

Item 1
File 11-0339

Department:
Office of Economic and Workforce Development (OEWD); Real Estate Division

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution would authorize the exercise of the first of two three-year options to extend the lease of 3,900 square feet at 1449 Webster Street for three years between the City and County of San Francisco, on behalf the Office of Economic and Workforce Development (OEWD), as lessee, and WCPI Commercial LLC, as lessor, from September 1, 2011 through August 31, 2014.

Key Points

- On July 29, 2008, the Board of Supervisors approved a three-year lease (Resolution 354-08) from September 1, 2008 through August 31, 2011, between the OEWD as lessee, and WCPI Commercial, LLC (WCPI Commercial), as lessor, at 1449 Webster Street for approximately 3,900 square feet of space at 1449 Webster Street to operate the Western Addition One Stop Career Link Center.
- The proposed resolution would also authorize the Director of Real Estate to exercise the second three-year option to extend the term for an additional three years from September 1, 2014 through August 31, 2017. Under the proposed resolution, the second three-year option would not require further approval by the Board of Supervisors.
- Under the proposed lease extension, all future rent rates would be subject to annual Consumer Price Index (CPI) adjustments of no less than two percent and no more than five percent.

Fiscal Impacts

- Total rent under the proposed lease extension ranges between \$304,780 and \$313,950 for all three years.
- OEWD would continue to be responsible for operating costs including (a) water, gas, and electricity, (b) maintenance and repair, (c) janitorial services, (d) refuse and recycling services, and (e) pest control services, currently averaging \$ 2,064 per month, or \$24,768 annually.
- Total estimated rent and operating costs for the proposed three-year lease range from \$394,176 - \$403,356.

Policy Considerations

- The Budget and Legislative Analyst finds the provision of allowing the Director of the Real Estate Division to approve a second option to extend the existing lease by an additional three years to be a departure from previous practice, in which such options to extend leases are subject to separate Board of Supervisors approval.

Recommendations

- Amend the proposed resolution and strike lines 22 – 25 on page two and lines 1 and 2 on page three which authorizes the Director of Real Estate to exercise the second option to extend the term of the existing lease.
- Approve the resolution, as amended.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

In accordance with Section 23.27 of the City's Administrative Code, except in specified limited term cases, all leases, in which the City is the lessee, are subject to Board of Supervisors approval.

Background

On July 29, 2008, the Board of Supervisors approved a three-year lease from September 1, 2008 through August 31, 2011, on behalf of the Office of Economic and Workforce Development (OEWD) as lessee, and WCPI Commercial, LLC (WCPI Commercial), as lessor, for approximately 3,900 square feet of space at 1449 Webster Street to operate the Western Addition One Stop Career Link Center, an employment program.

OEWD initially paid \$8,000 per month, approximately \$2.05 per square foot per month, or \$96,000 annually for the space, with annual Consumer Price Index¹ (CPI) increases. As shown below in Table 1, the rent was increased by two percent in the second year and 1.7 percent in the third year of the existing lease.

	Monthly Rent Paid	Annual Percentage of Rent Increase	Monthly Operating Costs	Total Monthly Rent and Operating Costs	Total Annual Rent and Operating Costs
September 1, 2008 – August 31, 2009	\$8,000		\$1,494	\$9,494	\$113,928
September 1, 2009 – August 31, 2010	\$8,160	2 %	\$1,918	\$10,078	\$120,936
September 1, 2010 – August 31, 2011	\$8,299 (\$99,588 annually)	1.7%	\$2,064* (\$24,768 annually)	\$10,363	\$124,356

* Between September 1, 2009 and August 31, 2011, operating costs increased a total of 38.2 percent or 19.1 percent annually.

Under the terms of the existing lease, OEWD is also responsible for paying monthly operating costs for (a) water, gas, and electricity, (b) maintenance and repairs, (c) janitorial services, (d)

¹ The Consumer Price Index represents changes in the prices of all good and services for All Urban Consumers in the San Francisco-Oakland-San Jose area and is published by the Bureau of Labor Statistics under the United States Department of Labor.

refuse and recycling services, and (e) pest control services, which ranged from \$1,494 to \$2,064 per month for the past three years, as shown in Table 1 above. These costs increased an average of 19.1 percent annually over the term of the existing lease.

As shown in Table 1 above, monthly rent and operating costs under the existing lease ranged from \$9,494 in FY 2008-2009 to \$10,363 in FY 2010-2011. Total annual rent and operating costs under the existing lease ranged between \$113,928 and \$124,356, or total costs of \$359,220 over the three-year period as shown in Table 1 above.

