

Item 5 File 10-1215	Departments: Real Estate Division, Department of Public Health (DPH), Human Services Agency (HSA), and Department of Child Support Services (DCSS)
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EXECUTIVE SUMMARY

Legislative Objective

- Resolution authorizing the amendment of four existing leases to reduce the rent and extend the lease terms for (a) two leases for the Department of Public Health (DPH) at 729 Filbert Street and 650 Fifth Street, (b) one lease for the Human Services Agency (HSA) at 160 South Van Ness Avenue, and (c) one lease for the Department of Child Support Services (DCSS) at 109 New Montgomery Street.

Key Points

- Currently, various City departments lease space from private lessors in San Francisco to provide City operations and services. In response to the projected FY 2010-2011 budgetary shortfalls, in April of 2010, the Real Estate Division contacted 94 private lessors, who lease space to City departments, to request reductions in existing City rents. In response, four private lessors agreed to reduce rents and extend lease terms with the City. The proposed amended leases would also include new provisions for additional services, compliance with recent City laws, and contact information.

Fiscal Impacts

- The proposed resolution would result in projected annual savings of approximately five percent for each of the four leases, including (a) \$14,530 for DPH from 729 Filbert Street, (b) \$4,188 for DPH from 650 Fifth Street, (c) \$18,976 for HSA from 160 South Van Ness, and (d) \$47,652 for DCSS from 109 New Montgomery, or a total annual savings of \$85,346. Based on the funding sources for each lease, the total \$85,346 savings realized should result in an annual estimated savings of \$28,206 for the City's General Fund. Based on an effective date of December 1, 2010 for three of these leases and an effective date retroactive to July 1, 2010 for one lease, the FY 2010-2011 savings would be \$51,530. Each of the four leases would be extended between one year and five years.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT & BACKGROUND

Mandate Statement

In accordance with Section 23.27 of the City's Administrative Code, except as otherwise provided in the City's Charter or Administrative Code, the Board of Supervisors must approve leases, in which the City is the lessee, by resolution. Section 23.27 also specifies that the head of the department concerned with the lease recommend approval to the Board of Supervisors and the Director of Property execute such leases on behalf of the City, or as otherwise directed by resolution of the Board of Supervisors.

Background

Currently, various City departments lease space from private lessors in San Francisco to provide City operations and services. In April of 2010, in response to the projected FY 2010-2011 budgetary shortfalls, the Real Estate Division contacted 94 private lessors¹ who lease space to the City to request reductions in existing rents. Of the 94 private lessors contacted, only four agreed to reduce existing rents paid by the City.

Table 1 on the next page identifies the four existing leases with the Department of Public Health (DPH), the Human Services Agency (HSA) and the Department of Child Support Services (DCSS), in which the lessors have agreed to reduce rents and extend the terms, under the proposed resolution.

The DPH space at 729 Filbert Street is used for an outpatient mental health clinic to serve Chinatown and North Beach residents. The DPH space at 650 Fifth Street is used to provide administrative support for medical, psychiatric and substance abuse health services to inmates in San Francisco's jails. The HSA space at 160 South Van Ness is used for administrative offices for HSA's Investigations Division. The DCSS space at 109 New Montgomery (also referred to as 617 Mission Street) is used for DCSS's main offices to meet with clients and provide State-mandated services to San Francisco residents with child support issues.

According to Mr. Dunn, under the existing four leases, the private lessors provide all building operating services, except for janitorial and utilities services at 729 Filbert Street and 160 South Van Ness Avenue, and except for electrical services at 109 New Montgomery Street and 650 Fifth Street.

¹ According to Mr. Charlie Dunn, Senior Real Property Officer, of the Real Estate Division, the City currently leases approximately 1.4 million square feet from 94 private lessors with rents that exceed \$1,000 per month. Mr. Dunn advised that the City did not contact public agency landlords, such as the San Francisco Unified School District (SFUSD) or the California Department of Transportation (Caltrans), nor private lessors which are paid less than \$1,000 per month in rent regarding such rent reductions.

Table 1: Four Existing Private Leases with City as Tenant

Department	DPH	DPH	HSA	DCSS
Address	729 Filbert Street	650 Fifth Street	160 South Van Ness	109 New Montgomery
Lessor	William Piedmonte	Townsend Associates	Aronoff Trust & Cohn	Conner Trust
Square Feet	11,067	3,060	15,000	33,998
Current Annual Rent	\$290,614 ²	\$83,700	\$360,976 ³	\$952,968
Current Rent/Sq. Ft./Year	\$26.26	\$27.35	\$24.07	\$28.03
Existing Term	7/1/03 – 6/30/13	6/1/07 – 6/30/12	9/1/09– 8/31/16	12/19/94 – 7/31/12

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize amendments to reduce the rent and extend the lease terms on four existing City leases: (1) Department of Public Health at 729 Filbert Street; (2) Department of Public Health at 650 Fifth Street; (3) Human Services Agency at 160 South Van Ness; and (4) Department of Child Support Services at 109 New Montgomery Street.

In accordance with Section 23.27 of the City's Administrative Code, the Directors of the Department of Public Health, Human Services Agency and the Department of Child Support Services recommend approval of these amendments to reduce the rent and extend the terms for the subject leases. In addition, the proposed resolution authorizes the Director of Property to take all actions necessary to execute the specified amendments to the existing four subject leases, in accordance with Section 23.27 of the Administrative Code.

Table 2 below summarizes the main rent and term provisions in the four proposed leases.

