CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Sub-Committee

FROM: Budget and Legislative Analyst

SUBJECT: April 8, 2015 Budget and Finance Sub-Committee Meeting

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Item 1 **File 15-0293**	**Department:** Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objective

- Requested release of $5,800,000 from Pacific Rod & Gun Club (Club) Remediation Project to support the cleanup of contaminated soil at Lake Merced in FY 2014-15.

Key Points

- In 1934, the City and the Club entered into a lease for use of City property at Lake Merced for skeet and trap shooting and fly casting.
- On June 12, 2013, the San Francisco Bay Regional Water Quality Control Board issued an Order to both the Club and the PUC, requiring site investigations and corrective measures to clean up and remediate the area.
- In February, 2015, the Board of Supervisors approved a $9,500,000 supplemental appropriation of PUC Water Enterprise revenues (File 14-1296) and placed the $9,500,000 on Budget and Finance Committee reserve pending the receipt of bids and selection of the contractor to clean up and remediate Lake Merced.
- On February 5, 2015 the PUC received seven bids and has selected ERRG, Inc. as the lowest responsive bidder at $9,210,715.

Fiscal Impact

- PUC's original estimated cost to clean up and remediate Lake Merced was $22,005,000 and $22,005,000 has been appropriated for this project from PUC's Water Enterprise revenues. Based on the ERRG, Inc. lowest responsive bid of $9,210,715, the PUC is now estimating the cost of the Lake Merced project is $18,270,940, which is $3,734,060 or 17% less than originally estimated. However, the PUC's revised costs include $5,552,226 or 60.3% additional contingency and escalation costs, which is excessive.
- Given the uncertainty of this project, a 32% increase on the $9,210,715 construction contract or $2,963,215 should be sufficient for such contingencies and escalation for this project, which is $2,589,011 less than the requested amount.

Policy Consideration

- The activities of the Club resulted in the environmental damage and soil contamination on the City's Lake Merced property, such that the Club should be fully liable for the cost to clean up and remediate the City's property. The City filed a complaint against the Club for damages, nuisance and breach of contract on February 14, 2014, to attempt to recover the Lake Merced clean-up and replacement costs.

Recommendations

- Release $3,210,989 of the $5,800,000 requested on reserve for the clean-up and remediation of the Lake Merced site.
- Continue to reserve the balance of $6,289,011 ($9,500,000 placed on reserve less $3,210,989 recommended to be released).

MANDATE STATEMENT & BACKGROUND

Mandate Statement

In accordance with Section 3.3(e) of the City's Administrative Code, the committee of the Board of Supervisors that has jurisdiction over the budget (i.e., Budget and Finance Committee) may place requested expenditures on reserve until released by the Budget and Finance Committee of the Board of Supervisors.

Background

On January 1, 1934, the City and the Pacific Rod and Gun Club (Club), a nonprofit organization, entered into a month-to-month lease agreement for use of City property at Lake Merced for skeet and trap shooting and fly casting at a rental rate of $10 per month. The Club constructed facilities and operated continuously at this site. In 2007, the Board of Supervisors approved a resolution urging the Public Utilities Commission (PUC) to manage the City's approximately 811 acre Lake Merced Tract and assume a greater role in the protection of water quality, as Lake Merced is an emergency back-up water supply for the City (Resolution No. 14-07). The Lake Merced Tract includes the Club's lease area. Currently, the Club is paying $5,408 per month to the PUC, which deposits these revenues into the PUC's Water Department income account.

On June 12, 2013, the San Francisco Bay Regional Water Quality Control Board (RWQCB) issued an Order to both the Club and the PUC, as joint dischargers, requiring site investigations and a plan for corrective measures to address soil contamination, and requiring the Club and the PUC to clean up and remediate the site. In response, the PUC prepared a Remedial Action Plan to clean-up the site, which was approved by the RWQCB in November, 2014.

In FY 2013-14 and FY 2014-15, the PUC appropriated $12,505,000 from PUC's Water Enterprise revenues to clean up and remediate the site. Based on the PUC's updated estimated total cost of $22,005,000 to fully cleanup the contaminated soil and replace with clean soil at Lake Merced, on February 24, 2015 the Board of Supervisors approved a supplemental appropriation ordinance for $9,500,000 of additional PUC Water Enterprise revenues for the balance of funds needed to clean up and remediate the site (File 14-1296). However, as the PUC had not yet received bids or selected a contractor to conduct the work, the entire $9,500,000 of additional PUC Water Enterprise funds was placed on Budget and Finance Committee reserve pending the receipt of the bids and selection of the contractor to clean up and remediate the contaminated soil at Lake Merced.

