 2009 from the Municipal Transportation Agency (“MTA”)