STAFF REPORT FOR CALENDAR ITEM NO.: 9
FOR THE MEETING OF: February 11, 2016

TRANSBAY JOINT POWERS AUTHORITY

BRIEF DESCRIPTION:

Recommendation to finalize and issue the Master Lessee Request for Proposals (RFP) to procure an entity or team to operate and manage Phase 1 of the Transbay Program under a long-term master lease structure. A peer review panel was convened to review the recommended master lease structure and RFP procurement process prior to its release in February; a summary of the peer review, affirming the recommendation, is enclosed.

REPORT:

The Transbay Program presents a unique opportunity to program and manage one of the leading multi-modal transit facilities in the nation. Given the potential of this opportunity, staff determined that the process to evaluate options for operating the facility and its retail program would benefit from a strategic advisor with significant depth of experience with facilities comparable to the Transit Center. In June 2015, HR&A Advisors, Inc. (HR&A), was engaged on the basis of, among other things, its expertise in structuring public-private agreements for complex mixed-use urban development projects, specifically the Fulton Center in Lower Manhattan, described at the end of this report.

HR&A's work for the TJPA involves:

- Identifying project goals and objectives as a prerequisite for an appropriate deal structure and a successful RFP process
- Conducting Bay Area market research to assess the economic viability of the proposed deal structure, including outreach to the market
- Defining Transit Center operating costs and revenue sources to identify potential tradeoffs associated with the goals and objectives and help determine if the proposed public-private partnership framework is likely to result in a mutually beneficial agreement
- Leading development of the RFP document and the assessment of respondent teams

HR&A, working closely with staff; the Pelli Clarke Pelli Architects (PCPA) design team; Sensory Interactive, a digital media platform design and consulting firm; and legal counsel specializing in commercial leasing from Sheppard Mullin, built on the work done during the previous Request for Qualifications (RFQ) stage to refine and clarify the master lessee's scope of work and the retail opportunity, and propose an appropriate partnership structure.

Rationale for the Procurement Process

In 2014, staff began the process of developing a scope of work for an entity to operate and manage the Transit Center upon opening. At that time, it was envisioned that the selected entity would oversee operations and maintenance, security, retail tenants, and event programming under a master lease. Procurement was planned as a two-step process. The first step would evaluate the qualifications of interested firms/teams, and the second step would evaluate full proposals from the prequalified firms/teams. The initial work led to development of a Master Retail Lessor/Facilities Operator/Event Programmer RFQ, which was issued in December 2014 and resulted in one response. It was at this time that the TJPA brought HR&A on board.

HR&A's due diligence has clarified the recommended deal structure, which HR&A anticipates will be responsive to market expectations, improving prospects for a successful response. HR&A has engaged with 40+ potential respondents, evaluated revenues against operating costs and capital requirements, and completed case studies to understand how an agreement should be structured to make operation of the Transit Center an attractive opportunity for private-sector entities.

Rationale for a Master Lease

HR&A evaluated four deal structure options in terms of their strengths/weaknesses and ability to meet project goals for the management of the Transit Center, ranging from a direct management structure, in which public oversight, control, and resources are maximized, to disposition, in which commercial facilities are sold to a private sector entity, minimizing public control. The four structures are:

- Direct management: A public owner also acts as the operator, overseeing all building operations, management, and maintenance (both ongoing and capital improvements and expenses). The public owner also takes on the direct responsibility for the leasing and management of retail spaces.
- Asset management: A public owner hires a private sector entity to execute building maintenance and operations work, as well as lease and manage retail spaces and run programming throughout the facility, for a fee set within their contract. This structure may not incentivize the private sector to take risks and reap rewards from innovative, creative programming. This may require multiple contracts with individual firms to provide these services.
- Master lease: A public owner provides a long-term leasehold of the full facility to a private sector entity charged with performing most, if not all, operations and maintenance work and responsible for some costs associated with operations and maintenance and capital improvements. The private sector entity is also responsible for programming and revenue creation/collection, for the master leased areas.
- Disposition: A public owner sells all or some portion of the facility's commercial space to a private sector entity, who then has most, if not all, control over operations and management, including maintenance obligations, capital replacements, and is entitled to all revenues created.

The following table summarizes the strengths and weaknesses of each of the four options:

Strengths	Weaknesses
Direct Management	
▪ Public retains all revenue streams ▪ Direct public control and oversight	▪ Public assumes all financial costs and risks from O&M and capital expenses ▪ Requires significant in-house staff with leasing and management expertise
Asset Management	
▪ Public retains all revenue streams ▪ High degree of public control and oversight ▪ Leverages private expertise and efficiencies in leasing and management	▪ Public assumes all financial costs and risks from O&M; private partner is paid through management fee and assumes no risk ▪ Requires in-house expertise to oversee and hold private partner accountable to performance standards ▪ May require coordination of multiple contracts to procure all services necessary to operate the facility
Master Lease	
▪ Transfers some O&M financial risks to private sector ▪ Significantly reduces public role in O&M services ▪ Leverages private expertise and efficiencies in leasing, management, and development ▪ Attracts private funding to fund fit-outs and capital improvements	▪ Transfers some, but not all, O&M financial risk to private sector
Disposition	
▪ Transfers all O&M financial risks to private sector ▪ Eliminates public role in O&M ▪ Leverages private expertise and efficiencies in leasing, management, and development ▪ Potential to attract significant private funding to recoup public capital costs	▪ Limited market potential given imbalance of costs and revenues ▪ Substantially eliminates public control and oversight ▪ Only the areas that can produce revenue would be attractive to the private sector, likely limited to the Transit Center's retail areas

HR&A also looked at local projects involving retail to evaluate whether their management structures would provide good precedent for the Transit Center. Two examples are the Ferry Building in San Francisco and San Francisco International Airport, both transportation facilities with strong retail programs.

Ferry Building, San Francisco [Master Lease]. Equity Office Properties (Equity) has a 66-year master lease agreement with the Port of San Francisco for the Ferry Building. Equity paid for the capital cost to renovate the Ferry Building, and leases retail and commercial spaces within the Ferry Building to a variety of retail and office tenants who pay rent and common area maintenance charges. Equity manages the space and provides operations and maintenance services. Equity pays rent to the Port of San Francisco.

The Ferry Building serves as a strong precedent for a visionary retail program. The Ferry Building's diverse mix of tenants draws both members of the local community and visitors and ensures that the facility is active throughout the day. The inclusion of a significant share of local tenants supports local businesses and gained valuable community support. The Ferry Building provides a useful precedent for a Transit Center master lessee in conceiving of a creative retail program reflective of local character.

Equity is able to deliver a retail program filled with local businesses because it improved the value of the upper floor office space. The Ferry Building includes 175,000 square feet of office space above the 65,000 square foot retail market. During the initial years of operation after the facility opened in 2003, the valuable office space cross-subsidized retail rents. Although retail rents have risen, the valuable office space continues to provide a significant revenue stream to Equity. In contrast, the Transit Center does not have the opportunity to cross-subsidize retail rents with office rents.

While at the Transit Center the master lessee would be responsible for all operations and maintenance associated with the building and programming, including transit space and commercial space, the physical separation of ferry operations from the Ferry Building alters this dynamic for Equity. The Port is responsible for operations and maintenance of the portion of the Ferry Building related to ferry operations and outdoor areas associated with the ferries, including waiting areas and docks outside the Ferry Building. Equity is responsible for operations and maintenance of the commercial spaces within the building and outdoor dining areas associated with their retailers.