DETAILS OF PROPOSED LEGISLATION

This is a request from the PUC for the Budget and Finance Committee to release $5,800,000 of the previously reserved $9,500,000 of PUC Water Enterprise revenues for the Pacific Rod & Gun Club Remediation Project at Lake Merced.

The construction contract for the cleanup and removal of the contaminated soil and the replacement with clean soil on the site was advertised on December 24, 2014, and the PUC received seven bids on February 5, 2015, as summarized in Table 1 below.

Table 1: Bids Received for Lake Merced Clean Up

Company	Bid Price
ERRG, Inc.	$9,210,715
Gordon N Ball/Yerba Buena JV	9,858,575
Proven	11,732,055
Granite Rock	12,608,959
Ghilotti Brothers	13,551,663
Evans Brothers	15,439,325
Pacific States Env.	16,966,805

The PUC has selected ERRG, Inc. as the lowest responsive bidder at $9,210,715.

The City initially issued a 90-day notice of termination to the Club, such that the existing lease would terminate in mid-March, 2015. However, on December 15, 2014, the PUC authorized the General Manager to grant a lease extension to the Club through April 8, 2015, to facilitate the Club in vacating the property. ERRG, Inc. is projected to commence work in mid-April, 2015, after the Club vacates the site.

The cleanup and remediation work is estimated to take up to 15 months to complete, or by the summer of 2016. Following the clean-up of the site, the PUC plans to determine potential reuses of the Lake Merced property based on an open public process, through the issuance of a Request for Proposal.

FISCAL IMPACT

As noted above, the PUC's total original estimated cost to clean up the contaminated soil and replacement with clean soil at the Lake Merced site is $22,005,000. To date, as summarized in Table 2 below, a total of $22,005,000 of PUC Water Enterprise revenues have been appropriated by the Board of Supervisors, including the $9,500,000 which was recently placed on reserve. The PUC's Water Enterprise revenues are funded from both retail and wholesale water customers.

Table 2: Total PUC Water Enterprise Appropriations

Approval Dates	Appropriations
FY 2013-14 Budget	$1,400,000
FY 2014-15 Budget	11,105,000
February, 2015 Supplemental Appropriation (subject of this request)	9,500,000
Total PUC Water Enterprise Appropriation	**$22,005,000**

As shown in Table 3 below, based on the ERRG, Inc. lowest responsive bid of $9,210,715, the PUC is now estimating the cost of the Lake Merced clean up and remediation project will total $18,270,940. This current PUC estimated total Lake Merced project cost of $18,270,940 is $3,734,060 or 17% less than the $22,005,000 PUC original estimate.

Table 3: Estimated Total Project Costs

SFPUC Staff Support	$746,000	
Contingency (10%)	74,600	
Subtotal		$820,600
Professional Services		
Planning, Design, Environmental Review and Permits	1,500,000	
Support During Remediation/Construction	1,262,000	
Contingency (10%)	126,200	2,888,200
Subtotal		
Construction		
Construction Contract with ERRG, Inc.	9,210,715	
Construction Contingency (20%)	1,842,143	
Design Contingency (20%)	1,842,143	
Federal Wetland Exclusion[1] Contingency (10%)	921,072	
Subtotal Construction	13,816,073	
Cost Escalation to Mid-Point of Construction (5.4%)	746,068	
Total Estimated Construction Costs		14,562,140
Total Estimated Project Costs		$18,270,940

As shown in Table 3 above, the PUC included a 5.4% cost escalation on total construction costs and included 10% to 20% contingencies for PUC staff support, professional services, design, construction and Federal Wetland Exclusion that together total $5,552,226. The additional $5,552,226 represents an additional 60.3% of the base $9,210,715 construction contract bid. While recognizing that environmental cleanup and remediation of this site may result in unanticipated contamination and costs, factoring an additional $5,552,226 or 60% is excessive.

