File No. 120585

Committee Item No. 4
Board Item No. 27

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance Sub-Committee Date 7/18/12

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Completed by: Victor Young Date July 13, 2012
Completed by: Victor Young Date 7-26-12

An asterisked item represents the cover sheet to a document that exceeds 25 pages.
The complete document can be found in the file.

Amended in Committee. 7/18/12

FILE NO. 120585 RESOLUTION NO.

[Real Property Sublease - 1440 Harrison Street Development Group, LLC - 1440 Harrison Street]

Resolution authorizing the exercise of a five year option to extend the Sublease of the 52,200 square foot building at 1440 Harrison Street for the Human Services Agency, retroactively to July 1, 2012.

WHEREAS, The City and 1440 Harrison Street Development Group, LLC , executed the seven year Sublease dated 9/1/2005, authorized by Resolution 599-05 for the Premises at 1440 Harrison Street comprising 52,200 square; and

WHEREAS, The Premises are used for general offices for the Human Services Agency's Cal-Win and other public programs; and

WHEREAS, Such Sublease is due to expire on June 30, 2012, and contains an option to extend the term for five years on the same terms and conditions except that the Base Monthly Rent is to be adjusted to $101,268, being the fair market rent for the Premises; and

WHEREAS, Such terms for the option are subject to enactment of a resolution by the Board of Supervisors and Mayor, in their respective sole and absolute discretion, approving and authorizing such exercise; now, therefore, be it

RESOLVED, That in accordance with the recommendation of the Director of the Human Services Agency and the Acting Director of Property, the Acting Director of Property is hereby authorized to take all actions in behalf of the City and County of San Francisco, as Sublessee, to extend the Sublease for the building commonly known as 1440 Harrison Street, a copy of which is included in Board of Supervisors File No. 120585 on the terms and conditions set forth, and on a form approved by the City Attorney; and be it

FURTHER RESOLVED, That the Sublease extension shall be for a term of five years at a base monthly rent of $101,268, or $1.94 per square foot, in addition to utility and janitorial services, with an effective date of July 1, 2012; and be it

FURTHER RESOLVED, That the Sublease shall continue to include the clause indemnifying, holding harmless, and defending Sublessor and its agents from and against any and all claims, costs and expenses, including without limitation, reasonable attorney fees incurred as a result of any default by the City in the performance of any of its material obligations under the Sublease, or any negligent acts or omissions of the City, or its agents, in, on or about the Premises or the property on which the Premises are located, excluding those claims, costs and expenses incurred as a result of the negligence or willful misconduct of the Sublessor or its agents; and be it

FURTHER RESOLVED, That any action taken by the Acting Director of Property and other relevant officers of the City with respect to the exercise of the option under the Sublease as set forth herein is hereby ratified and affirmed; and be it

FURTHER RESOLVED, That the Acting Director of Property be authorized to enter into any additions, amendments or other modifications to the Sublease agreement (including without limitation, the exhibits) that the Acting Director of Property determines, in consultation with the Director of the Human Services Agency and the City Attorney, are in the best interests of the City, do not materially increase the obligations or liabilities of the City, and are necessary or advisable to complete the transaction contemplated in the Sublease and effectuate the purpose and intent of this resolution, such determination to be conclusively evidenced by the execution and delivery by the Acting Director of Property of any amendments thereto; and be it

FURTHER RESOLVED, That said Sublease shall be subject to certification of funds by the Controller pursuant to Section 6.302 of the Charter.

RECOMMENDED:

Human Services Agency

John Updike
Acting Director of Property

$1,215,216 Available
Appropriation No. 45ADOH/03011

Controller, subject to the enactment of the FY 2012-2013 annual Appropriation ordinance

Item 4 File 12-0585	Departments: Human Services Agency (HSA) and Real Estate Division (RED)

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution would approve the exercise of a five-year option to extend the sublease of 52,200 square feet of office space at 1440 Harrison Street between the City, on behalf of the Human Services Agency (HSA) as the sublessee, and 1440 Harrison Street Development Group, LLC, as the sublessor, from July 1, 2012 through June 30, 2017.