San Francisco International Airport [Direct Management]. SFO directly manages retail leasing and facility management, while separately contracting advertising sales. Security at SFO is provided by the Transportation Security Administration (TSA); however, SFO also directly funds San Francisco Police Department forces at the airport. While SFO previously contracted leasing and management of retail spaces to major national concessionaires, a desire to improve the quality of the airport's retail offerings, particularly the food and beverage options, led SFO to begin to move to a direct management model. Under this model, a team of approximately 19 SFO property management staff oversee:

- A leasing program for retail space in which each space is filled through a competitive RFP process, marketed directly to retailers

- A robust marketing and outreach program to locally owned businesses, which benefits the airport's and the City's brand
- A comprehensive operations and maintenance program for the airport, managed by internal staff with a share of costs passed on to all tenants for garbage removal and to food court tenants for upkeep of common food court spaces
- A contract with ClearChannel for the sale of advertising space throughout the facility

SFO benefits from multiple revenue streams to fund operations and maintenance besides retail and advertising. At SFO, retail and advertising constitute 18% of total revenues. Other revenue streams include parking, payments from airlines, passenger ticket taxes, and other miscellaneous sources. The Transit Center, however, will not have access to similar revenue streams, and does not maintain a large property management team.

In addition, HR&A evaluated models at the following transit stations:

- 30th Street Station, Philadelphia, PA*
- Port Authority Bus Terminal, New York, NY*
- Grand Central Terminal, New York, NY*
- Union Depot, St. Paul, MN*
- Ogilivie Transportation Center, Chicago, IL*
- Union Station, Washington, DC*
- Union Station, Denver, CO*
- Fulton Center, New York, NY*
- South Station, Boston, MA
- World Trade Center Transit Hub, New York, NY
- Kings Cross, London*
- St. Pancras, London*
- Union Station, Toronto

Based on the analysis described above, including evaluation of deal structures' strengths and weaknesses and local and national precedents, and in alignment with TJPA's goals, HR&A recommended the master lease structure for the Transit Center. A master lease structure allows the TJPA to:

- Remain a lean organization, as is their current operating model, without adding significant staff capacity (as would be required for the direct management model)
- Transfer some operations and maintenance risk, and responsibility for providing capital for retail fit-out, to the private sector (which would not be possible under direct or asset management models)

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* HR&A spoke with representatives of the owner of the facility, the master lessee of the facility, or another party familiar with its operation.

- Retain ownership of the full Transit Center and control over major decisions about the facility's future plans (as opposed to the disposition model)

HR&A has discussed this model with the market through the RFP outreach process, and received positive interest.

Community Meetings and Outreach
The TJPA and the consultant team also met with local community organizations to gain feedback on the proposed master lease structure. Completed and upcoming meetings include:

- TJPA Citizens Advisory Committee (12/8/15)
- Greater Rincon Hill Community Benefit District (CBD) Board (1/11/16)
- South Beach, Rincon Hill, Mission Bay Neighborhood Association (1/11/16)
- San Francisco Chamber of Commerce (1/12/16)
- San Francisco Beautiful (1/13/16)
- Millennium Homeowners Association (1/13/16)
- San Francisco Office of Community Investment and Infrastructure's Transbay Citizens Advisory Committee (1/14/16)
- San Francisco Small Business Network (TBD)

Community meetings provided each group with the opportunity to ask specific questions about the proposed deal structure, the RFP process, and future Transit Center operations. Common themes surfacing between groups included local retail, the Rooftop Park, and master lessee performance standards and regulations. Recurring comments are summarized here:

- The Rooftop Park should be actively programmed, but events should be sensitive to the surrounding context, both in terms of number and type.
- The governance structure, and structure for day-to-day operations of the Rooftop Park, should be clear.
- The Transit Center's retail program should be responsive to local community needs, while reflecting a creative mix of retailers.
- The retail program should also emphasize inclusion of locally owned retailers, and this should be expressed in the RFP and evaluation criteria.
- The master lessee should be held to a high standard of operations, in line with TJPA and the community's vision for the Transit Center.

RFP Structure
The RFP document and process have been shaped to include:

- A comprehensive description of the facility as it relates to master lessee programming, fit out, and operation of the space. including descriptions of the condition of spaces at delivery and the required level of tenant improvements as well as a complete set of clear illustrative figures consisting of plans that indicate leasable area, types of retail spaces, available utilities, and the promotional platform (naming and signage rights, static and digital general advertising, event programming, mobile digital applications, and website)

- A description of scope including the opportunities for revenue generation from retail, the promotional platform, and other events, as well as responsibilities of the master lessee related to programming the facility and facility-wide operations and maintenance
- A description of the required components of an economic proposal to the TJPA
- A description of the available public funding sources flowing to the TJPA that will enable the TJPA to share operating costs with the master lessee

The RFP also lays out four goals for a future master lessee, which will guide the TJPA's evaluation of responses. These include:

- Operation of a clean, safe, and well maintained Transit Center, befitting a world-class transit destination
- Delivery of a visionary program that reflects local character and context
- Creation of a high-quality user experience
- Maximization of the economic value of the Transit Center

Master Lessee Scope of Services

The proposed scope of work for the master lessee includes operating and maintaining the Transit Center's commercial space, promotional platform, and common areas. As described below, it is recommended that security management and oversight be procured separately.

The master lessee will generate three main streams of revenue:

- **Retail/commercial space**: In Phase 1, the master lessee will be able to lease, manage, and collect revenue from the 103,300 square feet of leasable commercial space within the Transit Center. The Transit Center's retail space is located throughout the ground floor, second floor, and Rooftop Park and is intended to serve passengers, local residents and employees, as well as visitors. The master lessee will be encouraged to develop a visionary retail program which includes a variety of types of tenants including local businesses. HR&A anticipates that at full occupancy retail rents could reach up to $95 per square foot (average across all retail spaces), generating approximately $10M in gross annual revenue to the master lessee.
- **Promotional platform**: The high volume of foot traffic throughout the facility, and the opportunity to coordinate promotional content across the facility, will result in strong advertising sales and naming rights potential. The master lessee will have the opportunity to create a cohesive promotional platform to be deployed across a variety of assets throughout the Transit Center. The promotional platform will enable the master lessee to integrate media assets through a single content management system and provide naming sponsors and advertisers with an exclusive presence throughout the facility. The promotional platform can also enable experiential brand activation through events, interactive devices, mobile tools, and web tools. Sensory Interactive anticipates that the promotional platform (advertising, events, mobile, and other methods) could yield significant gross annual revenue to the master lessee comparable to the retail rents.

- **Other events**: In addition to events held as part of the promotional platform (including promotional and marketing events), the master lessee may also hold private events, ticketed events available to the public, and free public events. Events will support creation of an identity for the Transit Center by bringing foot traffic, enhancing the facility's or naming sponsor's brand, bolstering destination appeal. Events held on the Rooftop Park should activate the space and align with the park's role as a central open space for the San Francisco community. It should be noted that the RFP emphasizes public events and those that do not completely shut the park to public use. Revenues from events could vary widely due to a number of factors. Specifically, a scheduling protocol approved by the TJPA must be defined through the negotiation process.

The master lessee will also be responsible for:

- **Facility-wide maintenance:** Coordinate and oversee a maintenance program for all spaces associated with Phase 1 of the Transit Center.
- **Stakeholder coordination:** Coordinate with other stakeholders within the Transit Center, such as transit operators, as well as the Greater Rincon Hill CBD Owners' Non-Profit Association Board of Directors, specifically for the operation of the Rooftop Park, and owners of neighboring properties connected by pedestrian bridges and a gondola, for purposes of safety, access, and bridge and gondola maintenance.
- **Security cooperation and coordination:** Participate in safety and security management programs in cooperation and coordination with the TJPA's security team.

Other RFP Elements

The four sections that follow address specific questions asked by the TJPA Board of Directors with regard to the master lease deal structure and Master Lessee RFP, including the level of flexibility provided by the RFP, the decision to separate security services from the master lessee's scope, the retail concept envisioned for the master lessee, and the potential to activate the lower levels of the Transit Center during Phase 1 operations.

Flexibility within the RFP

The RFP encourages creative proposals and allows respondents flexibility for the retail program and deal terms, while providing clear guidance on the scope of services that the future master lessee must fulfill.

