

CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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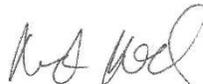
TO: Budget and Finance Committee
FROM: Budget and Legislative Analyst 
SUBJECT: February 7, 2024 Budget and Finance Committee Meeting

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<p>Item 1 File 24-0006 <i>(Continued from the 1/31/24 meeting)</i></p>	<p>Department: Department of Public Health (DPH), Real Estate Division (RED)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> The proposed resolution would approve a lease between the Department of Public Health (DPH) as tenant and AIM TWO as landlord for office and clinic space at 755 and 759 South Van Ness Avenue and the adjacent parking lot, for a term of approximately four years from the date of full Board of Supervisors and Mayor approval through December 2027, with one five-year option to extend, and initial annual rent of \$644,931, with annual three to five percent increases, and authorize the Director of Property to enter into further immaterial amendments to the lease. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> DPH has occupied space at 755 and 759 South Van Ness Avenue since 1981. The premises consists of a 13,545 square foot building and adjacent 3,675 square foot parking lot. The most recent lease expired on December 31, 2022 and DPH has continued to occupy the building in holdover status, paying a negotiated annual rent of \$626,146 (\$46.23 per square foot). DPH currently operates three mental health outpatient programs at the facility: (1) The Mission Family Center; (2) South Van Ness Adult Health; and (3) The Transitional Age Youth (TAY) Programs. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> Under the proposed lease, DPH would pay an initial annual rent of \$644,931. The rent would increase by a minimum of three percent and a maximum of five percent each year, based on the Consumer Price Index (CPI). Over the four-year term of the proposed lease, the City would pay a minimum of \$2,698,149 and a maximum of \$2,779,732 in total rent. DPH also pays utilities, which are approximately \$26,309 per year. Assuming a five percent escalation, DPH would pay approximately \$119,065 in utilities over four years. <p style="text-align: center;">Policy Consideration</p> <ul style="list-style-type: none"> In 2013, the Budget and Legislative Analyst noted that DPH had rented space at 755 and 759 South Van Ness Avenue since 1981 and recommended that DPH provide a report to the Board of Supervisors detailing the DPH facility plan, including plans to reduce the number of leased sites and consolidate programs and services at City-owned facilities. DPH has not prioritized relocating the programs at 755 and 759 South Van Ness Avenue in its capital plan or identified funding for a new facility. The Board of Supervisors could work with the Administration to include funding in the general obligation bond for public health uses scheduled for November 2024 to purchase a site in the Mission to relocate the services currently operating out of this lease. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> Approve the proposed resolution. 	

MANDATE STATEMENT

City Administrative Code 23.27 states that any lease with a term of one year or longer and where the City is the tenant is subject to Board of Supervisors approval by resolution. A third-party appraisal is required for leases in which the rent exceeds \$45 per square foot per year.

BACKGROUND

The Department of Public Health (DPH) has occupied space at 755 and 759 South Van Ness Avenue since 1981. The premises consists of a 13,545 square foot building and adjacent 3,675 square foot parking lot. Under the most recent lease, which was approved by the Board of Supervisors in November 2018, DPH paid an initial annual rent of \$541,258 (\$40 per square foot), with annual increases ranging from three to five percent (File 18-0928). The lease expired on December 31, 2022 and DPH has continued to occupy the building in holdover status, paying a negotiated annual rent of \$626,146 (\$46.23 per square foot), which was a five percent increase over the prior rent of \$44.03 per square foot per year. DPH currently operates three mental health outpatient programs at the facility: (1) The Mission Family Center, which provides individual, family, parent, and group therapy to children and adolescents; (2) South Van Ness Adult Health, which provides outpatient mental health services to adults; and (3) The Transitional Age Youth (TAY) Programs, which provides case management, linkages, and coordination of services to young adults (ages 16-22).

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a lease between DPH as tenant and AIM TWO as landlord for office and clinic space at 755 and 759 South Van Ness Avenue and the adjacent parking lot, for a term of approximately four years from the date of full Board of Supervisors and Mayor approval through December 2027, with one five-year option to extend, and initial annual rent of \$644,931, with annual three to five percent increases, and authorize the Director of Property to enter into further immaterial amendments to the lease.

The proposed resolution states that the initial annual rent is \$626,146, (\$46.23 per square foot), which was the negotiated holdover rental rate. However, the Real Estate Division (RED) had negotiated the proposed lease under the assumption that it would be approved in 2023, and the proposed lease notes that the first rent adjustment would be on January 1, 2024. At the recommendation of the Budget and Legislative Analyst, at its January 31, 2024 meeting, the Budget & Finance Committee amended the proposed resolution to state that the initial annual rent is \$644,931, which is a three percent increase over the holdover rate.¹

The key terms of the proposed lease are shown in Exhibit 1 below.

