

Item 2
File 11-1193

Department:
Police Department;
Real Estate Division

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution would approve a new three-year lease between the City and County of San Francisco, on behalf of the San Francisco Police Department (SFPD), as lessee, and Sixth Street Baldwin House, LLC, as lessor, for 1,932 square feet of ground floor office space at 72 Sixth Street to be used as a new Police Department Substation from June 1, 2012 through May 31, 2015, with three, two-year options to extend the proposed lease for a total maximum term of nine years, or through May 31, 2021.

Key Points

- As part of the South of Market Redevelopment Project Area, the San Francisco Redevelopment Agency (SFRA) has focused on revitalizing the Sixth Street corridor by increasing the amount of businesses and affordable housing units in the area.
- In furthering the City's goals of community policing and to help revitalize the Sixth Street Corridor by providing a visual deterrent to crime, since 2009, the SFRA and the SFPD have been considering locating a Police Department Substation near Sixth Street.
- The initial rental rate to be paid by the SFPD to the Sixth Street Baldwin House, LLC of \$2,898 per month, or \$1.50 per square foot per month for the proposed 1,932 square feet of space, was determined to be the fair market value by the City's Real Estate Division based on comparable rents in the neighborhood.
- Under the proposed lease, after the first year, the rental rates would be subject to annual Consumer Price Index adjustments at no less than 1.5 percent and no more than 3 percent.

Fiscal Analysis

- Under the proposed lease, SFPD would pay a first year rent of \$34,776 (\$2,898 per month x 12 months).
- Based on annual Consumer Price Index (CPI) increases of no less than 1.5 percent and no more than 3 percent, the rent under the proposed lease would cost up to \$107,489 for the three-year base lease and up to \$353,293 over the potential nine year term of the lease if all options are exercised.
- All rental expenditures would be subject to annual appropriation approval of the Board of Supervisors.
- While not part of the proposed resolution, the lessor, Sixth Street Baldwin House, LLC, would be granted a forgivable loan of up to \$500,000 from the SFRA. In consideration for forgiving the loan, the lessor would make the necessary renovations to the subject premises for the new Police Department Substation, estimated to cost up to \$500,000 as shown in Attachment II provided by Mr. Mike Grisso, Senior Project Manager for the SFRA. Therefore, the total estimated cost of the proposed new Police Department Substation for nine years would be up to \$853,293, including \$500,000 for renovations and \$353,293 for rent, based on an annual 3 percent CPI.
- Given that the proposed resolution would approve a new lease for a new SFPD Substation to be funded with General Fund revenues, the Budget and Legislative Analyst considers approval of the proposed resolution to be a policy decision for the Board of Supervisors.

Recommendation

- Approval of the proposed resolution is a policy decision for the Board of Supervisors

MANDATE STATEMENT / BACKGROUND**Mandate Statement**

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

Background

On June 11, 1990, the Board of Supervisors approved the South of Market Redevelopment Project Area¹ (Ordinance 234-90) to redevelop the South of Market neighborhood by repairing buildings damaged in the 1989 Loma Prieta Earthquake in order to create additional affordable housing units. Attachment I to this report is a map provided by Mr. Mike Grisso, Senior Project Manager for the SFRA, identifying the boundaries of the South of Market Redevelopment Project Area.

On December 6, 2005, the Board of Supervisors approved an ordinance (Ordinance 265-05) broadening the initial housing goals of the South of Market Redevelopment Project Area to include attracting more small businesses in order to revitalize the overall South of Market Redevelopment Project Area, and identifying the Sixth Street Corridor, from Market Street to Harrison Street, as an area that needed significant investment.

According to Mr. Grisso, since 2009, the SFPD and the SFRA have been working together to find a location for a SFPD Substation² to further the City's goals of community policing, and help efforts at revitalizing the South of Market Redevelopment Project Area by providing a visual deterrent to crime along the Sixth Street Corridor.

According to SFPD Deputy Chief Kevin Cashman, a SFPD Substation in the South of Market Redevelopment Project Area is intended to allow Police Officers working in the area on foot patrols or on bicycles, to use the Substation to check in and write reports, as opposed to returning to Southern Station at 850 Bryant Street in the Hall of Justice. As of the writing of this report, a staffing plan has not been finalized but, according to Deputy Chief Cashman, the SFPD Substation would consist of staff from the Southern Station and would require no additional personnel. In addition, with the Southern Station moving to a new Mission Bay Police Headquarters in 2014, Deputy Chief Cashman advises that the proposed Police Substation would allow Police Officers working in the South of Market Redevelopment Project Area to be closer to the community on a regular basis.