The RFP does not prescribe specific retail tenant types, but rather encourages responses that include creative retail visions within the building envelope. For instance, the future master lessee will be responsible for dividing retail spaces as best suits its tenants' needs, providing them with the flexibility to lease space to small to mid-sized tenants, or leaving spaces open to accommodate larger retailers. The westernmost second floor retail cluster provides an example of a space that could be leased and programmed as a food hall, with small stalls or stands for food production and sale, or entirely leased to a retailer in need of a mid-sized to large space, depending on the master lessee's vision and market demand.

The configuration of the building's retail space has not raised any significant concerns during the initial outreach work. Although it does not require specific types of tenants, the RFP does encourage inclusion of local retail tenants within the retail program. The RFP is designed to allow respondents to create a retail program that is responsive to market needs and realities.

Additionally, the RFP is written to invite respondents to describe their preferred economic terms in the context of an overall business terms framework. Respondents are asked to propose an economic offer to the TJPA including fixed and participation rent to be paid to the TJPA, an annual operations and maintenance budget, a 5-year capital budget, the share of operations and maintenance and capital replacement costs to be reimbursed by the TJPA, and a management fee to be paid to the master lessee. Respondents also have the flexibility to propose an alternative economic structure. The terms of the economic agreement and structure will be negotiated and finalized between the TJPA and respondents.

At the same time, the RFP provides the necessary clarity to allow respondents to develop proposals efficiently. This includes HR&A's recommendation of a master lease model that excludes security services, management and oversight from the master lessee scope; includes the full advertising and sponsorship scope; and recognizes the need for cost sharing and a management fee, among other deal term clarifications. This deal structure has been developed in coordination with Sheppard Mullin and is aligned with a draft master lease agreement. A draft of this agreement will be provided for respondents' review as part of the RFP.

Rationale for Segregating Security

The Transit Center safety and security program will involve managing physical security equipment (bollards/ barriers), operational security measures (the security/guard staffing), and technology security (access control, video equipment, etc.) consistent with the TJPA's security planning.

It is anticipated that procuring security services separately from the master lessee will enhance the marketability of the master lessee opportunity, and provide TJPA better control and flexibility over security services. HR&A assessed the benefits and challenges of procuring a security contractor separately from the master lessee in coordination with TJPA's security consultants. The analysis of separating these procurements concluded the following:

- Risk will be reduced for the master lessee. Typical entities that may serve as a master lessee for the Transit Center are accustomed to providing security services to commercial shopping centers and retail or commercial spaces within public spaces. If they do operate security services at transportation facilities, they are an accessory to on-site local and state police or the TSA or other federal security presence. A comprehensive security responsibility for the Transit Center, which will include security staff, equipment, and protocols designed for incidents above and beyond those generally required for a commercial facility, and particularly those required for transit security, may deter interest in the master lessee RFP, and could trigger the need for insurance coverage exceeding that typically carried by commercial/retail master lessees.
- The TJPA will have more control and flexibility to ensure performance by the security services provider. With security services under complete control of the TJPA, it will be able to more swiftly adjust levels of service as appropriate. Once the facility opens, security needs may change. Instead of having to revisit the agreement with the master lessee and the master lessee's agreement with its security services provider, the TJPA

will only have to revisit its direct agreement with the security services provider and, if needed, procure additional or different security service providers at its discretion.

- Security costs represent a significant share of the overall cost to operate and maintain the Transit Center. Eliminating those costs will reduce the master lessee's annual expense. While the TJPA could cover/share the costs with the master lessee, that cash flow does not present an attractive return or upside—it simply covers costs.

The Transit Center's security requirements are explained in more detail in the following section.

The consultant team believes that there is one potential challenge to separating security services from the master lessee scope and provides a recommendation for managing the relationship between these parties: The TJPA will establish a security operating protocol between the TJPA and master lessee to address any concerns about potential overlaps or gaps in coverage between the master lessee's routine security (for routine security within commercial spaces) and the security services provider's scope. If the master lessee were to be responsible for all Transit Center security, it could directly ensure that security needs of the spaces important to it would be addressed. If separated, the master lessee would need to coordinate with the TJPA and the TJPA's security firm. We believe this is a manageable challenge and that coordination is feasible through the establishment of an operating protocol.

HR&A's recommendation to segregate security from the scope of the master lease is informed by market feedback and an objective to balance risk and potential returns to draw private sector interest to the master lessee opportunity. The peer review panel concurred that separating the security would be valuable to the TJPA since it would allow more flexibility in responding to safety concerns and holding the security firm accountable for the level of service provided. In addition, a separate contract could be better tailored to the security needs of the Transit Center.

Transit Center Security Requirements
Although the Transit Center will include a strong retail program, it is primarily a transportation facility and, as such, its security needs will differ from those of a shopping mall venue. Shopping malls typically employ hourly security guard services whose main responsibility is to assist patrons in wayfinding, report potential hazardous and physical plant conditions, and maintain general order by addressing mall safety and security rules as appropriate to foster a pleasant retail environment. Security guards also handle "after-the-fact" commonplace events, such as retail shoplifting and minor assaults; they are trained to be prepared to respond to manmade events by calling in local law enforcement after the event occurs.

By contrast, transit facilities in the United States typically rely upon a mix of federal, state, and local law enforcement (multi-jurisdictional) to provide security for transit centers and operations. This is the standard operating procedure for most transit agencies and facilities on the East Coast, Midwest, and in the mid-Atlantic states including the Metropolitan Atlanta Rapid Transit Authority (MARTA); Union Station in Washington, D.C.; Metropolitan Transportation Authority's Penn Station, Grand Central Station, and Fulton Street Station; Port Authority of New York and New Jersey; South Station in Boston; and Chicago Transit Authority. Private security guards are minimal if used at all (e.g., MARTA has two private security guards to handle lost baggage). All security staff provided for these transit agencies and facilities are sworn officers who carry weapons. For example, MARTA has 372 sworn law enforcement officers who handle all bus, train, and transit centers throughout Atlanta, and, similar to other transit agencies, uses Department of Homeland Security, TSA, and Viper (canine support) teams as well as the National Guard in an elevated threat environment.

Currently, no local, state, or federal law enforcement staff are expected to be dedicated to the Transit Center. However, under the TJPA's recommended security program, security guards would have specialized training, and knowledge and experience with transit operations. Moreover, the TJPA intends to obtain certification under the Department of Homeland Security's Support Anti-terrorism by Fostering Effective Technologies (SAFETY) Act, which requires specialized, knowledgeable and experienced transit operations security services. Specialized training includes:

- Comprehensive Transit Center Concept of Operation protocols
- Incident Command System standards (such as the National Incident Management System)
- Enhanced coordination with local law enforcement and first responders using established procedures
- Participation in tabletop simulation exercises and actual live incident response training exercises
- Cooperative support to emergency responders and master lessee facility management staff in their roles for vertical transportation system management, HVAC system management, smoke and stair pressurization management, securing and/or providing access to critical spaces, and monitoring and controlling other Transit Center systems designed to address events beyond conventional crimes

Neighborhood and Retail Concept

The Transit Center is located within San Francisco's SoMa neighborhood, a dynamic urban downtown district with high density residential and office uses concentrated around the project. Rapid development of this area, fueled by the arrival of major technology industry tenants in search of office space, including Salesforce, Google, and LinkedIn, is shifting the energy of San Francisco's central business district south of Market Street to the Transbay neighborhood. The neighborhood currently includes 18 million square feet of Class A office space and thousands of residential units. Completion of projects currently in the development pipeline within a ¾-mile radius of the Transit Center will add 7 million square feet of office space and over 6,400 residential units, but is anticipated to add only 200,000 square feet of retail space.