Key Points

- In 1983, the City subleased 52,200 square feet of office space from 1440 Harrison Street Development Group, LLC for HSA's Medi-Cal, housing and homeless services and Food Stamps programs.

- Under the current sublease agreement which expires on June 30, 2012, HSA pays a monthly flat rental rate of $58,725 or approximately $1.13 per square foot ($704,700 annually or $13.50 per square foot per year) for 52,200 square feet of office space. The utilities, janitorial services, and security services are paid by the City. The current sublease includes four five-year options and one additional eight-year option to renew at rental rates that are 95 percent of the prevailing market rates, as determined by three comparable leases or an independent appraiser.

- Under the first five-year sublease extension, which is the subject of the proposed resolution, the City would pay a monthly flat rental rate of $101,268 or $1.94 per square foot ($1,215,216 annually or $23.28 per square foot per year), which is $42,543, or 72.4 percent more than the current monthly rent of $58,725. According to the Senior Real Property Officer of the Real Estate Division, this increase in the rental rate is primarily due to the relocation of various technology companies in the Western South of Market area. The City will continue to be responsible for utilities, janitorial services, and security services.

- The proposed five-year extended sublease commenced on July 1, 2012 and would expire on June 30, 2017. Therefore, the proposed resolution should be amended to provide for retroactive approval to July 1, 2012.

Fiscal Impacts

- Including the costs of utilities, janitorial services and security services, over the five year term of the proposed sublease extension, the total estimated costs to HSA would be $8,486,178, which would be funded from 35 percent in Federal funds, 15 percent in State funds, and 50 percent from the City's General Fund, subject to the Board of Supervisors appropriation approval.

Recommendations

- Amend the proposed resolution to provide for retroactive approval to July 1, 2012.
- Approve the proposed resolution, as amended.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

In accordance with Administrative Code Section 23.27, leases, in which the City is a lessee, are subject to Board of Supervisors approval.

Background

The San Francisco Unified School District (SFUSD), as the lessor, currently owns an office building at 1440 Harrison Street,b etween 10th and 11th Streets, which is leased by 1440 Harrison Street Development Group, LLC, as the lessee. In 1983, the City, as the sublessee, subleased the office space at 1440 Harrison Street from 1440 Harrison Street Development Group, LLC, for the HSA's Medi-Cal, housing and homeless services and Food Stamps programs. In 2005, the Board of Supervisors approved renewing the sublease agreement with 1440 Harrison Street Development Group, LLC for 52,200 square feet of office space at 1440 Harrison Street for HSA for seven years from August 12, 2005 through June 30, 2012 (File 05-1124), which provided for:

- Flat monthly rent of $58,725 or approximately $1.13 per square foot ($704,700 annually or $13.50 per square foot per year) over the seven-year period. Utilities, janitorial services and security services are paid by the City.
- Four five-year options and one additional eight-year option to renew at rental rates of 95 percent of the prevailing market rates, as determined by three comparable leases or by an independent appraiser if disagreement over the rental rates arises between the sublessor and the sublessee.
- Initial tenant improvement allowance of up to $783,000 to be paid by the sublessor for carpeting, repainting, improved lighting system, and reconfiguration of space based on HSA needs.