According to Mr. Marc Majors, Workforce Development Manager for OEWD, OEWD has occupied the space at 1449 Webster Street for the Western Addition One Stop Career Link Center, which has been in operation since 2008 and provides an employment training program for San Francisco residents in the Western Addition with job training and readiness tools, such as (a) job search services, (b) job readiness skills training, (c) resume and interview coaching, (d) job training and education services, (e) access to public training funding, and (f) coordination with supportive services such as childcare and transportation assistance. Rubicon Programs, a nonprofit organization, operated the Western Addition One Stop Career Link Center from July 1, 2008 through June 30, 2010. Mr. Majors advises that Rubicon Programs was awarded the first agreement for one year from July 1, 2008 through June 30, 2009, with two one-year options to extend by the OEWD based on a Request for Proposal (RFP) process, to operate the Western Addition One Stop Career Link Center at an annual cost of approximately \$500,000. According to Mr. Majors, funding for the Rubicon Programs agreement were provided through a combination of General Fund monies included in the OEWD budget, Federal Workforce Investment Act grant monies, and Redevelopment Agency Tax Increment Funds. Mr. Majors advises that on June 30, 2010, the Rubicon Programs' first option to extend their agreement ended and Rubicon Programs decided to not seek a second one-year option. According to Mr. Majors, this was a business decision on the part of Rubicon Programs because their operations are entirely in the East Bay and operating the Western Addition One Stop Career Link Center in San Francisco had become too challenging for them.

Mr. Majors advises that, without a RFP process, OEWD contracted with another non-profit organization, Goodwill Industries, to replace Rubicon Programs as the operator of the Western Addition One Stop Career Link Center on July 1, 2010. According to Mr. Majors, an RFP process was not needed because in 2008, Goodwill Industries had previously responded to a RFP from OEWD to operate the Western Addition One Stop Career Link Center. In addition, Mr. Majors advises that Goodwill Industries had an existing agreement with OEWD to operate similar employment centers and other workforce development programs for \$1,196,000 in FY 2009-2010. A new agreement for FY 2010-2011, which provides for Goodwill Industries to continue to operate two workforce development programs and provide some services for two additional workforce development programs for OEWD, is for \$1,800,000, including \$350,000 for the Western Addition One Stop Career Link Center. Mr. Majors advises that the Goodwill Industries' contract is \$150,000 less than the previous \$500,000 cost for Rubicon Programs based on a reduced allocation for workforce training. Further, according to Mr. Majors, OEWD decided to expand the scope of the Goodwill Industries agreement, without conducting a second RFP process, in order to provide a smooth transition between contractors without any disruption in service.

According to Mr. Majors, in FY 2009-2010, the Western Addition One Stop Career Link Center (a) placed approximately 100 people into employment, (b) conducted 115 initial assessments², and (c) conducted over 140 comprehensive vocational skills assessments.³

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the first of two options to extend an existing lease between the City and County of San Francisco, on behalf of OEWD, as lessee, and WCPI Commercial, as lessor, for OEWD to lease approximately 3,900 square feet of space at 1449 Webster Street for Goodwill Industries to operate the Western Addition One Stop Career Link Center, an employment program, to provide employment and job search training services to residents of the Western Addition for the three-year period from September 1, 2011 through August 31, 2014.

The proposed resolution would, also, at the request of the Office of Economic and Workforce Development, authorize the Director of Real Estate to exercise the second three-year option to extend the term of the subject lease from September 1, 2014 through August 31, 2017 if the Director of Real Estate determines, in consultation with the City Attorney, that such extended term is in the best interests of the City and consistent with the terms and conditions of the lease renewal provisions. Under this proposed resolution, the second three-year option would not require further approval by the Board of Supervisors.

Table 2 below lists the square footage, monthly total rents and rent per square foot payable by the OEWD, as lessee, to WCPI Commercial, as lessor, for the proposed three-year lease extension at 1449 Webster Street. For the first year of the proposed lease extension, rent would be \$8,299 per month or \$99,588 annually for the space, or approximately \$2.13 per square foot per month. This is the same monthly rent that OEWD currently pays under the existing lease. According to Mr. Charlie Dunn, Senior Real Property Officer for the Real Estate Division, this negotiated rent was adjusted to be 95 percent of market rental value. According to Mr. Dunn, on September 1, 2012 and September 1, 2013, the rental rate would be adjusted according to the Consumer Price Index, with a minimum of two percent and a maximum of five percent per year.

Under the proposed lease extension, OEWD would continue to be responsible for operating costs including (a) water, gas, and electricity, (b) maintenance and repairs, (c) janitorial services, (d) refuse and recycling services, and (e) pest control services. As shown in Table 1 above, these costs are currently \$2,064 per month, or \$24,768 annually.

The proposed lease extension provides the City with a unilateral right to terminate the lease with 180 days advanced written notice.

² An initial assessment is a brief one-on-one session where a client meets with a counselor/case manager to assess skill sets and barriers to employment and then the client is referred to appropriate services.

³ A comprehensive vocational skills assessment is a process where a client is given a standardized test to assess skill sets followed by a counseling session where advice is given to the client on potential matching occupations.