The Transit Center is positioned to become a thriving retail center serving a diverse and rapidly growing number of customers including workers, residents, visitors, and transit riders. Within the Transbay neighborhood, a daytime population of 80,000 workers, with 50% employed in the professional services, insurance, finance, and technology industries, brings significant spending potential, especially for convenient shops and restaurants. Also, approximately 9,400 residents currently live within close proximity of the Transit Center and over 6,400 new residential units are under construction or planned within ¾ mile of the Transit Center. The surrounding area is also home to numerous civic and cultural attractions including the Moscone Center, which draws over one million annual attendees to a diverse calendar of events. In the initial phase of operation, an estimated 37,000 daily bus passengers are anticipated to utilize the Transit Center, growing to approximately 100,000 daily transit riders with the commencement of train operations in Phase 2.

The proposed retail approach incentivizes a master lessee to maximize retail revenue generation over time. The master lease structure enables a private entity with experience in retail development, leasing, and management to create a retail vision reflective of market trends that can be updated and adjusted appropriately. Due to the long-term nature of the master lease, the master lessee will have flexibility to change the program over time based on trends and evolving retail demand as the neighborhood grows. By providing the master lessee with the opportunity to simultaneously manage the promotional platform and production of other events, the master lessee will have the opportunity to create a cohesive retail, sponsorship, and advertising offer at the Transit Center.

The proposed retail approach rewards respondents that propose a creative retail program reflective of local character and context. The draft selection criteria in the RFP allows for more points to be awarded to respondents that propose a retail program that envisions local retail.

The master lease model leverages private sector expertise that can tap into the market potential of not only passengers, but also workers, residents, and visitors in the neighborhood. The success of the Transit Center's retail, events, and promotional program is not dependent on commuters. The Transit Center's location in a growing neighborhood, the proximity of major civic and cultural attractions, and the Rooftop Park at the Transit Center ensures significant foot traffic.

The draft RFP provides the master lessee the first right to negotiate for the up to 60,000 square feet of additional retail space in Phase 2. The arrival of Caltrain and high-speed rail will bring more spending potential from more passengers, more operations and maintenance responsibility, and more retail space. As a result, the master lessee opportunity should become more valuable. The master lease model provides the opportunity for both the TJPA and the master lessee to capture that upside.

Potential Use of Phase 2 Components

The train box includes approximately 595,000 square feet of space, inclusive of the additional 60,000 square feet of retail space, on two levels that have not been planned and designed to be programmed for commercial use during Phase 1 operations. These levels house building-wide systems and the security operations center for the entire facility. In the future, these levels will accommodate passenger circulation, waiting space, additional commercial space, and train traffic. In the undefined interim period, they are intended to be maintained by the master lessee and accessed primarily for back-of-house services.

While the train box provides a large-scale space that may have some commercial appeal, these spaces are constrained by several factors that affect economic feasibility for the private sector and ease of Phase 2 implementation for the public sector.

- Major improvements and renovations would be needed to make the spaces viable for commercial use. A number of considerations would need to be considered around providing code-required fire-life safety systems to enable the use of the lower concourse, given the current Phase 1 design, including vertical access (elevator, escalator, adequate emergency egress stairs), lighting (emergency lighting, adequate overhead lighting), areas of refuge, fire sprinkler system distribution, topping slab (uneven walking surface), environmental controls (HVAC), IT/telecom systems, and security systems.

- Phase 2 construction would conflict with commercial operations in those spaces. Depending on the anticipating timing for Phase 2 construction and completion, the operating timeframe for this space may not be sufficient to draw the interest of retailers.

Addressing these factors would require significant expenditure, and some improvements and renovations would need to be undone when the train box is fitted out for its ultimate use. Nonetheless, although staff does not think commercial use of the train box is feasible, a position supported by the peer reviewers, the RFP will allow for creative proposals from respondents.

Master Lessee Business Terms Framework

The TJPA and future master lessee's relationship will be governed by a master lease agreement that will lay out financial obligations and performance obligations for both parties, all of which are to be negotiated within the RFP process, and particularly within the negotiations stage once entities propose their starting terms in RFP responses. The framework envisioned for the relationship between TJPA and the future master lessee is as follows.

- The TJPA will provide a long-term master lease to the master lessee.
- The master lessee will:
  - provide operations and maintenance services and capital replacements for the Transit Center.
  - pay a fixed and percentage rent, described below, to the TJPA.
  - propose an annual operations and maintenance budget and five-year capital budget to the TJPA.
- The TJPA will:
  - pay a management fee to the master lessee for services performed.
  - reimburse the master lessee for a share of operations and maintenance and capital replacement costs incurred for public areas.
  - share costs and savings above and below the budgets established between the parties.
- TJPA will receive funding from a series of public revenue streams, detailed below, to partially support this activity.

TJPA and the consultant team have performed due diligence on the elements of this framework, described further below.

As the master lessee is unlikely to be able to fully cover operations and maintenance and capital replacement costs for the facility, the TJPA has identified the following public sources of revenue, which it will rely on to share costs:

- A portion of Regional Measure 2 funds, raised through regional bridge tolls, is allocated under statute to the TJPA to support annual operations and maintenance costs.
- The Greater Rincon Hill CBD will also contribute funds to the operations and maintenance of the Rooftop Park, with an anticipated annual contribution of approximately $1.5 million beginning in the 2017/2018 fiscal year.
- Tax increment funds from local properties are intended to be applied towards capital expenses. These funds are expected to be available beginning in 2019.
- In accordance with the Lease and Use Agreement between the TJPA and AC Transit, adopted September 29, 2008, AC Transit has responsibility to contribute to the operations and maintenance and capital costs of the Transit Center to the extent that they exceed revenues.

A master lessee will need to earn a return on investment above the costs associated with its agreement:

- The master lessee will pay for its share of capital and operating costs. The master lessee will make an initial investment to support tenant space fit-out and facility lease-up, including contributions to tenant improvements and leasing commissions. If they choose, the master lessee may also pay for the cost to install additional kiosks and screens that create a more robust promotional platform.
- Once the facility is operating, the master lessee must pay for its share of operations and maintenance costs. While a portion of these costs, particularly maintenance of retail spaces, will be reimbursed through tenant common area maintenance charges, the cost of operations and management of the remaining areas of the facility will be the master lessee's own.
- The master lessee will also need to pay a rent to the TJPA. The RFP specifies that respondents should propose an annual fixed and percentage rent. Fixed rent is set to be paid each year regardless of the performance of the master lessee's retail, promotional platform, or events programs. Percentage rent is a portion of the revenue from programming that will be shared by the master lessee and paid to TJPA if the commercial program within the facility reaches a certain level of performance. Percentage rent is paid over and above base, fixed rent.

It remains to be determined how much rent can be paid to the TJPA and what share of operating costs the master lessee will cover. These figures will be determined through the RFP and negotiation process.

Expertise
The TJPA's consultants bring decades of expertise in helping public sector clients achieve their objectives. Information on each firm included in this report is below.

HR&A Advisors, Inc.
For over 35 years, HR&A has advised clients on public-private agreements on behalf of public sector clients. HR&A has both evaluated deal structures and supported their implementation for both public transportation facilities and general urban redevelopment. These include efforts for

direct management, asset management, master lease, and disposition transactions. From these experiences, HR&A brings expertise in how to successfully design and execute a public-private agreement. Representative projects include:

- 30th Street, Philadelphia, PA (Direct) – HR&A is supporting creation of a master plan for the 30th Street Station District including for the future of 30th Street Station itself which serves Amtrak, regional rail, and local rail passengers. Amtrak directly owns and operates the station. HR&A is helping Amtrak evaluate retail configuration options take advantage of market opportunities. HR&A is also evaluating public-private partnership models, including a master lessee model where a third-party retail developer would reconceive the retail program and bring the capital needed to pay for retail reconfiguration.
- Union Depot, Saint Paul, MN (Asset Manager) | HR&A advised on the redevelopment of the historic Union Depot including recommendations for retail and event programming. Union Depot has a small number of passengers and residents and workers in the area, limiting its market potential for a master lease or disposition. Further, the authority that owns the station has limited expertise in operating a facility of this nature. As such, HR&A advised on the procurement process for an asset manager that led to the selection of Jones Lang LaSalle.
- Fulton Center, New York, NY (Master Lease) | HR&A worked with the Metropolitan Transportation Authority to develop a retail vision for Fulton Center, and determine the preferred public-private partnership model for the Center. HR&A supported the MTA through the master lessee solicitation process, negotiations, and final selection of Westfield as master lessee of the facility. Westfield is developing the retail and advertising program, and manages the facility with the exception of the subway platforms and facility security.
- CityCenter DC, Washington, D.C. (Disposition) | HR&A advised on a redevelopment program and plan for the 10-acre former Washington Convention Center site. HR&A led the District of Columbia's RFQ and RFP processes that resulted in the selection of Hines as a master developer of the site.