Currently, HSA operates a Medi-Cal program, the Medi-Cal Healthy Connections Program, and conducts eligibility screenings for families under the Food Stamps Program, currently known as the CalFresh Program, at 1440 Harrison Street. According to Ms. Debra Solomon, Budget Analyst at HSA, the housing and homeless programs were previously relocated from the 1440 Harrison Street building. . According to Mr. Derek Chu, Budget Director at HSA, HSA serves approximately 107,000 clients each year at the 1440 Harrison Street building, with 184 HSA employees.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the exercise of the first five-year option from July 1, 2012 through June 30, 2017 to extend the existing 52,200 square feet sublease at 1440 Harrison Street between the City, on behalf of HSA as the sublessee, and 1440 Harrison Street Development Group, LLC, as the sublessor. The proposed five-year lease option provides for:

- Flat monthly rent of $101,268 or $1.94 per square foot ($1,215,216 annually or $23.28 per square foot per year) over the five-year option period.
- Utilities, janitorial services and security services to be paid by the City.

- Additional tenant improvements at an estimated cost of $205,500 to be paid by the sublessor for carpeting and repainting.
- All other lease obligations in the sublease agreement remain the same as the current sublease provisions.

According to Ms. Claudine Venegas, Senior Real Property Officer of the Real Estate Division (RED), the effective date of this first option period is July 1, 2012, such that the rent for July 2012 would be at the new higher rental rate. Therefore, the Budget and Legislative Analyst recommends that the proposed resolution be amended to provide for retroactive approval to July 1, 2012.

Under the proposed five-year lease extension, HSA will continue to operate the Medi-Cal Healthy Connections Program and the CalFresh Program at 1440 Harrison Street. According to Mr. Chu, as a result of the implementation of the Federal Affordable Care Act and the State's elimination of the Healthy Families Program, HSA expects to serve approximately 154,000 clients annually, an increase of 47,000 clients or 43.9 percent more than the approximately 107,000 clients currently served.

FISCAL IMPACTS

The monthly rent for the proposed 52,200 square foot five-year option term would be $101,268 per month or $1.94 per square foot per month, which reflects a $42,543 or 72.4 percent increase from the current monthly rent of $58,725. On an annual basis, HSA currently pays total rent payments of $704,700 annually, which would increase to a flat rental rate of $1,215,216 annually over the proposed five year extension sublease, an increase of $510,516 per year.

According to Ms. Venegas, the proposed monthly rent represents 95 percent of the current fair market rate established by an independent appraisal conducted by John Clifford Advisory, who was retained by 1440 Harrison Street Development Group, LLC. Ms. Venegas states that the proposed rental rate increase of 72.4 percent reflects the recent escalating rents in the Western South of Market area,pri marily due to the relocation of various technology companies,includi ng Twitter and Zynga.

In addition to the annual rent of $1,215,216, according to Mr. Chu, HSA is responsible for paying annual utilities, janitorial services, and security services, at an estimated cost of $440,546 in FY 2012-13. Such costs are estimated to increase by approximately 4.5 percent annually. As shown in the Table below, the total estimated cost of the proposed five year sublease extension to the City would be $8,486,178, including the costs of utilities, janitorial services, and security services.

Table: Total Costs by Fiscal Year
under Proposed Five Year Sublease Extension

FY	Annual Rent	Utilities, janitorial services and security services with 4.5% inflation	Total Cost
2012-13	$1,215,216	$440,546	$1,655,762
2013-14	$1,215,216	$460,370	$1,675,586
2014-15	$1,215,216	$481,087	$1,696,303
2015-16	$1,215,216	$502,736	$1,717,952
2016-17	$1,215,216	$525,359	$1,740,575
Total	**$6,076,080**	**$2,410,098**	**$8,486,178**

According to Mr. Chu, the funding sources for the proposed sublease and costs of related services are comprised of 35 percent in Federal funds, 15 percent in State funds, and 50 percent from the City's General Fund, and would be included in HSA's annual operating budgets, subject to appropriation approval by the Board of Supervisors.

POLICY CONSIDERATION

As noted above, HSA currently serves approximately 107,000 clients each year at the 1440 Harrison Street facility, with 184 HSA employees. The 1440 Harrison Street lease includes a total of 52,200 square feet, or an average of approximately 284 square feet per employee. As discussed above, Mr. Chu advises that as a result of the implementation of the Federal Affordable Care Act and the elimination of the State's Healthy Families Program, HSA expects to serve approximately 154,000 clients annually, an increase of 47,000 clients or 43.9 percent more than the approximately 107,000 clients currently served.

