

**CITY AND COUNTY OF SAN FRANCISCO  
BOARD OF SUPERVISORS  
BUDGET AND LEGISLATIVE ANALYST**

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**TO:** Members of the Board of Supervisors

**FROM:** Budget and Legislative Analyst's Office



**SUBJECT:** November 29, 2016 Board of Supervisors Meeting

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<b>Item 43</b> <b>File 16-1101</b>	<b>Departments:</b> General Services Agency (GSA) San Francisco Public Utilities Commission (SFPUC) Real Estate Division
<b>EXECUTIVE SUMMARY</b>	
<b>Legislative Objectives</b>	
<ul style="list-style-type: none"> <li>• Resolution (a) authorizing the acquisition of a lease at the real property of 1975 Galvez Avenue (Assessor’s Parcel Block No. 5250, Lot No. 016) by eminent domain for the public purpose of completing and constructing Central Shops Relocation; (b) affirming the Planning Department’s Categorical Exemption determination under the California Environmental Quality Act; and (c) making findings of consistency with the General Plan and the eight priority policies of Planning Code, Section 101.1.</li> </ul>	
<b>Key Points</b>	
<ul style="list-style-type: none"> <li>• GSA’s Central Shops is currently located at 1800 Jerrold Avenue. SFPUC plans to occupy 1800 Jerrold Avenue, which is adjacent to the Southeast Water Pollution Control Plant (Plant), as part of the SFPUC’s Wastewater Enterprise Capital Improvement Program. The City recently leased property at 450 Toland Street and purchased properties at 555 Selby Street and 1975 Galvez Avenue for the relocation of Central Shops.</li> <li>• The City purchased 1975 Galvez Avenue for \$5,000,000, encumbered with an existing lease in favor of BlueLine Rentals, LLC, which operates an equipment rental business on this site. The lease contains options to extend through September 24, 2027 at tenant’s discretion.</li> <li>• In August, 2016, Real Estate, working with the City Attorney’s Office, obtained an appraisal of the leasehold interest at \$1,388,000 and has offered to buy-out the leasehold interest for the appraised value of \$1,388,000.</li> </ul>	
<b>Fiscal Impact</b>	
<ul style="list-style-type: none"> <li>• The City purchased the 1975 Galvez Avenue property for \$5,000,000, or \$103.44 per square foot based on 48,338 square feet. The Real Estate Division did not conduct an appraisal of the 1975 Galvez Avenue property because Real Estate reported the price was comparable to the sales prices of other industrial properties. On June 14, 2016, the Board of Supervisors approved an ordinance requiring the Director of Property obtain appraisals and appraisal reviews at least nine months prior to any future acquisitions or conveyances of property.</li> <li>• At the time of the purchase of 1975 Galvez Avenue, Real Estate estimated the cost to the City to buyout the existing leasehold interest of up to \$200,000, which was included in the total estimated cost of \$73,700,000 for the Central Shops Project. Therefore, the recent appraisal of \$1,388,000 is \$1,188,000 more than the \$200,000 Real Estate Division estimate.</li> <li>• An estimated additional \$959,072 of unbudgeted City lease revenues plus contingency funds could offset potential additional leasehold acquisition costs at 1975 Galvez Avenue.</li> </ul>	
<b>Recommendation</b>	
<ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	

## MANDATE STATEMENT

Administrative Code Section 23.4 provides that acquisitions of real property are subject to Board of Supervisors approval.

California Government Code Sections 25350.5 and 37350.5 authorize the San Francisco Board of Supervisors to acquire any property necessary to carry out any of the powers or functions of the City by eminent domain.

## BACKGROUND

### Central Shops Relocation Project

The General Services Agency's (GSA) Fleet Management Central Shops Facility (Central Shops) is currently located on a 5.3-acre site at 1800 Jerrold Avenue. The San Francisco Public Utilities Commission (SFPUC) plans to occupy 1800 Jerrold Avenue, which is adjacent to the Southeast Water Pollution Control Plant (Plant), to serve as a staging area for rehabilitation of the Plant, as part of the SFPUC's Wastewater Enterprise Capital Improvement Program.

To accommodate SFPUC's use of the 1800 Jerrold Avenue property, Central Shops plans to relocate from 1800 Jerrold Avenue to two sites. The first site consists of two contiguous parcels at 1975 Galvez Avenue and 555 Selby Street, which would be merged into one site for Central Shops heavy duty fleet repair operations. The second site, at 450 Toland Street, would be for Central Shops light duty fleet repair operations.