Shuprotim Bhaumik, Partner, has over two decades of experience in the fields of real estate, economic development, and public policy consulting. His practice focuses on market and economic analysis, strategic planning, and development advisory services for real estate investors and developers, public agencies, financial institutions, and non-profit organizations. Shuprotim is currently working with a variety of clients across the United States and abroad. He recently advised the MTA in structuring a public-private-partnership to manage and operate the $1.4 billion Fulton Street Transit Center, which opened in 2014. Shuprotim is also leading the implementation effort for the first phase of the proposed Konza Technology City in Kenya, and working in partnership with Enterprise Community Partners to develop an affordable housing strategy for the City of Atlanta. Prior to joining HR&A, Shuprotim was a Senior Vice President at AECOM, where he led the firm's Economics practice (formerly Economics Research Associates) in North America, and was responsible for managing real estate and economic development projects throughout the country.

Kumar Kintala, Principal, advises clients on development strategy and structuring public-private partnerships, specializing in master planning, transit-oriented development, and community revitalization. Kumar frequently leads assignments involving negotiating transactions and establishing business cases for proposed investments or policies. His core skills include financial feasibility analysis, economic impact analysis, fiscal impact analysis, market research, and cost-benefit analysis. Kumar recently managed the master plan and business plan for the first phase of the proposed Konza Technology City in Kenya; recommended a development strategy for the former Michael Reese Hospital site in Chicago; and advised the City of Long Branch in New Jersey on its decision to invest in a future phase of Pier Village, a mixed-use oceanfront project. Kumar leads many of HR&A's transportation and transit-oriented development assignments on behalf of cities, agencies, and non-profits. He is currently advising NJ Transit and the Metro-North Railroad on real estate transactions that will bring new transit-oriented development to station areas. For the City of Calgary and for Washington County, Minnesota, he is guiding the planning of proposed transit corridors to maximize economic development and transit-oriented development.

Olivia Moss, Director, achieves HR&A's public and private clients' development goals by drawing on her expertise in New York City real estate and on her experience supporting planning projects of all scales nationwide. Olivia provides project management, modeling and analytical services for the firm's real estate advisory projects, from large-scale pre-development processes to single-site feasibility studies. She recently provided analytical, modeling, and project coordination services for the firm's pre-development advisory to Miami Beckham United, a partnership led by David Beckham, seeking a site for a new Major League Soccer team in Miami, Florida. Previously, she participated in HR&A's work as development advisors to Major League Soccer in its efforts to locate a new soccer stadium in New York City. Olivia has also performed development feasibility studies for single-site projects in New York City, including the downtown Brooklyn headquarters of Brooklyn Community Services, in support of negotiations to establish a public-private partnership for site redevelopment.

Sensory Interactive

Sensory Interactive is a design firm that develops, launches, and provides operational support for digital media platforms covering a variety of vertical markets, including digital out-of-home, sports arenas, hospitals, convention centers, retail centers, malls, and education facilities. Many of these installations have generated successful revenue streams, and others have used interactivity to deliver engaging and informative experiences.

Sensory Interactive's full range of digital media capabilities and its methodology enable it to approach engagements using a single-consultant model. This ensures that all phases of a project's process—from definition of requirements and design development through technology evaluation and selection, construction management, content development, and operations—are closely coordinated and fully in line with the owner's singular vision.

Sensory Interactive is product and technology agnostic, thanks to its lack of reliance on manufacturer or distributor relationships or product markups. Without a financial incentive to promote a particular product, Sensory is free to explore the broadest possible range of hardware and software solutions, and recommend the approach that best meets a project's specific needs.

Greg Giordano, Director, Design and Strategy, is a licensed architect with over 20 years of experience working at the intersection of information, interactions, and the environment. He draws on the disciplines of design research, architecture, environmental graphics, graphic design, interaction design, and process design to create comprehensive user experiences in the built environment.

Greg's recent work with Sensory Interactive includes developing project strategy and setting design direction for multiple digital media applications at University of California San Francisco Mission Bay Hospital, Mitikah, a multi-use development in Mexico City, Mexico, and Saint Luke's Hospital in Kansas City; developing content and interaction concepts for an interactive wall in a children's hospital; and developing promotional platforms at venues ranging from shopping malls to World Cup venues.

Truc Bui, Associate, Design and Strategy, holds a Master of Architecture degree from the University of Oregon in Eugene and a Bachelor of Science degree in mathematics from Trinity University in San Antonio, Texas. This unique background makes Truc a flexible thinker and outstanding problem solver, and enables her to develop creative approaches to the challenges facing Sensory Interactive clients.

Before joining Sensory Interactive, Truc was most recently with architecture firm HOK in Houston, where she utilized her analysis and design backgrounds in the development of architectural programming for large commercial construction projects, the creation of strategies for industrial and municipal masterplans, and the analysis of property portfolios for clients.

Prior to her work at HOK, Truc was a project analyst with global energy efficiency consulting firm CLEAResult, where her projects included assessing energy usage in commercial buildings and providing recommendations for improvements.

Sheppard Mullin
Founded in 1927, Sheppard Mullin is a full service Global 100 firm handling corporate and technology matters, high stakes litigation and complex financial transactions, including commercial leasing.

Joan H. Story is a partner in the Real Estate, Land Use and Environmental Practice Group. Ms. Story's practice emphasizes real estate investment, financing and leasing transactions. Her clients include developers, institutional and foreign investors, corporate real estate users, pension funds and pension fund advisors and lenders. Her experience encompasses land acquisition and development, construction, permanent and tax-exempt financings, joint venture and limited liability entity formation, acquisition and disposition of commercial properties, leasing and other portfolio management issues, as well as loan and partnership workouts. Representative projects include:

- MacArthur Transit Community Partners, an affiliate of BRIDGE Housing Corporation, in developing the MacArthur BART Transit Village. The 624 residential unit project includes the construction of a BART Garage on land to be acquired for BART; a 90-unit, below-market rental phase to be constructed on land ground-leased from BART; and three market-rate phases with market-rate and below-market condominiums, 4,500 sq. ft.

of retail and commercial space, 5,000 sq. ft. of community space, and related off-site improvements. Funding for the project derived from a combination of Proposition 1C grants, a federal transportation grant, tax-increment financing and private debt capital.

- DHL Express in connection with a major expansion of its primary hub at Wilmington, OH, the financing of the expansion through private activity bonds issued by the Dayton Montgomery County Port Authority and the subsequent divestiture of the hub facility.
- DHL Express in ground-leasing, constructing and financing a number of regional distribution and sortation facilities, including the development, installation and financing either through private activity bonds or leveraged leases of state-of-the-art sort systems.
- Lend Lease Corporation in connection with the development of the Watermark luxury high-rise condominium project and the negotiation of a development and disposition agreement and related ground lease for the development of a proposed mixed-use cruise ship terminal facility to be located on Piers 30-32 in San Francisco.
- Investment groups acquiring and selling commercial real estate assets and portfolios, including ownership interests in the Santa Barbara Biltmore Hotel, the Parker House in Boston and the Parc 55 Hotel in San Francisco. Represent major international spirits companies in connection with the acquisition, sale and lease of vineyard properties and wineries in the Napa and Sonoma Valleys and elsewhere in California. Recently concluded the sale and leaseback under a long-term lease of 18 vineyard and winery properties in the Napa Valley.