City construction projects typically include up to a total 20% contingency. In fact, when the PUC requested the $9,500,000 supplemental appropriation in February 2015, the PUC included a higher 18% design and construction contingency and a 5.4% cost escalation in their original estimates because they acknowledged the uncertainty of this project. Given the uncertainty on this site, the Budget and Legislative Analyst recommends a total $2,963,215 or approximately 32% contingency of the $9,210,715 construction contract which should be sufficient for all contingencies and escalation for this project and which is $2,589,011 less than the estimated project costs shown in Table 3 above.

Therefore, as shown in Table 4 below, the PUC requested amount of $5,800,000 to be released should be reduced by $2,589,011 to $3,210,989.

[1] Federal Wetland Exclusion contingency relates to the delay in the PUC's permit approval which may result in a less efficient removal of the most contaminated material from the wetlands area.

Table 4: Recommendation Summary

PUC Requested Funds to be Released from Reserve	$5,800,000
Contingency and Cost Escalation not needed at this time	2,589,011
Budget and Legislative Analyst Recommended Amount to be Released	$3,210,989

POLICY CONSIDERATION

The original lease with the Pacific Rod and Gun Club at Lake Merced specified "the lessee shall hold the City free and harmless from all claims of damage arising directly or indirectly out of its use of said land during the term of this lease". As noted in the 2013 RWQCB Order, the major soil contamination of the City's Lake Merced property was caused by the lessee, the Gun Club, from the historical use of lead shot and clay pigeons from skeet and trap shooting activities, which resulted in deposits of lead, arsenic and polyaromatic hydrocarbons on the Lake Merced property. Because the activities of the Club clearly resulted in the environmental damage and soil contamination on the City's Lake Merced property, the Club should be fully liable for the total cost to clean up and remediate the City's property.

Ms. Noreen Ambrose of the City Attorney's Office advises that the City filed a complaint against the Club for damages, nuisance and breach of contract on February 14, 2014, to attempt to recover the costs for the clean-up and replacement of the contaminated soil. Ms. Ambrose notes that this complaint is currently pending. Ms. Ambrose reports that the Club is currently cooperating with the City Attorney's Office to search for potential historic insurance policies that the Club purchased that may permit some recovery of insurance proceeds to contribute to the funding of the cleanup. All efforts should be employed by the City to recover payment from the Club to offset the City's costs for the cleanup and replacement of the soil at Lake Merced.

RECOMMENDATIONS

1. Release $3,210,989 of the $5,800,000 requested on reserve for the clean-up and remediation of the Lake Merced site.
2. Continue to reserve the balance of $6,289,011 ($9,500,000 placed on reserve less $3,210,989 recommended to be released).

Item 2 File 15-0213	Department: San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve Modification No. 1 to the Airport's International Terminal Equipment Maintenance and Operating Agreement between the San Francisco Terminal Equipment Company, LLC (SFOTEC) and the City and County of San Francisco, acting by and through its Airport Commission.

Key Points

- The existing agreement includes a not-to-exceed amount of $18,000,000 for expenditures incurred from July 1, 2012 through June 30, 2021.
- Under the existing contract, SFOTEC performs four functions including (i) maintain and operate Airport-owned equipment, (ii) maintain the Airport's integrated electronic system, (iii) perform network monitoring and helpdesk services; and (iv) provide patron assistance and document verification services as needed.
- The proposed $3,000,000 increase requested in Modification No. 1 would be used to (1) increase mobility and other assistance to Airport passengers, and assist with document verification; and (2) staff Automated Passport Control self-service kiosks for the 16-month period from March 2015 through June 2016.

Fiscal Impact

- The requested $3,000,000 increase, payable by the Airport to SFOTEC, consists of $2,231,279 for Automated Passport Control kiosk services from March 2015 through June 2016 (see Table 3 below), and $768,721 for increased passenger assistance and document verification services over the remaining term of the agreement from March 2015 through June 30, 2021.
- SFOTEC reimburses the Airport for any maintenance costs for SFOTEC use of Airport-owned equipment. To date, SFOTEC payments to the Airport of $5,345,024 have exceeded Airport payments to SFOTEC of $4,399,403 for the above-mentioned services by $945,621.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

Mandate Statement

According to City Charter Section 9.118(b), City agreements with anticipated expenditures of $10,000,000 or more, or amendments to such agreements with anticipated expenditures of more than $500,000 are subject to approval by the Board of Supervisors.