¹ Originally titled The South of Market Earthquake Recovery Redevelopment Project Area.

² Currently, the City has ten District Police Stations throughout the City. In addition, the Police Department has two satellite facilities, one each in the Bayview and Ingleside Housing Projects, which are used for report writing, breaks, and occasionally for community events. The proposed SFPD Substation would be the first of its kind in the City.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new three-year lease between the City and County of San Francisco, on behalf of the SFPD, as lessee, and Sixth Street Baldwin House, LLC, as lessor, for 1,932 square feet of ground floor office space at 72 Sixth Street to be used as a new Police Department Substation. The specific location of the proposed Substation is identified with an asterisk on Attachment 1. The term of the proposed lease is from June 1, 2012 through May 31, 2015, with three, two-year options to extend the proposed lease for a total maximum term of nine years, or through May 31, 2021.

Under the proposed lease, the initial rental rate, payable by the SFPD to Sixth Street Baldwin House, LLC, would be \$2,898 per month or \$1.50 per square foot per month for the 1,932 square feet of space, or \$34,776 (\$2,898 per month x 12 months) for the first year. Under the proposed lease, after the first year, the rental rate would be subject to annual Consumer Price Index adjustments of no less than 1.5 percent and no more than 3 percent.

The proposed lease stipulates that the lessor, Sixth Street Baldwin House, LLC, would be responsible for completing the necessary tenant improvements to transform the existing ground floor vacant storefront space into a Police Substation prior to the June 1, 2012 commencement of the lease. The improvements are described in Attachment II as provided by Asian Neighborhood Design, a non-profit agency. The total preliminary cost estimate for such improvements is \$495,000.

According to Mr. Grisso, while not directly part of the proposed lease or proposed resolution, in order to further the SFRA's goal of revitalizing the Sixth Street Corridor, within the South of Market Redevelopment Project Area, the lessor, Sixth Street Baldwin House, LLC, will be granted a forgivable loan³ of up to \$500,000, from the SFRA to make the needed tenant improvements. Mr. Grisso advises that the lessor, SFRA and SFPD have already approved the design of the space and the lessor has solicited bids for the construction contract.

FISCAL ANALYSIS

Approval of the proposed resolution would result in additional annual rent payable from General Fund revenues by the SFPD as lessee, to Sixth Street Baldwin House, LLC, as lessor, under the proposed new lease, totaling \$2,898 per month, or \$1.50 per square foot per month, or \$34,776 (\$2,898 per month x 12 months) for the first year of the proposed lease.

³ According to Mr. Grisso, the SFRA commonly uses forgivable loans to rehabilitate privately owned ground-floor spaces on Sixth Street. Usually, there is a match required from the property owner (for example, the property owner invests \$1 for every \$1 invested by the SFRA) and the term of the loan is five years with 1/5th of the loan forgiven each year. However, Mr. Grisso advises that because the proposed Police Substation is considered a vital public improvement, the SFRA is not requiring a matching contribution from the lessor. According to Mr. Grisso, the loan funds would be paid by the SFRA to the lessor as reimbursements based on invoices that the lessor submits to the SFRA and based on the lessor's payments to their selected construction contractor. In addition, Mr. Grisso advises that the SFRA would monitor the construction to ensure that the work is completed according to the specified plans. The term of the up to \$500,000 forgivable loan would match the up to nine-year term of the proposed lease (including the three two-year extensions), such that 1/9th of the loan would be forgiven each year. If the property owner sells the building before the entire loan is forgiven, the property owner would be required to repay the balance of the loan to the SFRA.

As shown in the Table below, the annual rental rate over the term of the lease, based on the Consumer Price Index (CPI) increases, would range from \$34,776 in the first year to up to \$44,053 in the ninth year of the lease. The proposed lease would cost up to \$107,489 for the three-year base lease, or a maximum total cost of \$353,293 over the potential nine year term of the lease based on a CPI adjustment of 3 percent per year.