NEXT STEPS:

Finalize the Master Lessee RFP and launch the solicitation process in late February. Moving forward, staff anticipates proceeding as described below.

Milestone	**Draft Date**
Master lease structure and RFP procurement strategy presented to the TJPA Board	February 11, 2016
RFP finalized and released	Week of February 22, 2016
RFP response period	February 22–May 20, 2016 (3 months)
All proposals due	May 20, 2016
Evaluation period	May 20–July 4, 2016
Anticipated master lease execution	Q1 2017

Adherence to this schedule is critical for the following reasons:

- **A delay in RFP issuance diminishes the prospect of opening the retail space when the Transit Center opens for bus operations.** The Transit Center is scheduled to open at the end of 2017. The TJPA plans to negotiate a master lease by the first quarter of 2017, leaving less than 12 months for the master lessee to lease up, fit out, and open retail space. This is aggressive, but our goal is to have some portion of the retail and digital platform open and operational. Any delay in the RFP and negotiation process will delay the opening of retail.

- **A delay in RFP issuance may require the TJPA to pay for operating expenses that could otherwise be paid for by the master lessee.** By the end of 2017, the Transit Center will be open and incurring operating expenses. Without a corresponding revenue stream, the master lessee will be unable to pay for its share of operating expenses, leaving that cost to be picked up by the TJPA.
- **A delay in RFP issuance could diminish market interest.** HR&A has reached out to 40+ potential respondents, building momentum for the RFP release, which was originally scheduled for mid-January 2016. Further delays may dampen market interest by sending a signal that future processes such as the master lease negotiation, fit out coordination, design review, and budget approval could be protracted and expensive for the master lessee.

RECOMMENDATION:

Staff recommends that the Board of Directors authorize the Executive Director to finalize and issue the Master Lessee RFP to procure an entity or team to operate and manage Phase 1 of the Transbay Program under a long-term master lease structure.

ENCLOSURES:

Resolution
Peer Review Summary

TRANSBAY JOINT POWERS AUTHORITY
BOARD OF DIRECTORS

Resolution No. _____________

WHEREAS, The Transbay Joint Powers Authority (TJPA) is a joint powers agency organized and existing under the laws of the State of California; and

WHEREAS, Pursuant to the Joint Powers Agreement creating the TJPA, dated April 4, 2001, the TJPA has the authority to, among other things, make and enter into contracts and exercise all powers necessary and proper to carry out the provisions of the Joint Powers Agreement; and

WHEREAS, The Transbay Program presents a unique opportunity to program and manage a multi-modal transit facility and requires an entity to operate and maintain the facility, program events, manage the Rooftop Park and a promotional platform, and manage and lease over 100,000 square feet of retail space; and

WHEREAS, TJPA determined that the process to evaluate options for operating the facility and its retail program would benefit from an advisor with significant experience with similar facilities and engaged HR&A Advisors, Inc. (HR&A) on the basis of, among other things, its expertise in structuring public-private agreements for complex mixed-use urban development projects. TJPA also engaged advisors with expertise in promotional platform development and retail special counsel; and

WHEREAS, Based on detailed information about the Transbay Program and due diligence, HR&A recommended that the TJPA enter into a long-term master lease with an entity or team (Master Lessee) and developed a Request for Proposals (RFP) procurement process for a Master Lessee; and

WHEREAS, The recommended master lease structure and RFP procurement process were presented to the TJPA Board of Directors on December 10, 2015, and the TJPA Board requested that a Peer Review Panel examine the recommendation, including the master lease scope, facility operations, procurement strategy, and master lease structure, to determine whether it is the appropriate model; and

WHEREAS, The Peer Review Panel reviewed the recommended master lease structure, RFP procurement process, and related documents, and concurred with TJPA staff and HR&A that a master lease is the appropriate structure and recommended that the RFP be issued; now, therefore, be it

RESOLVED, That the TJPA Board of Directors authorizes the Executive Director to finalize and issue a Master Lessee Request for Proposals to procure an entity or team to operate and manage Phase 1 of the Transbay Program under a long-term master lease structure.

I hereby certify that the foregoing resolution was adopted by the Transbay Joint Powers Authority Board of Directors at its meeting of February 11, 2016.

____
Secretary, Transbay Joint Powers Authority

Transbay Transit Center Master Lessee Procurement Peer Review

To Transbay Joint Powers Authority

Date: February 4, 2015

This peer review report was drafted by the TJPA's Program Management/Program Controls (PMPC) team at the request of the peer review panel. It is based on comments received during the peer review session and provided by individual peer reviewers after the session. The chronology of the development of this report is as follows:

January 20, 2016:	Peer review session held at TJPA offices
January 21–26:	Individual peer reviewers provided additional comments and feedback to PMPC
January 26–28:	Per peer review panel direction, PMPC drafts report incorporating individual comments
January 29:	PMPC provides report to peer reviewers for any additional comments
February 2:	Additional comments received
February 4:	PMPC completes final draft peer review report and sends it back to peer reviewers for final review and concurrence

The peer review panel reviewed the Transbay Transit Center master lessee opportunity, the recommended master lease structure, and the recommended RFP procurement process. The peer review panel reviewed and commented on this report. Based on the completion of this process and the feedback received from the panel, it is our understanding that the peer review panel concurs that the recommended master lease structure and RFP procurement process are appropriate models for selecting an entity to operate and maintain the Transit Center, including its retail and other programs.

Peer Review Report

The Transbay Joint Powers Authority (TJPA), with assistance from HR&A Advisors, Inc., Sensory Interactive, and Sheppard Mullin, is soliciting proposals from firms to master lease the Transbay Transit Center under a long-term master lease. The TJPA will select a master lessee to operate and manage the Transit Center, including its retail space, events, and digital signage.

HR&A presented key aspects of the recommended master lease deal structure and Request for Proposals (RFP) procurement process for the master lessee at the December 2015 TJPA Board of Directors meeting. The TJPA Board requested that TJPA convene a peer review panel to examine whether the recommended master lease structure and RFP procurement process are appropriate models for operating and maintaining the Transit Center and to provide feedback on key documents produced by the consultant team to date.

On January 20, 2016, TJPA and its consultants hosted a meeting with the peer review panel to review the master lessee opportunity and the RFP. HR&A presented various aspects of the RFP ranging from the scope, deal structure, evaluation criteria, and schedule to addressing specific questions posed by the TJPA Board and peer review panel. Prior to the meeting, documents including the RFP, along with appendices and exhibits, were made available for review. The peer review panel comprises the following participants.

Name	Title
John Updike	Director of Real Estate, City & County of San Francisco
Todd Rufo	Director, San Francisco Office of Economic and Workforce Development
Cheryl Nashir	Associate Deputy Airport Director for Revenue Development and Management, San Francisco International Airport (SFO)
Byron Rhett	Deputy Director of Planning and Development, Port of San Francisco
Cmdr. Bob Moser	Operation Commander, San Francisco Police Department
Peter David Cavaluzzi, FAIA	Design Principal and Board Director, Perkins Eastman Architects

TJPA and its consultants:

HR&A – Kumar Kintala, Shuprotim Bhaumik, Olivia Moss
Sensory Interactive – Randy Byrd, Greg Giordano
TJPA – Scott Boule
Program Management/Program Controls team – Mark O'Dell, Anne Ording, Shruti Namjoshi
Sheppard Mullin – Joan Story

The following notes are based on the discourse during the peer review meeting and organized by topic. Because questions and comments were contemplated by multiple peer reviewers, the individuals who asked the questions are not noted. TJPA's responses appear below each question/comment.