¹ According to the U.S. Bureau of Labor Statistics, the Consumer Price Index (CPI) for the San Francisco area increased by 2.6 percent from December 2022 to December 2023. This CPI increase triggers the minimum three percent annual increase stated in the lease.

Exhibit 1: Key Terms of Proposed Lease

Premises	Approximately 13,545 square feet of office space and 3,672 square feet in the parking lot (at no additional cost)
Term	Approximately 3 years and 11 months, from date of full Board of Supervisors and Mayor approval through December 31, 2027
Annual Base Rent	\$644,931 (\$47.61 per square foot of office space)
Rent Adjustment	Annually on January 1, based on Consumer Price Index (CPI), but with a minimum increase of 3% and maximum of 5% each year
Options to Extend	One 5-year option to extend through December 31, 2032. Base rent would be set at 95% of prevailing market rate
Utilities	Paid by City
Janitorial Services	Paid by Landlord

Source: Proposed lease

DPH would continue to operate the Mission Family Center, South Van Ness Adult Health, and TAY programs at the facility.

The proposed lease also adds standards for janitorial service provided by the landlord.

An appraisal conducted by The Dore Group indicates that the proposed annual rent of \$47.61 per square foot is at or below fair market rate.

FISCAL IMPACT

Under the proposed lease, the City would pay an initial annual rent of \$644,931. Over the four-year term, the City would pay a minimum of \$2,698,149 and a maximum of \$2,779,732 in total rent, as shown in Exhibit 2 below.

Exhibit 2: Annual Rent Paid by City

Year²	Minimum Rent (3% Annual Increases)	Maximum Rent (5% Annual Increases)
1	\$644,931	\$644,931
2	664,279	677,177
3	684,207	711,036
4	704,733	746,588
Total	\$2,698,149	\$2,779,732

Source: BLA analysis of proposed lease.

According to DPH, annual utility costs for the property are approximately \$26,309. Assuming a five percent escalation, DPH would pay approximately \$119,065 in utilities over four years, for a total cost of rent with utilities of approximately \$2,817,214 to \$2,898,797. If the option to extend is exercised, the initial base rent for the extension term would be set at 95 percent of prevailing market rent.

² Year 1 rent is shown for the full period of January 2024 through December 2024, regardless of approval date.

POLICY CONSIDERATION

In a 2013 report, the Budget and Legislative Analyst noted that DPH had rented space at 755 and 759 South Van Ness Avenue since 1981 and recommended that DPH provide a report to the Board of Supervisors detailing the DPH facility plan, including plans to reduce the number of leased sites and consolidate programs and services at City-owned facilities, as the Board considered the City’s 10-year Capital Plan for 2015-2024 (File 13-1036), which was included in the resolution approving the 2013 lease. Due to staff turnover, DPH staff was unfamiliar with that request but provided a space planning document detailing plans to relocate 13 programs into City-owned space or to consolidate leases. The 755 and 759 South Van Ness site has not been prioritized for relocation. No analysis has been done to identify other suitable sites and the DPH capital plan does not include funding for moving these services to City-owned space. According to Kathy Jung, DPH Director of Facilities and Capital Planning, DPH would prefer to keep the programs in place at the site because of its proximity to the served population, public transportation access, and on-site parking for City vehicles used for outreach.

The FY 2024-2033 Capital Plan includes a \$320 million General Obligation Bond scheduled for the November 2024 ballot, of which DPH anticipates receiving \$220 million, if approved. The Board of Supervisors could work with the Mayor, Department of Public Health, Real Estate Division, and Capital Planning Committee to include funding in that bond to purchase a site in the Mission to relocate the services currently operating out of this lease. According to Director Jung, DPH’s priorities for the current bond are focused on addressing life safety concerns in existing DPH-owned buildings, including the Chinatown Public Health Center, City Clinic, Silver Avenue Family Health Center, San Francisco General Hospital, and Laguna Honda Hospital. If the bond is approved and sufficient funding is available, the identification of space, purchase, and move could potentially be completed by the end of the initial term of the proposed lease.

RECOMMENDATION

Approve the proposed resolution.

<p>Item 8 File 24-0057</p>	<p>Department: Municipal Transportation Agency Economic & Workforce Development</p>
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EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would de-appropriate \$2.25 million from the General City Responsibility APEC reserve and re-appropriate \$2 million to the Office of Economic & Workforce Development (OEWD) and \$250,000 to the Municipal Transportation Agency (MTA).