Table: Estimated Annual Rent For 1,932 Square Feet During the Initial Three Year Term and Potential Nine Year Term of Lease		
	Annual Rent Based on:	
	1.5 Percent Annual Increase	3 Percent Annual Increase
Year 1	\$34,776	\$34,776
Year 2	35,298	35,819
Year 3	35,827	36,894
Subtotal	\$105,901	\$107,489
Year 4	36,365	38,001
Year 5	36,910	39,141
Year 6	37,464	40,315
Year 7	38,026	41,524
Year 8	38,596	42,770
Year 9	39,175	44,053
Total	\$332,437	\$353,293

As explained in a memorandum from Mr. Grisso, (see attachment II to this report), the SFRA has allocated \$500,000 for the tenant improvements needed to renovate 72 Sixth Street for the SFPD Substation. Such SFRA funds have been previously appropriated by the Board of Supervisors in the SFRA's FY 2011-2012 budget for the South of Market Redevelopment Project Area.

According to Ms. Marta Bayol, Senior Real Property Manager for the Real Estate Division, the proposed rent was determined to be the fair market value based on comparable rents in the neighborhood. According to Ms. Bayol, the proposed lease would be funded from General Fund monies as part of the SFPD's annual budget appropriation. All rental expenditures would be subject to annual appropriation approval by the Board of Supervisors.

The Budget and Legislative Analyst notes that the total estimated cost of the proposed new lease, including the one-time cost to renovate the space for a new SFPD Substation, is up to \$853,293, including \$500,000 for renovations plus \$353,293 (see Table above) for rent, based on an annual 3 percent CPI increase over the up to nine year lease term.


Given that the proposed resolution would approve a new lease for a new SFPD Substation, to be funded with General Fund revenues, the Budget and Legislative Analyst considers approval of the proposed resolution to be a policy decision for the Board of Supervisors.

RECOMMENDATION

Approval of the proposed resolution is a policy decision for the Board of Supervisors.

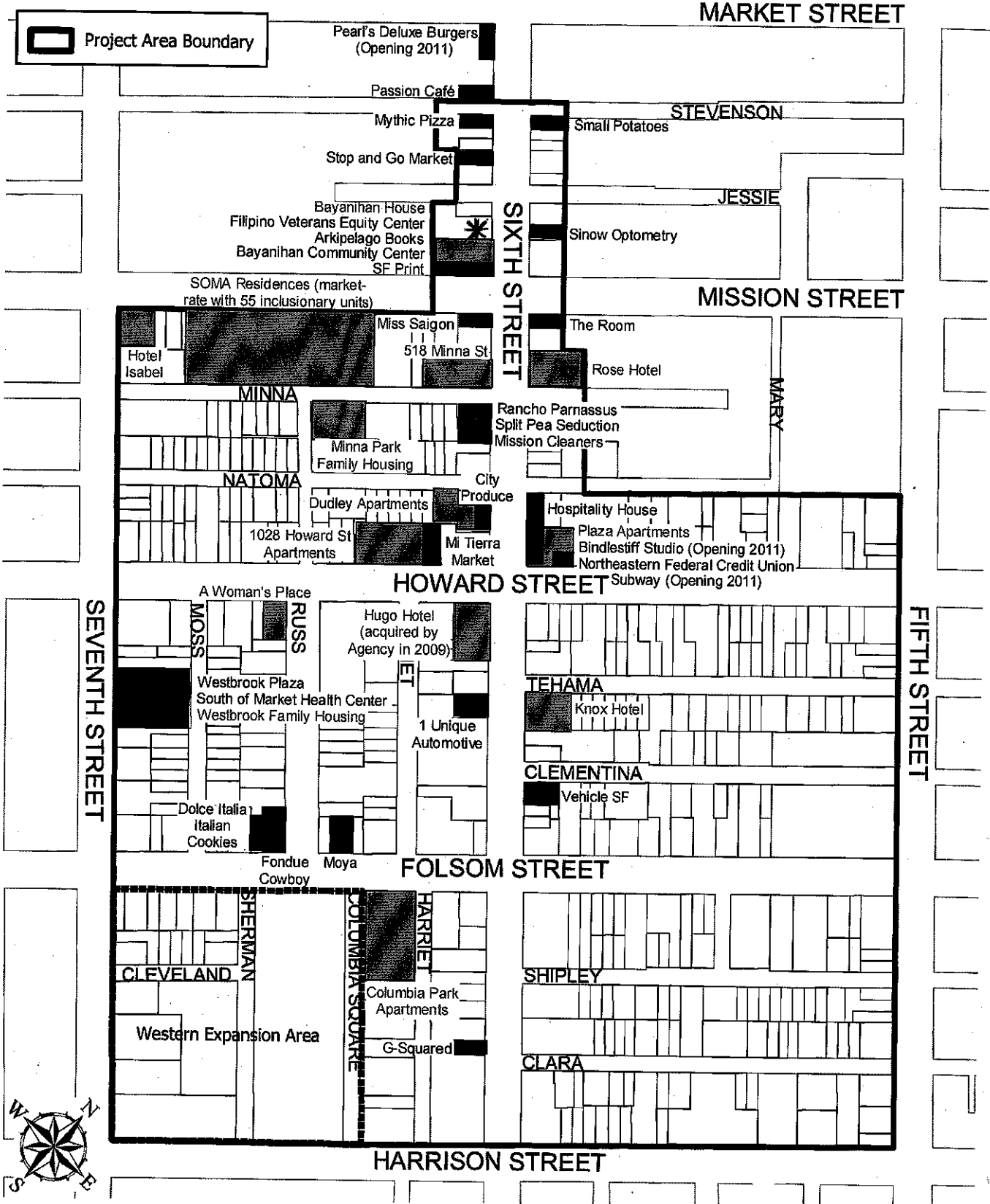
South of Market Redevelopment Project Area