Master Lessee Scope

Explain the security model and whether security is a responsibility of the master lessee.

The current approach separates security services from the master lessee's scope. The rationale and benefits for a separate security RFP:

- Makes the master lessee RFP more attractive by reducing financial risk to responders
- Provides better control and flexibility in the management of security services for TJPA

How do the security plan and recommendations compare to other facilities?

The security plan and recommendations are comparable to those of other facilities in that the security services are separate from the operator of the facility. As noted in a report provided to the peer reviewers, other transportation facilities are generally served by local, state, and federal security forces. Master lessees and their subtenants, on the other hand, typically hire security for stores only, and only as needed.

Will there be any required coordination protocol between the master lessee and security provider?

Yes, there will be close coordination between the master lessee and the security provider. The RFP describes the general coordination that will be required, as well as the requirement that the master lessee participate in safety and security management programs in cooperation with TJPA's security team. TJPA's security team will also work in close coordination with the San Francisco Police Department regarding larger public safety issues. TJPA welcomes input from Bob Moser during the upcoming development of the security RFP. Presentation of the Safety and Security Concept of Operations is planned for an upcoming TJPA Board meeting.

Retail Concept

What is the permitting process with regard to open spaces at the ground level?

The master lessee will be provided the right to program the ground level spaces outside the facility. The RFP, in particular, encourages programming and activation of spaces along Natoma Pedestrian Way. Some of these spaces are within TJPA property. An example given by the peer review panel was to lease this space to bike rentals. Permitting requirements will be clarified in the RFP.

The relatively small/shallow retail spaces on the first floor, the single-loaded nature of the retail on Minna and Natoma, and breakup resulting from the passageways may not result in a single comprehensive retail vision.

This is a useful perspective that will be taken into consideration when reviewing proposals for feasibility.

What is the anticipated tenant mix and how will locally owned retailers be incorporated? Is there a requirement for inclusion of locally owned retailers?

The tenant mix is expected to be a blend of food and beverage and dry retail that serve the diverse and growing markets of Transbay commuters and neighborhood residents, workers, and visitors. HR&A's market analysis indicates significant market potential and that the area is significantly undersupplied in terms of retail space.

Most of the retail spaces have been designed to allow for a full service kitchen, but the RFP does not specify a required mix of store types to leave as much flexibility as possible for respondents to conceive a retail program that maximizes value.

Respondents who propose a retail program with locally owned retail shops and restaurants will better achieve goals for the Transit Center and would score higher under the proposed evaluation criteria. Respondents who have experience successfully developing and managing retail featuring locally owned retail shops and services will also score higher under the proposed evaluation criteria.

Are there concepts that are not food oriented? What are the mixes elsewhere?

At Union Station in Washington, D.C., of the 200,000 square feet of space, about 25% is dedicated to food; there are other retailers. Union Station serves transit passengers and the office district around the station, which contains a lot of residential, similar to the Transit Center.

The Office of Economic and Workforce Development (OEWD) offered to work with TJPA and the future master lessee to refer locally owned businesses.

This would be welcomed, and TJPA could encourage that relationship between the master lessee and the OEWD. This opportunity will be added to the RFP.

Will the master lessee be required to comply with the First Source Hiring Program?

Yes, OEWD's First Source Hiring Program (which connects dislocated workers and economically disadvantaged individuals with entry-level jobs), has been incorporated into the master lease to the extent required.

Rooftop Park Operations

Is the Community Benefit District (CBD) revenue a stabilized annual stream of revenue, and how are the numbers derived?

The Greater Rincon Hill CBD will reimburse up to 79.1% of operations and maintenance, some utilities, and security costs of the Rooftop Park. The amount the CBD will provide to the Rooftop Park annually is set based on the amount of specific assessments allocated to the Park, per the CBD Management Plan and Engineer's Report. The Park will open with Phase 1 of the Transit Center at the end of 2017; peak year for revenue is after 2018. The CBD Management Plan is a reference document attached to the RFP.

What will the CBD Board's role be in operations of the facility/Rooftop Park?

The CBD Board is a funding partner, and will have some oversight to ensure their funds are spent according to the requirements in the CBD Management Plan. The CBD Board will not have management control over the Park, but will serve as a resource for community input.

Will the master lessee also have control over the common areas in the Park?

Yes, the master lessee will be responsible for programming the whole area according to a protocol that needs to be approved by TJPA.

Will CBD staff service the Park?

No, CBD staff will provide security and maintenance services to parks in the district, but not to the Rooftop Park.

How will events be scheduled/permitted? How will local resident concerns regarding event hours, noise, crowd control, etc. be handled? Will this be similar to the public-private operation of Yerba Buena Gardens?

The RFP describes the need to establish a scheduling protocol approved by TJPA. Details of the protocol will need to be clarified (e.g., operating hours, maximum number of events). The master lessee will be responsible for establishing and administering a permit process as needed. Most events are envisioned to be public, not private. The RFP will be updated to clarify the framework for the scheduling protocol, the permitting activity the master lessee should expect, and the flow of approvals. By way of comparison, the public-private agreement/protocol for Yerba Buena Gardens will be reviewed.

How will any protocol regulate first amendment activities? What rights will the master lessee or TJPA have in the case of a protest staged at the Park?

Protocols will protect first amendment rights, while ensuring the safety and security of Transit Center visitors.

Revenue and Expense Categories

Who will be responsible for shortfalls that are not covered by the master lessee revenues? What other funding will support facility operations?

TJPA is ultimately responsible for these costs. Regional Measure 2 (RM 2) bridge toll funds were used to maintain the old Transbay Terminal, and these funds will be transferred to the new Transit Center. The funds were shifted to TJPA when the Temporary Terminal opened in 2010. It is anticipated that the value of the RM 2 funds will be $4.7M when Phase 1 of the new Transit Center opens in late 2017. Transit Center operation and maintenance needs are significantly higher for this new facility, which includes a 5.4-acre rooftop park and many other amenities. Because funding for the operation and maintenance of the former terminal was not adequate, it is anticipated that additional RM 2 funds could help maintain and operate the new Transit Center.

It is envisioned that shortfalls in operations and maintenance will also be covered by the transit agencies utilizing the Transit Center.

Why isn't facility renewal included in the anticipated O&M costs?

Facility renewal will be funded by tax increment funds, which can only be used for capital expenses. TJPA receives a portion of property tax increment from development of the state-owned parcels in the Transbay Redevelopment Project Area. While a majority of these funds is currently funding construction of both phases of the Program, a portion of the funds will be used for facility renewal.

What other O&M services are not covered by the master lessee?

None, other than security and TJPA overhead. The master lessee will provide services associated with all other line items.

Is there a profit and loss (P&L) statement for the facility?

A P&L will be required of the proposers; however, a complete P&L study has not been performed to date, but could be if required.

Phase 2 and Use of Lower Level Space

Will the type of retail demand shift once Phase 2 space becomes available?

Phase 2 will include Caltrain commuter rail and intercity, high-speed rail. It will increase the number of daily commuters to the Transit Center from 37,000 to nearly 100,000, improving retail demand.

However, the majority of retail spending is still expected to come from neighborhood residents, workers, and visitors, even with Phase 2 services in place.

The respondents' retail vision and how it addresses the needs of various customer segments—commuters, office workers, visitors or residents—would be an important consideration.

Phase 2 will also result in additional leasable space on the Lower Concourse level of up to 60,000 square feet. This will be most visible to Caltrain and high-speed rail passengers.

Is Phase 2 desirable to master lessees?

Yes, potential master lessees see a lot of potential in Phase 2, and the successful master lessee will have the right of first refusal to negotiate for the Phase 2 facilities.

Can the Lower Concourse and Train Platform be used for commercial purposes in Phase 1?

