

M E M O

Date: July 11, 2011

To: Executive Board

From: Ezra Rapport
Executive Director

Subject: **ABAG Participation in Potential Regional Co-location Facility**

Attachment: Joint Staff Report—Acquisition of 390 Main Street, San Francisco

ABAG is participating in an important decision regarding the potential relocation of its offices and auditorium at the MetroCenter to a building located at 390 Main Street in San Francisco to potentially share the same facility with the Metropolitan Transportation Commission (MTC), the Bay Area Air Quality Management District (BAAQMD), and possibly the Bay Conservation and Development Commission (BCDC) [see attachment].

ABAG has a long history in Oakland and recently celebrated its 50th anniversary in its place of origin, the Claremont Hotel. Any decision to leave Oakland, even for a good public policy purpose, will naturally be a difficult one. Oakland has served ABAG well, providing a centralized meeting place with excellent regional access both by vehicle and BART. Oakland and Alameda County made it possible for ABAG to finance its current space, which is now fully owned by the agency. ABAG staff is content with the building location and the quality of its space and the agency has been able to recruit well qualified employees to this location without difficulty.

The Case for Co-location

The primary reason to consider relocation to San Francisco is that there is an immediate and short-lived opportunity for MTC/Bay Area Toll Authority (BATA) to finance a transaction whereby three and possibly four regional agencies (MTC, ABAG, BAAQMD, BCDC) can co-locate. This co-location offers the promise of better regional policy integration among the four agencies, who increasingly view their work as inter-related. Co-location offers the potential that the policy work of the four agencies will be better coordinated and leveraged as it will be substantially easier for staff from the different agencies to interact with each other. There may also be additional operating savings if the regional agencies are able to share some facilities, IT infrastructure, and possibly some human resources.



ABAG has a critical adjacency with MTC. Both agencies recognize the inter-related nature of land use planning and transportation infrastructure investment. Staff from both agencies meets literally every day to coordinate a myriad of tasks, especially those related to the Sustainable Communities Strategy (SCS). As many of you know, in most regions across the state and country the agencies equivalent to MTC, as the federally designated Metropolitan Planning Organization (MPO), and ABAG, as the federally designated Council of Governments (COG), are administered by a single Board and Executive Director. In the Bay Area, home to 109 jurisdictions with land use authority and about 500 special districts which impact regional planning, the merits of consolidating MTC and ABAG under one administrative authority have been fiercely debated, with the latest conclusion in 2002 to keep the Boards independent but maximize functional consolidation of key planning efforts. This approach has been successful, in my opinion, and should continue to evolve over time.

Progress on the integration of land use and transportation planning requires that ABAG staff be co-located in the same building. Should MTC move to a new facility and ABAG stay behind in its current space, this adjacency would be lost and it would interrupt the progress made to date with respect to integrating land use and transportation planning.

ABAG Adjacency with BAAQMD and BCDC

ABAG can see the benefits of co-locating with these two regulatory agencies, although we would not describe this adjacency as critical. Both BAAQMD and BCDC have recently launched policy initiatives that directly impact land use, and there will need to be much more discussion with these agencies about how those policies will impact the SCS. In addition, the Joint Policy Committee has articulated a desire to encourage additional economic and climate related policy initiatives, and ABAG will be participating substantively with the other agencies in the development of related programs. While these discussions could take place in meetings without co-locating, we believe the proximity of the agencies will be a benefit in facilitating mutual understanding and resolution of issues as they arise.

Why Oakland Failed to Emerge as a Viable Option

Two of the agencies are currently located in Oakland, and two are in San Francisco. To co-locate, two agencies would have to move. Nevertheless, at the beginning of the search process, the goal was to present a viable option in each city for discussion. As the process unfolded, that goal was not attainable. The reason that only relocating to San Francisco is under consideration stems from the criteria that MTC/BATA ("MTC") is using to finance the purchase of the building. ABAG is not being asked to co-sign or participate in the financing in any manner. The agreement between ABAG and MTC is covered below. The building co-location proposal could not work without MTC financing, but that financing has unique conditions. One of the aspects of the MTC financing that has emerged is that new construction or major rehabilitation of a building in Oakland would not meet the financing criteria. MTC needs to purchase space not only

for the agencies, but additional space that will generate positive income from third party rentals. This additional leased space facilitates the entire transaction. Given the cost of construction of new space, the rental value of newly constructed excess space in Oakland would not yield the required returns in the current market place. The San Francisco property at 390 Main meets the criteria. There are no known existing buildings in Oakland that are available for sale that can meet the above criteria, although there is one building that has been explored, the Clorox Building, which could potentially meet it. The challenge with working out a proposal with Clorox is that it will take at a minimum several additional months to establish if (a) Clorox will entertain a proposal to sell its building, and (b) if the proposal would be acceptable to the regional agencies. Clorox, as a publicly owned company, will have to go through a typical corporate process for the negotiation of a purchase or partial purchase of their building. To date they have only offered leased space, which falls short of the required square footage for the three agencies by approximately 5,000 sq. ft.