### Board of Supervisors Prior Approvals

To complete these relocations, on December 15, 2015, the Board of Supervisors authorized the City to (a) purchase real property at 1975 Galvez Avenue for \$5,000,000, (b) purchase real property at 555 Selby Street for \$6,300,000, (c) lease property at 450 Toland Street beginning at \$735,600 per year for ten years with two five year options, and (d) find that the proposed use of these three properties is consistent with the City's General Plan and the eight priority policies of San Francisco Planning Code, Section 101.1 (File 15-1215; Resolution No. 525-15).

On February 9, 2016, the Board of Supervisors approved two ordinances (a) authorizing Real Estate to enter into an agreement with Oryx Development to design and construct new Central Shops facilities at the three properties for a not-to-exceed cost of \$10,300,000 for planning and design and \$55,000,000 for construction and (b) appropriating \$62,200,000 from SFPUC Wastewater Enterprise Funds for the Central Shops Relocation Project, placing \$45,000,000 on Budget and Finance Committee Reserve (Files 15-1226 and 16-0021; Ordinances Nos. 8-16 and 21-16). Overall, the total Central Shops Project cost is for a not to exceed \$73,700,000.

### 1975 Galvez Avenue Existing Lease

The City purchased the property at 1975 Galvez Avenue for \$5,000,000, subject to an existing lease with BlueLine Rentals, LLC, which currently occupies and operates an equipment rental business on this site. The existing lease, executed on September 25, 2012 with the prior owner of 1975 Galvez Avenue, extends for an initial five years, or through September 26, 2017. However, the lease also contains two additional five-year options to extend through September

24, 2027, at the tenant's sole discretion. Current monthly rent paid by the tenant to the City is \$14,220 with annual 2% increases over the entire lease term and the tenant pays all operating expenses.

Immediately after the acquisition of the 1975 Galvez Avenue property, the Real Estate Division initiated discussions and negotiations with the tenant, BlueLine Rentals, Inc. Beginning in June of 2016, Real Estate engaged Associated Right of Way Services Inc. to assist with negotiations and relocation of the tenant. In August, 2016, Real Estate, working with the City Attorney's Office, obtained an appraisal of the leasehold interest. This appraisal, conducted by Associated Right of Way Services, Inc. valued the leasehold interest at 1975 Galvez Avenue at \$1,388,000.

On September 13, 2016, the City submitted an offer to the lessee to purchase the leasehold interest necessary to move forward with the construction of GSA's Fleet Management Central Shops Facility Project, in accordance with California Government Codes, for the appraised value of \$1,388,000.

### **DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would

- (a) Authorize the acquisition of a leasehold interest at the real property of 1975 Galvez Avenue (Assessor's Parcel Block No. 5250, Lot No. 016) by eminent domain for the public purpose of completing and constructing the Central Shops Relocation;
- (b) Affirm the Planning Department's Categorical Exemption determination under the California Environmental Quality Act (CEQA); and
- (c) Make findings of consistency with the General Plan and the eight priority policies of Planning Code, Section 101.1.

The proposed resolution states that, in accordance with California Code of Civil Procedure Sections 1240.030 and 1245.230, by at least a two-thirds vote of the Board of Supervisors, the Board of Supervisors finds and determines:

1. The public interest and necessity require the proposed project;
2. The proposed project is planned and located in the manner that will be most compatible with the greatest public good and the least private injury;
3. The leasehold interest, should it be acquired, would terminate the lessee's interest in the Galvez property and is necessary for the project; and
4. The City's offer required by California Government Code Section 7267.2 has been made to the lessee.

On October 28, 2015, the Planning Department determined that the subject Central Shops project was categorically exempt from CEQA. On November 5, 2015, the Planning Department found the subject Central Shops project to be consistent with the City's General Plan and the eight priority policies of Planning Code Section 101.1.

Mr. John Updike, the Director of the Real Estate Division, advises that Real Estate has and will continue to negotiate in good faith with the tenant in hopes of reaching a voluntary agreement

for the City to acquire and terminate the existing leasehold interest on the 1975 Galvez Avenue property. However, Real Estate requests that the Board of Supervisors approve the proposed resolution to authorize immediate commencement of eminent domain proceedings by the City Attorney, in case the City is unable to reach a negotiated agreement with the tenant. Approval of the proposed resolution would permit the City to move forward immediately and avoid any further delays in terminating this lease, taking possession of the subject property and moving forward with construction of the new Central Shops Project.

## **FISCAL IMPACT**

### **Cost to Purchase of 1975 Galvez Avenue**

The City purchased the 1975 Galvez Avenue property for \$5,000,000, or \$103.44 per square foot based on 48,338 square feet. At the time of the purchase of this property, Mr. Updike, advised that the Real Estate Division did not conduct an appraisal of the 555 Selby Street or the 1975 Galvez Avenue properties because the proposed acquisition prices were comparable to the sales prices of other industrial properties. Mr. Updike initially reported comparable sales prices ranged from \$57 per square foot to \$96 per square foot.