Affordable Housing and Economic/Community Development Projects

 Affordable Housing Projects:
New Construction/Significant Rehabs

 Economic/Community Dev Projects:
New Businesses/Community Centers

 Project Area Boundary



San Francisco
Redevelopment Agency

One South Van Ness Avenue
San Francisco, CA 94103

415.749.2400



EDWIN M. LEE, Mayor

Rick Swig, President
Darshan Singh, Vice President
Rosario M. Anaya
Miguel M. Bustos
Francee Covington
Leroy King
Agnes Briones Ubalde

Tiffany Bohee, Interim Executive Director

MEMORANDUM

TO: James Baird, Budget and Legislative Analyst's Office

FROM: Mike Grisso, Senior Project Manager

RE: Forgivable loan for the construction of the Sixth Street SFPD Substation

DATE: 11/17/11

The purpose of the memorandum is to respond to the Budget and Legislative Analyst's Office request for more information about the San Francisco Redevelopment Agency's ("Agency") forgivable loan program in the South of Market Redevelopment Project Area ("Project Area").

The Agency has been providing forgivable loans to property and business owners in the Project Area as part of its Sixth Street Economic Revitalization Program since 2003, with a focus on Sixth Street between Market and Harrison Streets. The loans are available only for actual construction costs for façade and/or tenant improvements to ground-floor retail spaces on Sixth Street and are completely forgiven over the term of the loan, which can be between 5 and 15 years depending on the type of property, unless the business is sold or transferred before the loan is forgiven, in which case the borrower must repay the remaining balance to the Agency. The borrowers are typically business owners of either new or existing businesses on Sixth Street. For example, the owner of the new Pearl's Deluxe Burgers on Sixth and Market Streets received a \$400,000 forgivable loan in 2010 with a term of five years. At the end of the five year period, the loan is completely forgiven. In this case, the formula calls for 4/5th of the loan amount to be forgiven in Year 4 and the remainder to be forgiven in Year 5. If the owner were to sell the business before the end of the five years, she would be responsible for repaying the balance. The Sixth Street Economic Revitalization Program has been responsible for attracting more than 25 new businesses to the Sixth Street neighborhood since 2003.

In the case of the Sixth Street Police Substation, instead of a business owner, the tenant will be the San Francisco Police Department (SFPD). SFPD will provide all of the furniture and equipment for the substation, but the Agency is fully funding the construction cost of the façade and tenant improvements. Because SFPD is not contributing to the cost of construction, the forgivable loan will be provided to the property owner. The Agency's forgivable loans typically have a matching requirement. For example, Pearl's Deluxe Burgers was required to invest \$200,000 (or \$1 for every \$2 invested by the Agency) in order to receive a forgivable loan of

\$400,000. In the case of the substation, SFPD will not be required to provide a match. Because the property owner is charging a very affordable rent, only \$1.50 per square foot, and is effectively forgoing any opportunity to attract a more profitable use to the space for at least the term of the lease, the property owner will also not be required to provide a match. The substation is a high priority project for the Agency and there are no other available spaces on Sixth Street that would be suitable for this use. The Agency has fully funded the cost of other façade and tenant improvement projects on Sixth Street. For example, the \$400,000 construction cost of Bindlestiff Studio, a performing arts space on the ground floor and in the basement of the Plaza Apartments at Sixth and Howard Streets, was fully funded by the Agency.