FISCAL IMPACTS

As shown in Table 2 below, approval of the proposed first three-year lease extension would result in annual rent payable under the proposed lease extension by the OEWD, as lessee, to WCPI Commercial, as lessor, of \$99,588 from September 1, 2011 through August 31, 2012, which is the identical rent paid for the last year of the existing lease between OEWD and WCPI Commercial from September 1, 2010 through August 31, 2011.

Under the proposed lease extension, after the first year, monthly rent rates would be subject to annual CPI adjustments of no less than two percent and no more than five percent. As shown in Table 2 below, depending on the amount of the CPI adjustments, rent under the proposed three-year lease extension would total between \$304,780 and \$313,950.

	Monthly Rent	Annual Rent	Rent per Square Foot Per Month
September 1, 2011 – August 31, 2012	\$8,299	\$ 99,588	\$ 2.13
September 1, 2012 – August 31, 2013	8,465 – 8,714	101,580 – 104,568	2.17 – 2.23
September 1, 2013 – August 31, 2014	8,634 - 9,150	103,608 – 109,800	2.21 – 2.35
Total		\$304,780 - \$313,950	

In addition to the rent, OEWD would also be responsible for paying operating costs, currently averaging \$2,064 per month or \$24,768 annually. As shown in Table 3 below, using the average annual 19.1 percent increase in annual operating costs between September 1, 2009 and August 31, 2011 during the existing three-year lease term (See Table 1 above), the total rent and operating costs for the proposed three-year lease extension would range from \$394,176 - \$403,356.

	Annual Rent	Estimated Annual Operating Expenses	Annual Cost
September 1, 2011 – August 31, 2012	\$ 99,588*	\$24,768*	\$124,356,
September 1, 2012 – August 31, 2013	101,580 – 104,568	29,499	131,079 – 134,067
September 1, 2013 – August 31, 2014	103,608 – 109,800	35,133	138,741 – 144,933
Total	\$304,776 - \$313,956	\$89,400	\$394,176 - \$403,356

* Same as last year of existing lease from September 1, 2010 through August 31, 2011.

According to Mr. Majors, the proposed lease would be funded entirely from funds received from the Federal Workforce Investment Act of 1998.⁴ Mr. Majors advises that these funds are received annually at the beginning of each fiscal year and are expected to continue for the foreseeable future. However, Mr. Majors advises that if these Federal grant funds are discontinued, there is a clause included in the proposed lease which would allow OEWD to terminate the subject lease with 180 days written notice. If the Federal grant funds were to be discontinued, Mr. Majors advises that the 180 day written notice for termination would be sufficient and OEWD would attempt to prioritize locating other sources of funding to continue operating the Western Addition One Stop Career Link Center due to its priority status.

POLICY CONSIDERATIONS

In addition to the proposed exercise of the first three-year option under the existing lease from September 1, 2011 through August 31, 2014, at the request of the OEWD, the proposed resolution would also authorize the Director of Real Estate to exercise a second option to extend the term of the subject lease for an additional three-year period from September 1, 2014 through August 31, 2017, which would not be subject to future Board of Supervisors approval.

The Budget and Legislative Analyst notes that this provision to exercise the second option to extend the lease for a second three-year period from September 1, 2014 through August 31, 2017, without being subject to further Board of Supervisors approval, is a departure from previous Board of Supervisors policy, in which such options to extend leases are subject to separate Board of Supervisors approval. As noted above, Section 23.27 of the City's Administrative Code provides that, except in specified limited term cases, all leases in which the City is the lessee is subject to Board of Supervisors approval. In accordance with Section 23.26 of the City's Administrative Code, the Director of Property currently has the authority to enter into leases on behalf of the City as lessee, if the lease is for one year or shorter or where the rent is \$5,000 or less per month. As noted above, the proposed lease if extended beyond the proposed first three-year option period, would extend the lease for an additional three years from September 1, 2014 through August 31, 2017, at an estimated rental cost of \$8,634 (See Table 2 above) per month.

Given that (a) the City's Administrative Code already allows for the Director of Property to approve shorter term and less costly leases than are being proposed under the second option to extend, and (b) the Board of Supervisors' policy has been to approve longer term lease extensions, the Budget and Legislative Analyst recommends that the provision to approve the second three-year option lease term from September 1, 2014 through August 31, 2017 be deleted.

⁴ The Federal Workforce Investment Act of 1998, enacted on August 7, 1998, provides Federal support to State and local programs which consolidate, coordinate, and improve employment, training, literacy, and vocational rehabilitation programs in the United States.

RECOMMENDATIONS

1. Amend the proposed resolution to delete lines 22 – 25 on page two and lines 1 and 2 on page three which authorizes the Director of Real Estate to exercise a second three-year option to extend the term of the proposed lease from September 1, 2014 through August 31, 2017.
2. Approve the resolution, as amended, authorizing the first three year option to extend an existing lease for three years from September 1, 2011 through August 31, 2014.