Because of the anticipated number of additional clients, Ms. Solomon states that additional employees will be needed in the future. Ms. Solomon advises that HSA plans to reconfigure the space at 1440 Harrison Street to accommodate the additional employees.

RECOMMENDATIONS

1. Amend the proposed resolution to provide for retroactive approval to July 1, 2012.

2. Approve the proposed resolution, as amended.

John Updike
Acting Director of Real Estate

City and County of San Francisco
REAL ESTATE DIVISION

May 21, 2012

RECEIVED
BOARD OF SUPERVISORS
SAN FRANCISCO
2012 MAY 23 PM 12: 07

Through Naomi Kelly, City Administrator

Honorable Board of Supervisors
City and County of San Francisco
City Hall, 1 Dr. Carlton B. Goodlett Place
San Francisco, California 94102

Re: Exercise of option term under the Sublease for 1440 Harrison Street

Dear Board Members:

On behalf of the Human Services Agency (HSA), attached for your consideration is a Resolution authorizing the exercise of City's option to extend the term of the Sublease for the subject property (the "Premises") authorized by Board of Supervisors Resolution No. 599-05 for five (5) years as set forth in the Sublease provisions for the Premises.

The exercise of such option to extend the term is subject to enactment of a resolution by the Board of Supervisors and Mayor in their respective sole and absolute discretion.

Since 2005, the Premises comprising approximately 52,200± square feet have been used for general offices for HSA's Cal-Win and other public programs.

The HSA currently pays $58,725 (approximately $1.13/psf) per month for the Premises. The fair market rental rate for the option term is $101,268 per month ($1.94 psf). All other lease obligations as set forth in the Sublease remain the same.

The HSA and the Real Estate Division recommend approval and authorization to exercise the option as set forth in the Sublease. We are advised that funds are available in Index Code No. 45ADOH/03011. If you have any questions in this regard, please contact Claudine Venegas of my staff at 554-9872 or David Curto, Director of Contracts, with the HSA at 557-5581.

Sincerely,

John Updike
Acting Director of Property

cvh:\1440 Harrison BOS
Attachments
cc: Phil Arnold, HSA, David Curto, HSA

Office of the Director of Real Estate • 25 Van Ness Avenue, Suite 400 • San Francisco, CA 94102
(415) 554-9850 • FAX: (415) 552-9216

SUBLEASE AGREEMENT

This Sublease Agreement (this "Sublease") dated for reference purposes only as August 3, 2005, between 1440 Harrison Street Development Group LLC, a California limited liability company ("Sublessor"), and the City and County of San Francisco, a municipal corporation ("City").

RECITALS

A. Sublessor is the tenant under that certain Ground Lease (the "Master Lease") dated as of October 15, 1985, with the San Francisco Unified School District, a political subdivision of the State of California (hereinafter referred to as "Master Lessor") (a copy of which Master Lease is attached hereto as Exhibit A and incorporated herein by reference), for certain real property commonly known as 1440 Harrison Street in the City and County of San Francisco, California, being Lot 51 of Assessor's Block 3520 (the "Premises"). The Premises are comprised of approximately 33,530 square feet of land area, a three story and basement brick building containing approximately 52,200 square feet of net rentable area (the "Building") and a paved and fenced area (the "Outdoor Area"). The Premises are more particularly described in the Master Lease.

B. City currently subleases the entire Premises from Sublessor pursuant to the Sublease dated as of August 29, 1985 (the "Existing Sublease"). The term of the Existing Sublease expires on June 30, 2005.