MTC Financing of ABAG's Proposed New Space

ABAG does not have sufficient financing capacity to pay for relocation to new space. ABAG staff and programs, with the exception of the Estuary Partnership which is located in the Elihu Harris State Building in downtown Oakland and is hosted by the Regional Water Quality Control Board, are located in the 101 8th street building.

MTC staff, recognizing that ABAG has no funding capacity to support relocation, has proposed that they will use available funding under its control to make ABAG whole with respect to any costs associated with the proposed move, including moving costs, furniture and equipment, and tenant improvements. MTC has offered ABAG a condominium or other interest in the new building equivalent to the interest ABAG has in 101 8th street in exchange for the ownership rights that ABAG holds in 101 8th Street. Given these commitments, ABAG staff believes that a satisfactory agreement concerning financing is attainable.

Remaining Concerns

With the financial impacts of relocation on ABAG fully mitigated by MTC, ABAG's primary concern regarding the move is removed. However, there are other concerns that have been raised by elected officials and staff with respect to the proposed relocation.

1. Executive Board member travel in and out of San Francisco to attend Board meetings.

Some ABAG Board members have expressed concerns that traveling to 390 Main may consume too much time and will discourage attendance at ABAG Board meetings. To achieve a quorum, the ABAG Board meetings must begin with 18 members. For some members, particularly those who travel by car for night meetings, contending with traffic in and out of San Francisco may be time

prohibitive. Taking BART to the 390 Main location will require a 12-15 minute walk from the Embarcadero station, which is a full half mile walk to the building. At our current location, BART is across the street. Since the main purpose of ABAG is to encourage dialogue among members regarding matters of regional interest, any impediment to attendance at meetings is a concern.

2. ABAG employees live predominantly in the East Bay.

While it would be expected that ABAG employees will take BART and/or other public transportation to 390 Main, some occasionally drive when they need to make “linked trips” after work, for child care or other purposes. This option will be much more difficult in San Francisco, where parking expenses are prohibitive. Retaining existing employees is far more preferable and efficient than recruiting new ones, and we are concerned that ABAG may be a less attractive employer for some of our existing employees. We are undertaking an employee survey, and the results should be available for the Board meeting.

3. The decision to purchase the building must be made in a compressed time frame.

According to CBRE real estate consultants for this project, the availability timeframe of the 390 Main building for sale to the regional agencies is limited, requiring a decision regarding purchase by the end of July or it is highly likely that the building will be put back on the open market and sold to another group. The San Francisco commercial market in this neighborhood is presently very active and there are no other buildings remaining that contain this volume of space and meet other co-location criteria. The need to make a decision under this time frame has eliminated the further exploration of alternative options, such as the Clorox Building in Oakland, as well as the development of other informational reports requiring more extensive analysis. While regrettable, we agree that the time pressure to make a decision is being dictated by the market, and any delay in making a decision to purchase 390 Main is likely to result in losing the opportunity to close the transaction at the proposed price.

4. ABAG member reaction to ABAG relocation to San Francisco.

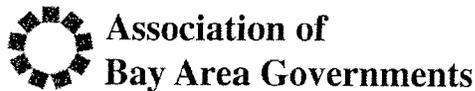
We have received numerous letters of support for both relocation to San Francisco and remaining in Oakland. While a move from Oakland will not be well received by many, the Board will need to weigh the merits of the geographical accessibility to our member jurisdictions with the advantages of regional agency co-location. Expressions of concern about the relocation to San Francisco have been received from several east bay jurisdictions, organizations, and legislators.

Recommended Board Action

The decision to co-locate regional agencies in a single facility is a very attractive proposal that could serve the public interest well. The sequence of decision making has BAAQMD voting first on July 18. ABAG is slated to vote on July 21, and MTC will vote on July 27.

In my opinion, it is important for ABAG to express its concerns and/or support for the recommended option to MTC prior to their vote on July 27. It is presumed that MTC Commissioners will want to know the views of ABAG prior to their taking a vote.