According to Mr. Updike, although the price per square foot of 1975 Galvez Avenue of \$103.44 exceeded this range, the price was considered reasonable because (1) typically, smaller properties such as the Galvez property, sell for more on a per square foot basis, and (2) the Galvez property had fewer improvements to demolish and a cleaner environmental condition than similar properties in the area. In addition, Mr. Updike advises that in December 2015 the appraisal firm CBRE was retained to review comparable sales parcels for the City, and found updated purchase values ranging from \$74 to \$195 per square foot, which was consistent with the \$103.44 per square foot purchase price for the Galvez property.

On June 14, 2016, the Board of Supervisors approved an ordinance requiring the Director of Property to obtain appraisals and appraisal reviews at least nine months prior to any future acquisitions or conveyances of property by the City (File 16-0361; Ordinance No. 103-16).

### **Cost of Proposed Lease at 1975 Galvez Avenue**

At the time of the purchase of 1975 Galvez Avenue, the Real Estate Division estimated the cost to the City to buyout the existing leasehold interest of up to \$200,000. This amount of up to \$200,000 was included in the total estimated not to exceed \$73,700,000 Central Shops Project cost. As noted above, the recent appraisal valued the leasehold interest at 1975 Galvez Avenue at \$1,388,000. Based on this appraisal, the City made an offer to the current lessee for the appraisal amount of \$1,388,000 to purchase the leasehold interest. As shown in Table 1 below, the recent lease appraisal is \$1,188,000 more than the earlier Real Estate Division estimates.

**Table 1: Cost of Existing Lease**

Real Estate Division Estimate (December 2015)	\$200,000
Appraisal and Offer (September 2016)	\$1,388,000
Difference	\$1,188,000

Although the City's recent lease appraisal was valued at \$1,388,000, to date, the current lessee has not accepted this offer amount. In addition, the proposed resolution does not specify an amount that would be expended to terminate the lease, and adoption of this resolution would not determine the value of the lease or the compensation owed to the current lessee. Rather, if the value of the leasehold interest is determined through eminent domain, then the final acquisition amount will be determined by a jury after trial.

### **Revenues to Fund Acquisition of the Existing Lease**

The SFPUC's Wastewater Enterprise Sewer System Improvement Program budget will fund the relocation of the Central Shops Project cost of not to exceed \$73,700,000. As noted above, this \$73,700,000 budget included up to \$200,000 to fund the leasehold interest at 1975 Galvez Avenue. As shown in Table 1 above, this leaves a current projected \$1,188,000 shortfall, based on the \$1,388,000 recent appraisal.

Mr. Updike advises that there are additional unbudgeted revenues that will be realized from the subject lease at 1975 Galvez Avenue, as well as leases and subleases at the other two recently acquired 450 Toland Avenue and 555 Selby Street properties as part of the Central Shops Project. As shown in Table 2 below, an estimated additional \$959,072 of unbudgeted additional City lease revenues could be used to offset potential additional leasehold acquisition costs at 1975 Galvez Avenue.

**Table 2: Projected Additional Unbudgeted Revenues**

<b>Location</b>	<b>Tenant/Subtenant</b>	<b>Projected 2016 and 2017 Revenues</b>
450 Toland Avenue	Fox Films	\$623,592
555 Selby Street	DeSoto Cab	207,500
1975 Galvez Avenue	Blue Line	<u>127,980</u>
<b>Total</b>		<b>\$959,072</b>

*Source: John Updike, Director of Real Estate*

In addition, Mr. Updike notes that there are contingency funds in the Central Shops Project that could also potentially be used to offset additional leasehold acquisition costs at 1975 Galvez Avenue.

## **POLICY CONSIDERATION**

According to Mr. Updike, the City needs to immediately acquire the subject leasehold interest to take possession of the property at 1975 Galvez Avenue in order to relocate Central Shops from 1800 Jerrold Avenue to this location as soon as possible. Design of the new Central Shops facilities are anticipated to be completed in early 2017 and construction is estimated to take approximately one year, for completion in early 2018. Central Shops would then move from their existing 1800 Jerrold Avenue facility, which would enable SFPUC to commence their construction at 1800 Jerrold Avenue by the summer of 2018.

Although the Real Estate Division significantly undervalued the cost of the leasehold interest at 1975 Galvez Avenue, if the City does not obtain possession of the property at 1975 Galvez Avenue as soon as possible, further delays could potentially jeopardize the City moving forward with the subject \$73,700,000 Central Shops Project and the SFPUC's Wastewater Enterprise Capital Improvement Program.

## **RECOMMENDATION**

Approve the proposed resolution.