C. City desires to continue to sublease from Sublessor the approximately 52,200 square feet of office space in the Building and the Outdoor Area (collectively, the "Subleased Premises"), and Sublessor has agreed to continue to sublease the Subleased Premises to City, upon the terms, covenants and conditions herein set forth. A diagram of the Subleased Premises is attached hereto as Exhibit B.

AGREEMENT

In consideration of the mutual covenants contained herein, the sufficiency of which is hereby acknowledged, Sublessor and City agree as follows:

** Complete copy of document is located in

File No. 120585

JWJ:alh
10/24/83

EXHIBIT A

TO SOC. SERV.
COPY OF
SUBLEASE
12/17/85
K.B

GROUND LEASE

This GROUND LEASE is made this 15th day of October, 1985, by and between SAN FRANCISCO UNIFIED SCHOOL DISTRICT, a political subdivision of the State of California ("Landlord"), and ~~Thomas F. Eden and Theodore A. Eden,~~ 1440 Harrison Street Development Group, a California General Partnership ("Tenant").

T.F.E.
T.A.E.

RECITALS:

This Ground Lease is made and entered on the basis of the following facts, understandings and intentions of the parties:

A. Landlord is the owner of all that certain improved real property ("the Premises") situated in the City and County of San Francisco, State of California, particularly described in Exhibit A hereto.

B. Tenant desires to hire the Premises from Landlord and to have the right, at Tenant's election, either to use the existing improvements located on the Premises or to remove all or any portion thereof from the Premises and erect thereon new improvements.

C. Landlord is willing to lease the Premises to Tenant and to grant Tenant the right either to use the existing improvements located on the Premises or to remove all or any portion thereof from the Premises and erect thereon new improvements subject to, and in accordance with, all applicable laws and regulations and the provisions of this Ground Lease.

** Complete copy of document is located in

File No. 120585

File No. 120585

FORM SFEC-126:
NOTIFICATION OF CONTRACT APPROVAL
(S.F. Campaign and Governmental Conduct Code § 1.126)

City Elective Officer Information *(Please print clearly.)*	
Name of City elective officer(s): Members, Board of Supervisors	City elective office(s) held: Members, Board of Supervisors

Contractor Information *(Please print clearly.)*	
Name of contractor: **Harrison Assets, LLC**	
Please list the names of (1) members of the contractor's board of directors; (2) the contractor's chief executive officer, chief financial officer and chief operating officer; (3) any person who has an ownership of 20 percent or more in the contractor; (4) any subcontractor listed in the bid or contract; and (5) any political committee sponsored or controlled by the contractor. ***Use additional pages as necessary.*** **Ronaldo Cianciarulo**	
Contractor address: **50 California St., Suite 1900, San Francisco, CA 94111**	
Date that contract was approved:	Amount of contract: **Monthly Base Rent of $101,268**
Describe the nature of the contract that was approved: **Sublease extension for 1440 Harrison St., San Francisco, CA for the Human Services Agency**	
Comments:	

This contract was approved by (check applicable):

☐ the City elective officer(s) identified on this form

☑ a board on which the City elective officer(s) serves: San Francisco Board of Supervisors
Print Name of Board

☐ the board of a state agency (Health Authority, Housing Authority Commission, Industrial Development Authority Board, Parking Authority, Redevelopment Agency Commission, Relocation Appeals Board, Treasure Island Development Authority) on which an appointee of the City elective officer(s) identified on this form sits

_____
Print Name of Board

Filer Information *(Please print clearly.)*	
Name of filer: Angela Calvillo, Clerk of the Board	Contact telephone number: (415) 554-5184
Address: City Hall, Room 244, 1 Dr. Carlton B. Goodlett Pl., San Francisco, CA 94102	E-mail: Board.of.Supervisors@sfgov.org

_____ _____
Signature of City Elective Officer (if submitted by City elective officer) Date Signed

_____ _____
Signature of Board Secretary or Clerk (if submitted by Board Secretary or Clerk) Date Signed