BACKGROUND

On July 31, 2012, the Board of Supervisors retroactively approved a nine-year International Terminal Equipment Maintenance and Operating Agreement (File 12-0064) between the San Francisco Terminal Equipment Company, LLC (SFOTEC) and the San Francisco International Airport (Airport) for an amount not-to-exceed $18,000,000, from July 1, 2012 through June 30, 2021, with one option to extend for a period of one year (Res. No. 313-12).

Under the existing agreement, SFOTEC operates and maintains Airport-owned equipment on behalf of the airlines, in accordance with the Lease and Use Agreement between the Airport and the airlines. SFOTEC performs the following function independently or engages one or more approved SFOTEC vendors or operators:

(a) **Maintenance of Airport-owned Equipment**: SFOTEC maintains, repairs, refurbishes, and replaces Airport-owned equipment for use by the airlines. The equipment owned by the Airport includes aircraft guidance/docking systems, baggage handling systems, baggage claim carousels, passenger boarding bridges, and other aircraft and airline support systems. Under this agreement, SFOTEC reimburses the Airport for any costs incurred by the Airport for the operation, use, and maintenance of the equipment including utilities, custodial services, and internet infrastructure charges.

SFOTEC also provides:

(a) **Integrated Electronic Systems Services**: SFOTEC provides maintenance services for the Airport's Integrated Electronic Systems used by the Airport and the airlines, at the Airport's request. The Airport pays SFOTEC for the Airport's share of actual costs incurred by SFOTEC for such services.

(b) **Network Monitoring and HelpDesk Services**: SFOTEC provides network monitoring services for the Airport's local area network (LAN) and wide area network (WAN) using tools from the Airport Information Technology and Telecommunications Network Operations Center. The Airport pays SFOTEC for providing helpdesk services, including answering calls and routing calls to the appropriate service provider for problem resolution.

(c) **Patron Assistance and Document Verification Services as Needed**: The Airport may also request SFOTEC to provide additional services on an as-needed basis including (i) Patron Assistance services, and (ii) Document Verification services.

Under the existing agreement, the Airport pays SFOTEC for services not-to-exceed $18,000,000 for the nine-year term from July 1, 2012 to June 30, 2021. For the first two years and seven months of the agreement from July 1, 2012 through January 31, 2015, the Airport has paid SFOTEC $4,399,403, as shown in Table 1 below.

Table 1. Actual Airport Payments to SFOTEC, July 1, 2012 through January 31, 2015

	FY2012 -13	FY 2013-14	FY 2014-15*	Total
Actual Airport Expenditures for SFOTEC Services				
Integrated Electronic Systems Services	$ 1,221,603	$ 1,269,936	$ 777,755	$ 3,269,294
Network Monitoring and HelpDesk Services	331,159	433,000	217,000	981,159
Patron Assistance and Document Verification Services	53,250	57,350	38,350	148,950
Total	**$ 1,606,012**	**$ 1,760,286**	**$ 1,033,105**	**$ 4,399,403**

Source: Airport Staff (Airport Accounting).

*Fiscal Year 2014-2015 includes actual expenditures from July 1, 2014 through January 31, 2015.

As noted above, under this agreement, SFOTEC reimburses the Airport for any costs incurred by the Airport for the operation, use, and maintenance of Airport-owned equipment, including aircraft guidance/docking systems, baggage handling systems, baggage claim carousels, passenger boarding bridges, and other aircraft and airline support systems. For the first two years and seven months of the agreement from July 1, 2012 through January 31, 2015, the SFOTEC has paid the Airport $5,345,024, as shown in Table 2 below.

Table 2. Actual SFOTEC Payments to the Airport, July 1, 2012 through January 31, 2015

	FY2012 -13	FY 2013-14	FY 2014-15**	Total
Actual SFOTEC Payments to Airport*				
Electricity charges*	$ 1,563,811	$ 2,001,091	$ 1,278,854	$ 4,843,755
water Sewer charges*	86,612	98,607	65,769	250,989
Custodial Fees*	78,000	85,000	52,500	215,500
ITT/Telecom charges*	13,388	13,556	7,837	34,780
Total	**$ 1,741,811**	**$ 2,198,254**	**$ 1,404,959**	**$ 5,345,024**

Source: Airport Staff (Airport Accounting).

