

PUBLIC UTILITIES COMMISSION

City and County of San Francisco

RESOLUTION NO. 19-0016

WHEREAS, The City and County of San Francisco (City) owns in fee certain real property in Millbrae, California, under the jurisdiction of the San Francisco Public Utilities Commission (SFPUC) designated as SFPUC Parcel 29, and also known as San Mateo County APN 093-220-0101; and

WHEREAS, The City, acting through the SFPUC, entered into a Ground Lease dated April 26, 1984 (Lease) with the predecessor of Orchard Supply Company, LLC (Tenant) for the lease of a portion of such property consisting of approximately 4.7505 acres of land commonly known as 900 El Camino Real, Millbrae (Premises) for an initial term of 30 years, with two options to extend for periods of 10 years each; and

WHEREAS, Tenant exercised the first option to extend the term of the Lease for 10 years, commencing on May 1, 2014, at an annual rent of \$1,117,432 subject to a CPI adjustment on May 1, 2019, which is anticipated to increase the rent to an estimated \$1,304,915 for the remainder of the Lease term; and

WHEREAS, The City and Tenant entered into a First Amendment to Ground Lease dated August 4, 2016 (the "First Amendment") that reduced the size of the Premises by 13,623 square feet to accommodate the SFPUC's new groundwater storage and pump station facility located on the Premises; and

WHEREAS, Total lost rent from the early termination of the lease is approximately \$6,525,000; and

WHEREAS, Tenant has constructed substantial improvements on the Premises including a retail store, warehouse, and restaurant; and

WHEREAS, Under the terms of the Lease, all of Tenant's improvements to the Premises become the property of the SFPUC upon early termination of the Lease, at SFPUC's option; and

WHEREAS, Tenant desires to terminate the Lease and surrender the Premises as of April 30, 2019; and

WHEREAS, The SFPUC desires to terminate the Lease and gain possession of the Premises as of April 30, 2019; and

WHEREAS, the early termination of the Lease is expected to result in the following significant utility benefits to the SFPUC: (i) the SFPUC will be able to use an existing warehouse on the Premises as additional Utility Plumbers storage and workshop space, and other storage to serve workers displaced by unsafe conditions at the old Utility Plumbers shop, and thereby save the estimated costs (approximately \$1.3 million) of constructing a new warehouse at its Millbrae Yard, (ii) future rent from a lease of the remaining lands and improvements that will not be used for a new Utility Plumbers storage facility and workshop (Remaining Premises) is expected to significantly exceed the lost ground rent because Tenant's improvements will become the property of the SFPUC upon termination, enabling the SFPUC to re-lease the Remaining

Premises at full market rental rates, as opposed to the current CPI-adjusted ground rent Tenant will pay over the remaining term of the Lease, (iii) the SFPUC will benefit from the full retail rental income from the leasing of a restaurant located on the Remaining Premises (under the terms of the Lease, the SFPUC does not share in this sublease rent, currently estimated at \$150,000 per year), and (iv) termination of the Lease will provide the SFPUC with greater flexibility to address persistent pedestrian safety issues on El Camino posed by the current configuration of the driveway shared by both the SFPUC's Millbrae Yard and Tenant; and

WHEREAS, The utility benefits from the early termination are projected to exceed the total lost ground rent resulting from the early termination; now, therefore, be it

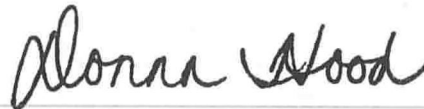
RESOLVED, That this Commission hereby ratifies, approves and authorizes all actions heretofore taken by any City official in connection with this Termination Agreement and, be it

FURTHER RESOLVED, That this Commission hereby approves the terms and conditions of this Termination Agreement; and be it

FURTHER RESOLVED, That this Commission hereby authorizes the SFPUC to seek approval by the Board of Supervisors and Mayor for the SFPUC General Manager to execute the Termination Agreement; and be it

FURTHER RESOLVED, That this Commission hereby authorizes the SFPUC General Manager to enter into any amendments or modifications to this Termination Agreement, including without limitation, the exhibits, that the General Manager determines, in consultation with the City Attorney, are in the best interest of the City; do not materially increase the obligations or liabilities of the City; are necessary or advisable to effectuate the purposes and intent of the Termination Agreement or this resolution; and are in compliance with all applicable laws, including the City Charter.

I hereby certify that the foregoing resolution was adopted by the Public Utilities Commission at its meeting of January 22, 2019.



Secretary, Public Utilities Commission