A decision regarding the proposed partnership between agencies in co-located space is best if done collaboratively and not sequentially. In my view, the MTC Commission and ABAG Executive Board should inform each other of their enthusiasm or concerns regarding the proposal prior to voting. This could occur if the ABAG Executive Board defers an official Yes or No vote, but provides a motion to express the “sense of the Board” on the proposal and delegates to either the members of the ABAG Executive Board who sit on the MTC Commission or the Administrative Committee to express the views of the ABAG Executive Board directly to the Commission in open session prior to the Commission taking a vote on the proposal. MTC would then have the information related to the position of the majority of the ABAG Board, and could vote with that knowledge. At a subsequent special meeting, the ABAG Board could then vote officially on the subject or delegate the vote on the matter to the Administrative Committee.



July 11, 2011

Joint Staff Report - Regional Government Co-location Facility

The Bay Area Quality Management District (Air District), the Association of Bay Area Governments (ABAG) and the Metropolitan Transportation Commission (MTC) have completed the process for identifying a property to co-locate as a regional headquarters building, subject to board approval by the three agencies. After a review of competitive real estate options in the Oakland and San Francisco markets, financial and due diligence work, and real estate negotiations, staff has identified 390 Main Street in San Francisco as the only viable option that meets all of the major parameters established by the three agencies as described in this report.

The proposed terms and conditions for the acquisition and of respective interest in 390 Main Street will be discussed in Closed Session for consideration by the Air District (July 18th), ABAG (July 21st) and MTC (July 27th).

Strategic Plan Development Process

For the past two years, the Air District, ABAG and the MTC staffs have been working together on a strategy to co-locate into a regional government headquarters. The Air District began evaluating options to rehabilitate or replace their existing headquarters, which is 44 years old, requires a substantial investment for deferred maintenance cost, and lacks additional space for staff growth. In comparison, the MetroCenter building, which is 30 years old, has limited capacity for further growth and would require MTC to fragment its occupancy into multiple sites in order to accommodate that growth.

In July 2009, the Air District's Executive Committee directed staff to explore co-location option opportunities with MTC, ABAG and other public agencies. In September 2009, the MTC Administration Committee and the ABAG Finance and Personnel Committee authorized their respective staff to participate in the project.

Sharing a common goal and taking a regional approach, the three agencies commenced development of a joint facility strategy with the following objectives:

- Provide for greater building efficiencies,
- Lessen environmental impact through energy efficiency and sustainability,
- Reduce costs through interagency sharing of resources; and
- Improve inter-agency cooperation and initiatives through co-location.

As the lead agency, in June 2010 the Air District awarded a contract to CB Richard Ellis (CBRE) to provide real estate advisory services to the agencies. CBRE's work included an analysis of each agency's existing facilities, operational requirements, sustainability and environmental objectives, and financial objectives. At a meeting in October 2010, the results of their findings and recommendations were presented to a joint agency ad hoc committee, consisting of each agency's Chair, Vice-Chair and Executive Director. The committee referred the recommendation to each agency's governing board for action. In November/December 2010, each board authorized their staff to proceed with the next phase of selecting a broker to identify viable real estate options in both the Oakland and San Francisco markets. It was also agreed that MTC would be the lead agency for this next phase.

Real Estate Strategy and Negotiations

After a competitive procurement process, the MTC governing board authorized staff to negotiate and enter into a contract with CBRE for real estate brokerage services. On March 14, 2011, CBRE widely distributed a Request for Proposal (RFP) to owners, developers, brokerage firms and other interested parties to identify proposed properties in Oakland or San Francisco that met criteria from both an occupancy and financing perspective as described in Attachment A.

CBRE analyzed eleven (11) responses containing twelve (12) proposals, and presented their findings and recommendations in closed session to each agency's governing board for consideration. In May 2011, each agency governing board authorized their staff to proceed with real estate negotiations with five (5) short-listed properties. Further discussions and due diligence work has been completed with a determination that four (4) of the short-listed properties all suffered one or more "fatal flaws" that prevented their selection as the recommended location. The results of this due diligence are summarized in Attachment B.

As a matter of due diligence, staff and CBRE team members met with the economic development teams from both cities to identify viable real estate options. Throughout the process, each agency received numerous letters of support and communications from the Mayors of Oakland and San Francisco and other interested parties. Finally, the Executive Directors met with Mayor Lee and Mayor Quan in separate meetings in June 2011 to discuss the real estate options in their respective cities.