*SFOTEC made payments to the Airport for actual costs incurred for the maintenance and operation of Airport-owned equipment in the International Terminal, as outlined in the Agreement.

SFOTEC payments to the Airport of $5,345,024 exceeded Airport payments to SFOTEC of $4,399,403 by $945,621.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Modification No. 1 to the Airport's International Terminal Equipment Maintenance and Operating Agreement between the San Francisco Terminal Equipment Company, LLC and the City and County of San Francisco, acting by and through its Airport Commission. Modification No. 1 would increase the not-to-exceed amount by $3,000,000, payable by the Airport to the San Francisco Terminal Equipment Company, LLC (SFOTEC) from the existing $18,000,000 to a not-to-exceed amount of $21,000,000 for the additional services described in table 2 below.

Table 2. Key Changes in Terms of Agreement Proposed in Modification No. 1

Increase in Maximum Total Compensation to SFOTEC over Nine-Year Agreement period	$3,000,000; increasing the agreement not-to-exceed amount from $18,000,000 to $21,000,000
Automated Passport Control (APC) Kiosk Services	APC Services include verifying documentation, facilitating the queue traffic, and providing customer service assistance.

Source: Modification No. 1 of the International Terminal Equipment Maintenance and Operating Agreement between the San Francisco Terminal Equipment Company, LLC and the City and County of San Francisco, issued on January 20, 2015.

The increase of $3,000,000 in the agreement not-to-exceed amount is to (1) increase mobility and other assistance to Airport passengers, and assist with document verification ($768,721); and (2) staff Automated Passport Control self-service kiosks for the 16-month period from March 2015 through June 2016 ($2,231,279). Ms. Cathy Widener, Airport Manager of Government Affairs, advised that the Airport has already acquired the Automated Passport Control self-service kiosks and now plans to request additional staff to provide guidance to international passengers on how to most efficiently use this new technology using its FY 2015-16 budget. According to Ms. Widener, a higher level of customer service assistance is essential to optimize the effectiveness of the Automated Passport Control self-service kiosks in reducing wait times.

The Airport plans to issue a Request for Proposals (RFP) in June 2015 to select a vendor to provide passenger assistance to the Automated Passport Control Kiosk Program. The Airport plans to select a vendor and implement the new five-year Automated Passport Control Program contract by June 2016. According to Ms. Widener, the Airport expects that the RFP will take approximately 12 months, as they identify, assess, and award a qualified vendor to perform the necessary functions for the Automated Passport Control program.

FISCAL IMPACT

The increase of $3,000,000, payable by the Airport to San Francisco Terminal Equipment Company, LLC (SFOTEC) from the not-to-exceed amount of $18,000,000 under the existing agreement to a not-to-exceed $21,000,000 under the proposed modified agreement, consists of $2,231,279 for Automated Passport Control kiosk services from March 2015 through June 2016 (see Table 3 below), and $768,721 for increased passenger assistance and document verification services over the remaining term of the agreement from March 2015 through June 30, 2021.

Table 3. Projected Expenditures for Automated Passport Control Kiosk Customer Service Assistance

Staffing[a]	Fiscal Year 2014-15[b]			Fiscal Year 2015-16			Total
	Total Hours	Hourly Rate	Total	Total Hours	Hourly Rate	Total	
Lead Staff	2,178	23.51	$ 51,205	6,570	24.22	$ 159,095	$ 210,299
Relief Staff	3,509	23.01	80,742	10,585	23.70	250,868	331,610
Line Staff	15,730	23.01	361,947	47,450	23.70	1,124,579	1,486,527
Subtotal	*21,417*		*$ 493,894*	*64,605*		*$ 1,534,541*	*$ 2,028,436*
Contingency (10%)			49,389			153,454	202,844
Total	**21,417**		**$ 543,284**	**64,605**		**$ 1,687,996**	**$ 2,231,279**

Source: Airport Staff.

a/ "Line staff" direct passengers and offer customer service, while "relief staff" are assigned shifts during lunch breaks and any other scheduled breaks "Lead staff" oversee line staff and operations during the assigned shift.
b/ Expenditures for fiscal year 2014-2015 cover the March 1, 2015 through June 30, 2015 period.