The forgivable loan to the property owner for the construction of the substation will be treated the same as other forgivable loans that the Agency has provided to property and business owners on Sixth Street. Agency staff will be proposing a term of 9 years for the forgivable loan, which matches the maximum term of the lease between SFPD and the property owner. As currently proposed, the loan amount would be forgiven at a rate of 1/9th per year. Like all of the Agency's forgivable loans on Sixth Street, the loan will not be disbursed in a lump sum but rather will be provided to the property owner as a reimbursement for actual construction costs based on invoices received from the contractor. The standard process, described in the loan agreement, is that each invoice from the contractor is paid by the property owner and then submitted to the Agency for reimbursement. All of these terms are subject to review and approval by the San Francisco Redevelopment Agency Commission.

The Agency has allocated \$500,000 in its Fiscal Year 2011-12 Budget to fund the cost of constructing the façade and tenant improvements for the substation, based on a preliminary cost estimate from Asian Neighborhood Design (AND), which is attached to this memorandum. AND is a local nonprofit under contract with the Agency to provide architectural design services to all new businesses on Sixth Street and AND completed the designs for the substation. Both SFPD and the property owner have approved the plans. The construction manager for the project, who is working closely with both the property owner and the Agency, is another local nonprofit, Urban Solutions, which is under contract with the Agency to help attract businesses to Sixth Street and provide technical assistance to both new and existing businesses in the neighborhood. Urban Solutions issued a public Request for Bids in late October 2011 for a construction contractor for the substation and responses are due in December 2011. Once a final bid has been selected by the Agency and the property owner, Agency staff will prepare the loan agreement for consideration by the Agency Commission. The loan agreement will include the actual amount of the contractor's final bid, which will be the maximum forgivable loan amount.

The Sixth Street Substation is a vital public improvement that will greatly assist the Agency's efforts to revitalize Sixth Street. Building a "satellite police station" is a primary goal of the South of Market Redevelopment Plan adopted by the Board of Supervisors and the substation is strongly supported by businesses and residents in the Project Area.

Attachment

Asian Neighborhood Design

1245 Howard Street,
San Francisco, CA 94103
(415) 575-0423, Fax (415) 575-0424

TDD: California Relay Service
800.735.2922

www.andnet.org

November 17, 2011

Michael J. Grisso
Senior Project Manager
San Francisco Redevelopment Agency
1 South Van Ness Avenue, 5th Floor
San Francisco, CA 94103

RE: South of Market- SF Police Sub-Station

Dear Mike,

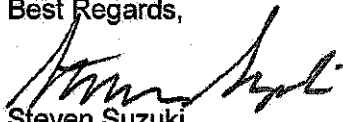
Per your request, the following is AND's estimate of the hard-construction cost for the Tenant Improvements on the above referenced project: The scope of work for the Tenant Improvements includes the following:

1. Bullet resistant panels installed at the following areas of the proposed space:
 - a. Basement Ceiling below
 - b. Ground Floor Ceiling
 - c. Wall adjacent to Residential Lobby/Spaces
2. Bullet-resistant glazing at the Storefront
3. Bullet-resistant glazing at the secondary storefront & bullet-resistant doors
4. New Offices and Conference Room
5. Men's and Women's Restrooms/Shower and Locker Rooms
6. Security System
7. New Mechanical, Plumbing and Electrical Systems
8. Structural reinforcement above the women's locker room for mechanical systems, at the roof for the chiller, closing off the stairwell to basement, at the existing lightwells, and at the floor assemblies for bullet-proofing materials.
9. Restoring the existing fire-damaged masonry
10. Hazardous-Materials involved demo work

Asian Neighborhood Design's preliminary construction cost estimate for the above Tenant Improvements will be \$ 495,000. The cost estimate does not include architectural/engineering soft costs.

If there are any questions please contact Frank Ahn Baumgartner, Intermediate Project Coordinator, at 415-575-0423 x 207.

Best Regards,



Steven Suzuki,
Executive Director

Passionately serving the Bay Area for over three decades, Asian Neighborhood Design (A.N.D.) is a non-profit architecture, community planning, employment training, and support services organization dedicated to helping disadvantaged individuals and communities become self-sufficient.