Co-location Benefits

The co-location of the three regional agencies encourages further integration of regional planning efforts currently under the umbrella of One Bay Area. The San Francisco Bay Area Conservation and Development Commission – the fourth regional agency - has indicated interest in relocating into the building as a tenant once their existing lease expires.

This strategy also allows each agency to potentially achieve operational efficiencies through the sharing of resources and equipment (mail rooms, general services, shipping/receiving, telephone equipment, etc), and common space (board rooms and public meeting facilities, library, training center) and co-locating similar agency functions.

390 Main Street

390 Main Street in San Francisco helps the agencies achieve the goals established in the Strategic Facilities Planning Project by offering the opportunity for all three agencies to meet their missions of promoting well-located, energy efficient work places located near transit hubs. Other advantages of the property are:

- It offers the opportunity for the re-use of an existing, well-built building and includes adequate space for both agency and commercial tenants.
- It is available immediately for purchase at an affordable price.
- It is located in the center of a transit community and adjacent to the temporary Transbay Terminal, increasing transit options for employees, board members and the visiting public. It is also situated convenient to freeway access.
- It is situated near retail, dining, and a multitude of entertainment, sports and cultural amenities.
- It allows the agencies to reduce their carbon footprint in the aggregate through the sharing of resources and the use of more energy-efficient building systems.
- It promotes inter-agency collaboration through the adjacencies of all three agencies.

Especially for the employees of MTC and ABAG, one disadvantage to relocating to 390 Main Street is its distance to BART (within ½ mile) in comparison to the MetroCenter (on top of Lake Merritt Station). However, the commute analysis shows that even though 60% of the employees for the three regional agencies combined live in the East Bay, the 390 Main Street location will result in 60% of all employees having either the same or shorter commute time due to excellent transit access in downtown San Francisco. The Agencies commit to working with their respective employees to develop a commute plan to ensure an easier transition.

Attachments

Attachment A
Real Estate Property Criteria

The Request for Proposals issued by CBRE included the following criteria that each property proposal was required to meet:

A. Project Size

- The building must be 350,000 rentable sq. ft. or greater

B. Contiguous Availability

- There must be 150,000 – 200,000 usable sq. ft. of contiguous space available for near-term occupancy with the balance of the building available for development of long-term future government purposes

C. Occupancy Timelines

- The contiguous space should be available for occupancy within 24 months
 - Longer occupancy timelines may be considered

D. Location

- The property is located within the city of Oakland or San Francisco
- The property is located within ½ mile of BART and other major forms of mass public transit

E. Public Meeting Space

- The property must allow for Public Assembly
- The property must accommodate one or more boardrooms for public meetings (minimum 3,500 square feet) of up to 38 public officials

F. Code Compliance

- The property must meet or be able to meet current Seismic, ADA and other code compliance without extraordinary cost

G. LEED

- The property must have the ability to achieve LEED qualifications/certification

H. Purchase Option

- The preference is for an immediate purchase
 - Short-term leases with a fixed purchase option may be considered

Attachment B
Short-listed Property Due Diligence

1945 Broadway Street, Oakland, CA

1945 Broadway, owned by Sears Development, which currently houses a Sears retail operation on the bottom two floors. The developer proposed either a tear-down and new construction or a total rehabilitation project. After examination of the viability of the two project structures, it was discovered that as of today, the project has yet to complete either design drawings or environmental reviews. Due to this fact, it is estimated that neither structure could provide a reasonable expectation of completion within our desired timeframe.

1221 Broadway Street, Oakland CA

1221 Broadway currently houses The Clorox Company Headquarters. Clorox initially submitted a proposal indicating their interest in discussing a potential transfer in ownership due to the impending move of a portion of their staff out of Oakland. After further discussions, it was determined by Clorox that they could neither provide the amount of space required by the agencies' requirement nor enter into a purchase and sale agreement at this time.

1100 Broadway Street, Oakland, CA

1100 Broadway is a build-to-suit project offered by SKS that would incorporate the existing Key Systems Building into a brand new Class A tower. After detailed financial analysis, it was determined that the cost to construct the building may exceed the current market for 3rd party rents for some time. This would create an unacceptable cost structure for the agencies' occupancy.

875 Stevenson Street, San Francisco, CA

875 Stevenson, owned by the Shorenstein Company, is one of two buildings in an existing project formerly called Market Center in the Civic Center area of San Francisco. After more closely analyzing the agencies' space requirements and the available space in the building today and in the near future, it became apparent that there was not enough space for 3rd party leasing to subsidize the agencies' costs and maintain acceptable cost levels.