The train box (Lower Concourse and Train Platform levels) includes around 595,000 square feet of space inclusive of the planned 30,000–60,000 square feet of additional retail space. The use of the train box during Phase 1 has been explored, and there are significant challenges to using this space for commercial programs in Phase 1. Major investment would be needed to make spaces viable for commercial use, including investment in the vertical transportation, lighting, sprinkler, and ventilation systems. Development of the train box during Phase 1 would likely conflict with Phase 2 construction activities. TJPA may update the RFP to note that lower levels may be made available for commercial opportunities within certain guidelines and at the master lessee's cost, subject to an evaluation of each proposal.

RFP Process

Has outreach provided a sufficient understanding of the market and respondents such that an RFQ is not necessary? Has outreach effectively reached the local market?

Yes, HR&A has completed extensive outreach to 40+ parties in the real estate development, open space management, and facilities management markets. An RFQ was previously issued, and while it did not generate many responses, HR&A has worked with the TJPA to ensure that the RFP is clearer and more attractive to potential respondents.

Responses may come from national firms with local experience, national firms seeking a local presence, and local firms seeking to expand their profile. Respondents will likely include partnerships that pair national firms with local firms.

Peer reviewers also raised questions regarding the potential ability for TJPA, during the proposal phase, to ask the proposers to replace specific members of the proposer's team and if the TJPA would maintain the right to approve changes in the winning proposer's team during the course of the contract.

We believe TJPA will be able to request substitutions during the negotiations phase, and we will ensure that TJPA's right to approve the replacement of exiting master lessee team members is written into the agreement.

Evaluation criteria should balance flexibility and opportunity for alternate proposals against the need to compare proposals on an apples-to-apples basis.

Evaluation will need to compare proposals that may involve different term lengths on an equal footing through net present value analysis and other cash flow analysis methods.

Transit Center Construction / Operations & Maintenance

How will tenant improvements be handled? Whose responsibility are these?

The building will be delivered with retail spaces still requiring painting, millwork, equipment, furnishings, retailer signage, and finished flooring. These improvements will be the responsibility of the master lessee.

Timeline

What is the anticipated timing of the master lease, retail tenants coming in and construction?

Execution of the master lease is planned by the first quarter of 2017. The master lessee will have about a year to lease the spaces and complete tenant improvements before the opening of the Transit Center. The goal is to open as much retail as possible with the opening of the Transit Center in late 2017.

Promotional Platform

Randy Byrd of Sensory Interactive gave an overview of the promotional platform concept, which is designed to reduce clutter and allow a single advertiser to broadcast over all of the signs. Currently, the proposed assets are being reviewed with the San Francisco Planning Department for content and location. Peer review panel members noted the importance of striking a balance between the promotional platform and maintaining the aesthetic appeal of the Transit Center as a world-class facility.

Does the TJPA have an advertising policy that prohibits certain types of advertising/ sponsorship material?

Yes, TJPA has an existing advertising policy, and the master lessee will be required to comply with this policy. TJPA will compare the advertising policy at SFO to its current advertising policy.

Post Meeting – Peer Reviewer Comments

The peer reviewers were provided an opportunity to send additional comments following the peer review meeting. Comments that were received are noted below.

John Updike

- I support the approach of one master lessee and one security contractor, with the noted expectations of a robust protocol between them to ensure smooth operations and coordination of events (planned or unplanned).
- Consideration should be given to engage in a more formal San Francisco-centric RFI, than the proposed RFP, to better facilitate local hire/local flavor to ultimate proposals. Consider

tinkering with the point scoring system as well to really emphasize the import of local inclusion.

- Prior to full operations (inclusive of full rail), consideration may have to be given to alternatives to the second floor retail, depending upon market conditions and demand. May need to entertain things like maker space, low TI pop-up retail, or even some limited office uses.
- Expense categories and draft pro-forma seem reasonable and thoughtful. Revenue projections should take into consideration my above comment, and the reduced revenue streams that could result.
- After learning of the complexities of using the train box, I can understand the reluctance to entertain interim uses.
- While the coordination and tight control over the digital advertising platform is a very smart move, it still appears that the user experience may be overwhelmed with commercial advertising. Recommend that TJPA reserve a right to down-scale the scope (number and/or size) of actual media platforms based on user feedback (to avoid contractual glitches downstream if reductions are warranted).

Bob Moser

I agree with the approach of one master lessee and one security contractor. I see the value of separating the security services contract from the Master Lease. It appears that negotiating a separate security contract will allow TJPA greater flexibility in responding to safety concerns. A separate contract will assist TJPA in holding the security contractor accountable for the level of service they provide. A separate contract will also allow TJPA to tailor the security needs of the Transbay Transit Center as needs change.

Peter David Cavaluzzi, FAIA

The following comments are focused on retail design and urban design issues and priorities that should be included in the RFP narrative. The overarching theme is to implement a retail and place-making development that is so attractive that people will want to be there regardless of whether or not they are boarding a train or bus. This is the big lesson that we have learned from the success of Grand Central Terminal. The focus at Grand Central is on real estate value, creating an address, and creating great places where people want to be.

The overall master lease strategy appears sound and will shift the burden and risk to the private sector. Since there is a wide variety of spaces and expertise required of the master leaseholder the RFP process should give high priority to specific expertise for the different spaces particularly the park space. The Park is the big "wow" and will require specific expertise and creativity to maximize its overall value to the terminal. Preference should be given to teams that show strong and very specific expertise in each type of space and opportunity.

The terminal facility is a big feature within the urban fabric. There is nothing comparable to it within the downtown. Its "bigness" is its greatest challenge from an urban development perspective in terms of creating desirable urban-scaled places that people will be attracted to. Diversity and sensitivity to the variety of spaces and places. Goal should be to make places feels smaller, more inviting, more valuable, and cared for. Since the master lease strategy will likely attract larger retail developers. Respondents should articulate a design and merchandising response to the big scale and offer ideas that are different from a traditional shopping mall and national retailing approaches. This should be a focus and given priority.

- The RFP should reinforce the value of a retail and merchandising plan that leverages and responds to the unique characteristics and retail opportunities on each street. This is not a one size fits all. TJPA should look for creativity and diversity in the street-level merchandizing concepts.
- The retail along the long streets Minna and Natoma is recessed behind the upper level curved façade. From a retailing perspective this retail will appear hidden, less visible and disconnected to the street life. If possible retailers should be allowed to extend beyond the current glass line/lease line to make Minna and Natoma more animated and lively. This can create significantly more gross leasable area as well. The sidewalk space appears excessive, and the first floor retail could project out in bays (it already does modestly) and perhaps even host second level outdoor terrace space above this added retail area enlivening and exposing the second level retail level. The RFP should encourage creativity here and ask respondents to describe how the retail program can extend out beyond the glass line with additional leasable area and outdoor dining, kiosks, and other street retail opportunities.
- Give priority to neighborhood retail and merchandising plan so that it can succeed as an attraction without the passengers, Shaw alley needs to be thought about in the larger context at least a block north and south of the terminal. TJPA should ask respondents for their ideas on the place-making and merchandising strategy for the whole system. Ask respondents to offer options or suggestions on how best to integrate and influence the larger merchandising and place making environment.
- While it is clear that effective use of the below-grade space will be difficult, the RFP should be open to creative interim uses and encourage ideas. The RFP should solicit creative solutions for the below-grade space but not make it a requirement of the development.
- RFP should ask for a clear strategy and proposal that illustrates how the retail space and merchandising plan will evolve over time especially when the rail program is opened. The terminal and neighborhood will change and evolve dramatically over the next 10 years. The respondents should be required to clearly present a strategy that addresses the change and evolution.
- Lighting should be included and a key identity and place making feature of the plan. The white screen and many of the dramatic architectural features will be greatly enhanced and more attractive for visitors and residents if there is an artistic and engaging light concept for the building.

Todd Rufo

There is a need to strike a balance on the promotional platform to ensure it’s a world-class facility. Too many ads, even if they are coordinated, starts to trade off against that.