² Under the existing lease at 729 Filbert Street, effective July 1, 2011 and adjusted annually thereafter in July, the annual rent would be increased a minimum of 2% and a maximum of 5%, based on the Consumer Price Index for all Urban Consumers in the San Francisco Bay Area, as published by the Department of Labor.

³ Under the existing lease at 160 South Van Ness, the HSA's annual rent is scheduled to increase to \$370,000 effective September 1, 2013 through August 31, 2016.

Table 2: Four Proposed Private Leases with City as Tenant

Department	DPH	DPH	HSA	CSS
Address	729 Filbert Street	650 Fifth Street	160 South Van Ness	109 New Montgomery
Lessor	William Piedmonte	Townsend Associates	Aronoff Trust & Cohn	Conner Trust
Square Feet	11,067	3,060	15,000	33,998
Proposed Annual Rent	\$276,084 ⁴	\$79,515 ⁵	\$342,000 ⁶	\$905,316
Proposed Rent/Sq. Ft./Year	\$24.95	\$25.99	\$22.80	\$26.63
Proposed Term	7/1/03 – 6/30/18	6/1/07 – 6/30/13	7/31/09 – 8/31/17	12/19/94 – 12/31/14

The proposed leases would also be amended to require (a) the landlords to provide additional services, maintenance or renovations as reasonably requested by the City, and the City would reimburse the landlord for such actual expenses, (b) compliance with various recent City laws, such as the provisions in the Sunshine Ordinance, Resource Efficient City Buildings, Conflicts of Interest, Limitations on Contributions, Preservative-Treated Wood Containing Arsenic, and (c) various minor changes to update contact information.

In addition, the proposed lease at 109 New Montgomery would be amended to provide an option for the City to terminate 9,539 square feet of space on the 4th floor of this building without cost or penalty effective July 31, 2012, which is the termination date of the existing lease. The proposed 109 New Montgomery lease amendment would also provide the City with one five year option to extend the lease from January 1, 2015 through December 31, 2019, with Board of Supervisors approval, at 95 percent of the prevailing market rate.

⁴ Under the proposed lease amendment at 729 Filbert Street, this annual rental rate would be in effect until June 30, 2011. Effective July 1, 2011 and adjusted annually thereafter in July, the annual rent would be increased a minimum of 2% and a maximum of 5%, based on the Consumer Price Index for all Urban Consumers in the San Francisco Bay Area, as published by the Department of Labor.

⁵ Under the proposed lease amendment for 650 Fifth Street, this reduced rent rate would be applied retroactively to July 1, 2010, such that, if the proposed resolution is approved, the City would calculate any overpayments made since July 1, 2010 and adjust future monthly payments accordingly.

⁶ Under the proposed lease amendment for 160 South Van Ness, the rates shown in the table would be in effect until August 31, 2013. Commencing September 1, 2013 through the remaining proposed term or August 31, 2017, the rent would increase to \$351,600 annually or \$23.44 per square foot per year.

FISCAL IMPACTS

Table 3 below identifies the proposed lease extensions and compares the existing annual rents and the proposed annual rents to show projected savings of approximately five percent for each of the four leases, including (a) \$14,530 for DPH from 729 Filbert Street, (b) \$4,188 for DPH from 650 Fifth Street, (c) \$18,976 for HSA from 160 South Van Ness, and (d) \$47,652 for CSS from 109 New Montgomery, or a total annual savings of \$85,346.

As shown in Table 3 below, under the proposed lease amendments, each of the four leases would be extended between one year and five years.

Table 3: Comparison of Existing and Proposed Annual Rents

Department	DPH	DPH	HSA	CSS
Address	729 Filbert Street	650 Fifth Street	160 South Van Ness	109 New Montgomery
Proposed Lease Extensions	Five Years	One Year	One Year	Two Years, Five Months
Square Feet	11,067	3,060	15,000	33,998
Existing Annual Rent	\$290,614	\$83,700	\$360,976	\$952,968
Proposed Annual Rent	276,084	79,512	342,000	905,316
Annual Savings*	\$14,530	\$4,188	\$18,976	\$47,652
Percent Savings	5.0%	5.0%	5.3%	5.0%

*Total Annual Savings of \$85,346.

The projected savings would be effective upon approval of the proposed resolution by the Board of Supervisors, or approximately December 1, 2010, excluding the 650 Fifth Street lease which would be retroactive to July 1, 2010. Therefore, given a total projected annual savings of \$85,346, if the proposed savings are implemented effective December 1, 2010 for three of the subject leases, and July 1, 2010 for the 650 Fifth Street lease, these three City departments will realize a total savings of approximately \$51,530 in FY 2010-2011.

According to Mr. Dunn, the rent savings of \$4,188 for the 650 Fifth Street property is retroactive back to July 1, 2010 and was factored into the Department of Public Health's FY 2010-2011 budget. However, Mr. Dunn advises that the savings from the three other leases (729 Filbert, 160 South Van Ness and 109 New Montgomery) were not factored into the City department's FY 2010-2011 budgets.

In terms of funding sources, (a) the two DPH leases are fully funded by the City's General Fund, (b) the one HSA lease is funded approximately 50 percent by the City's General Fund, with the remaining approximately 50 percent funded with non-General Fund sources, and (c) the DCSS lease is funded with approximately 34 percent State funds and 66 percent Federal funds. Therefore, the total annual rent savings of \$85,346 should result in an estimated annual savings of \$28,206 for the City's General Fund.

RECOMMENDATION

Approve the proposed resolution.