



City and County of San Francisco

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Edward D. Reiskin, *Director of Transportation*

January 16, 2018

**The Honorable Board of Supervisors
City and County of San Francisco
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco, California 94102**

RE: Termination of the Lease Agreement between the City and County of San Francisco and the Uptown Parking Corporation for the Sutter Stockton Garage

Dear Members of the Board of Supervisors:

Enclosed for your consideration is a Resolution authorizing the termination of the lease agreement (Lease) between the City and County of San Francisco and the Uptown Parking Corporation (Corporation) for the Sutter Stockton Garage. Also enclosed is an Ordinance requesting a supplemental appropriation to the SFMTA budget to support operation of the garage for the remainder of the Fiscal Year 2017-2018.

Background

The Garage was built in 1959 and provides nearly 1,900 parking spaces and 29,500 square feet of retail/commercial lease spaces at the ground level. The facility generates approximately \$11 million in annual gross revenue.

The Corporation is a non-profit 501(c)(2) entity, formed in 1956 for the sole purpose of assisting the City with design and construction of the Garage by financing the costs through the sale of bonds. In 1959, the City leased the Garage to the Corporation through a lease agreement, which was subsequently replaced with another lease agreement in 2013. Under the Lease, the Corporation manages the day-to-day operation of the Garage with oversight and policy direction from the SFMTA.

In June of 2011, the City Services Auditor division of the Controller's Office issued an audit that questioned the benefits of continuing with leases of certain city parking garages to not-profit parking corporations. This finding was given due consideration by the SFMTA, and thus the 2013 lease with the Corporation for Sutter Stockton Garage included a provision allowing the Agency to terminate the lease at the SFMTA's convenience, upon 90-days' notice to the Corporation.

In the four years since execution of the 2013 lease, the way the city oversees its garage operations has evolved. SFMTA has added additional staff with detailed technical knowledge and also streamlined its contracting and oversight policies and procedures, which allows the overall garage portfolio to be managed more efficiently. Given recent changes, the SFMTA has determined that the Corporation's Board of Directors has fulfilled its duties, that leasing the Sutter Stockton Garage to the Corporation is

no longer in the best financial interest of the City, and the members of the Corporation's Board of Directors should therefore be relieved of their obligations and liability as the leaseholder of the Garage. To initiate the termination of the lease, the Corporation's Board of Directors unanimously approved the Lease Termination Agreement at its Board meeting on November 1, 2017.

In anticipation of the lease termination, the SFMTA plans to assume the day-to-day operation of the garage effective February 1, 2018 through its current agreement for garage management with Imperial Parking. Staff from the Corporation, SFMTA and City Attorney's Office have reviewed all current tenant leases and agreements with various service providers and vendors. The SFMTA will assume all leases and agreements that are required for the continued operation of the Garage and/or that support SFMTA operations. It is anticipated that the termination of the Lease, effective 11:59 p.m. on February 28, 2018, will have no material effect on Garage operations or on its tenants.

Funding Impact

The termination of the Lease will result in discontinuing redundant services, which is anticipated to save the City over \$100,000 annually. This action is consistent with the analysis and findings of the June 2011 audit by the City Services Auditor that questioned the need and benefit for continuing such leases to non-profit Corporations.

The SFMTA Board of Directors approved a two-year budget for the Sutter Stockton Garage at its meeting on July 19, 2016. However, pursuant to procedures for garages overseen by non-profit parking corporations, only net income of \$8,066,255 is included in the SFMTA's two-year budget.

When the SFMTA assumes direct management of the garage, it also needs to bring garage operations into the SFMTA budget. This means including revenues and expense line items within the SFMTA budget. The FY 2018 budget will need to be amended to include revenues of \$14,290,700 and expenses of \$6,224,445, respectively. The expenses include operating expenses of \$3,036,945, parking tax of \$2,637,500, and a capital set-aside of \$550,000. The FY 2018 budget needs to be revised to include gross revenues and gross expenditures (instead of net revenues less expenditures, which is currently in the FY 2018 budget approved by the SFMTA Board.)

SFMTA accounting staff, working in coordination with Controller's Budget staff, have determined that a supplemental appropriation to the SFMTA budget of \$7,145,350 is required to support garage operations for the remainder of Fiscal Year 2017-2018. A supplemental-appropriation ordinance in this amount is enclosed with this report.

Alternatives Considered

The alternative to terminating the lease with the Corporation is allowing the lease to continue. Continuing the lease is not favored, because it involves leaving in place a layer of middle management that is redundant to SFMTA staff, which costs the SFMTA over \$100,000 per year in the Corporation's employee salaries, operating costs, and legal fees.

SFMTA Board of Directors' Approval

The SFMTA Board heard this item at its November 21, 2017 Board meeting. The approved SFMTA Board resolution authorizing the Director of Transportation to execute a Lease Termination Agreement is enclosed with this report.

Recommendation

The SFMTA recommends that the Board of Supervisors approve this termination of the lease agreement between the City and County of San Francisco and the Uptown Parking Corporation and authorize the Director of Transportation to execute the termination agreement with the Corporation, as well as agreements with vendors, consultants, and commercial tenants of the Garage to effect assignment of their respective contracts and subleases to the San Francisco Municipal Transportation Agency. The SFMTA Board further recommends that the Board of Supervisors approve the supplemental-appropriation ordinance that will add funds to the SFMTA budget to support garage operations for the remainder of Fiscal Year 2017-2018.

If you have any questions regarding this matter, please contact Rob Malone, Senior Manager, Sustainable Streets – Parking, at (415) 701-2430 or rob.malone@sfmta.com.

Sincerely,



Edward D. Reiskin
Director of Transportation

cc: SFMTA
Tom Maguire, Director of Sustainable Streets Division (SSD)
Sonali Bose, CFO
Ted Graff, SSD Director of Parking
Janet Martinsen, Local Government Affairs Liaison

Enclosures