Key Points

- In January 2024, the Budget & Finance Committee approved the release of \$6.5 million from the APEC reserve to reimburse expenditures incurred by the Police, Sheriff, and Emergency Management Departments during APEC. There remains \$3.5 million of General Fund monies in the APEC reserve.
- According to the proposed ordinance, the \$2 million for OEWD will be provided to SOMA area businesses and organizations impacted by APEC. As of this writing, an additional appropriation is being considered for businesses impacted by MTA’s Taraval Improvement Project.
- According to the proposed ordinance, the \$250,000 for MTA is to support free parking in the Portsmouth Square and Saint Mary’s Square parking garages and transit fares. According to the Budget & Finance Committee Chair’s Office, the appropriation is intended to offset foregone revenue from waiving parking and transit fees during Lunar New Year, including: (1) two hours of free parking in the Portsmouth Square garage for all of February 2024, (2) two hours of free parking in the St. Mary’s Square garage for all weekends in February 2024, and (3) one day of free transit (excluding cable cars) during a Lunar New Year parade on February 24, 2024. Based on our review of MTA garage and transit activity, we estimate that the foregone revenue could total \$336,050.

Fiscal Impact

- If the proposed ordinance is approved, the APEC reserve will be reduced from \$3.5 million to \$1.25 million. Any unspent funds in the APEC will reserve will be available for appropriation in next year’s budget.

Recommendations

- Request OEWD and the Office of Small Business report back by December 31, 2024 on: (a) the final rules for any new grant program funded by the proposed appropriation, (b) the number of businesses provided grants, and (c) the amount of money disbursed.
- Approval of the proposed ordinance is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

City Charter Section 9.105 states that amendments to the Annual Appropriations Ordinance, after the Controller certifies the availability of funds, are subject to Board of Supervisors approval by ordinance.

BACKGROUND

The FY 2023-24 – FY 2024-25 Annual Appropriation Ordinance included a \$10 million General Fund set-aside in the General City Responsibility cost center to cover expenses related to the Asian Pacific Economic Conference (APEC), which took place in San Francisco in November 2023. The account was placed on Budget & Finance Committee reserve during the Board phase of the June budget process. In January 2024, the Budget & Finance Committee approved the release of \$6.5 million from the APEC reserve to reimburse expenditures incurred by the Police, Sheriff, and Emergency Management Departments during APEC.¹ There remains \$3.5 million in the APEC reserve.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would de-appropriate \$2.25 million from the General City Responsibility APEC reserve and re-appropriate \$2 million to the Office of Economic & Workforce Development (OEWD) and \$250,000 to the Municipal Transportation Agency (MTA).

Business Relief

According to the proposed ordinance, the \$2 million for OEWD will be provided to SOMA area businesses and organizations impacted by APEC. As of this writing, an additional appropriation is being considered for businesses impacted by MTA’s Taraval Improvement Project. According OEWD, no rules have been developed for either program.

The Board of Supervisors should request OEWD and the Office of Small Business report back by December 31, 2024 on: (a) the final rules for any new grant program funded by the proposed appropriation, (b) the number of businesses provided grants, and (c) the amount of money disbursed.

Transportation

According to the proposed ordinance, the \$250,000 for MTA is to support free parking in the Portsmouth Square and Saint Mary’s Square parking garages and transit fares.² According to the

¹ Our report on the requested release of reserves noted that MTA incurred costs of \$2.2 million and revenues losses of \$2.0 million related to APEC.

² In 2022, the Board of Supervisors appropriated \$554,000 in General Fund monies for MTA to provide two hours of free parking in the Portsmouth Square Garage during February 2022 and for two days of free Muni (File 22-0129).

Budget & Finance Committee Chair’s Office, the appropriation is intended to offset foregone revenue from waiving parking and transit fees during Lunar New Year, including: (1) two hours of free parking in the Portsmouth Square garage for all of February 2024, (2) two hours of free parking in the St. Mary’s Square garage for all weekends in February 2024, and (3) one day of free transit (excluding cable cars) during a Lunar New Year parade on February 24, 2024. Exhibit 1 below shows the breakdown of the foregone revenues.

Exhibit 1: MTA Foregone Revenue

Portsmouth Square Garage	\$180,000
St Mary's Square Garage	\$10,500
Transit	\$115,000
Contingency (10%)	\$30,550
Projected Foregone Revenue	\$336,050
Proposed Appropriation	\$250,000
Funding Gap	\$86,050

Source: BLA Review of MTA data

As shown above, to cover the planned free parking in Chinatown garages and one day of free Muni could cost as much as \$336,050, including a 10 percent buffer, which is \$86,050 more than the proposed \$250,000 appropriation for these purposes. The Board could increase the appropriation to \$336,050 in order to fully cover the projected revenue loss or request MTA absorb a portion of the foregone revenue.

FISCAL IMPACT

If the proposed ordinance is approved, the APEC reserve will be reduced from \$3.5 million to \$1.25 million. Any unspent funds in the APEC will reserve will be available for appropriation in next year’s budget.

RECOMMENDATIONS

1. Request OEWD and the Office of Small Business report back by December 31, 2024 on: (a) the final rules for any new grant program funded by the proposed appropriation, (b) the number of businesses provided grants, and (c) the amount of money disbursed.
2. Approval of the proposed ordinance is a policy matter for the Board of Supervisors.