Under the modification to the existing agreement between the Airport and SFOTEC, SFOTEC will provide increased passenger assistance and document verification services, for an increased agreement amount of $768,721 for the remaining six years and three months of the agreement through June 30, 2016, or an average increase of $122,995 per year. According to Ms. Widener, the increase is necessary to provide services to the increased number of Airport passengers, which increased by 3.2 percent from FY 2012-13 to FY 2013-14 and is expected to increase by an additional 3.1 percent from FY 2013-14 to FY 2014-15.

RECOMMENDATION

Approve the proposed resolution.

Item 3 **File 15-0176**	**Department:** Department of Public Health (DPH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize a new four year and eight month lease at 100 Blanken Avenue, with one five-year extension option, between the Department of Public Health (DPH), as Tenant, and Celestina and Alan Salvador Jimenez, Co-Trustees of the Trust of Salvador Jimenez and Celestina Jimenez-Surviving Spouses Trust, as Landlord, to continue to provide 3,000 square feet of space for DPH's Southeast Child/Family Therapy Center.

Key Points

- In 2001, the Board of Supervisors approved a five-year lease between DPH, as Tenant, and Salvador Jimenez, Jr. and Celestina Jimenez, as Landlord for 3,000 square feet of ground floor space, at 100 Blanken Avenue to operate DPH's Southeast Child/Family Therapy Center. The initial annual base rent was $36,000 ($12 per square foot per year), subject to annual increases based on the Consumer Price Index (CPI) of no less than three percent and no more than six percent.
- The lease has been extended since 2007 on a month-to-month basis because DPH was pursuing other facility consolidations and staff workload limitations precluded DPH from initiating a new long-term lease at 1099 Blanken Avenue. DPH's rent increased 100% from $36,000 in 2002 to $72,000 in 2015, reflecting an average annual rent increase of 7.7%.

Fiscal Impact

- Annual base rent for the proposed lease will increase from the current rate of $72,000 to $93,600, an increase of $21,600, or 30 percent. Funds were appropriated by the Board of Supervisors in DPH's Fiscal Year 2014-15 and 2015-16 budgets to cover this annual rental cost. Rent costs for DPH to lease 100 Blanken Avenue are projected to total $1,073,019 for the entire ten year term, including the five-year initial lease and five-year extension period.

Recommendations

1. Urge the Director of Public Health to work with the Director of Real Estate to ensure that all DPH leases are negotiated prior to the expiration of the lease term, such that no City leases extend beyond six months on a month-to-month basis from their expiration of the original lease terms.
2. Approve the proposed resolution.

MANDATE STATEMENT

City Administrative Code Section 23.27 requires Board of Supervisors approval of leases with a term of one year or longer or with rent of $5,000 or more in which the City is the tenant.

BACKGROUND

In 2001, the Board of Supervisors approved a five-year lease between the Department of Public Health (DPH), as Tenant, and Salvador Jimenez, Jr. and Celestina Jimenez, as Landlord for 3,000 square feet of ground floor space, at 100 Blanken Avenue to provide counseling and office space for DPH's Southeast Child/Family Therapy Center. DPH currently has 11 employees (8.5 FTEs) at this location, or an average of 273 per square feet per employee. DPH services provided at this location include: comprehensive psychotherapy and counseling, school consultations, and parent training. The initial annual base rent in 2002 was $36,000 ($12 per square foot per year), subject to annual increases based on the Consumer Price Index (CPI) of no less than three percent and no more than six percent.

The lease commenced in 2002 for a five-year term expiring in 2007, with no options to extend the lease. According to Ms. Claudine Venegas, Senior Real Property Officer at the Real Estate Division, the lease has been extended since 2007 on a month-to-month basis. Section 23.13 of the lease states that the City may hold over possession of the premises on a month-to-month basis with the landlord's consent after the lease term expires. Mr. John Updike of the Real Estate Division advises that although the Real Estate Division requested that DPH enter into a new lease for their existing space, DPH advised that they were not ready to commit to a new lease at 100 Blanken Avenue.

According to Mr. Tyrone Navarro, Facilities and Operations Manager at DPH, DPH chose to continue the lease on a month-to-month basis because DPH was pursuing other facility consolidations at the time and staff workload limitations precluded DPH from initiating a new long-term lease at 1099 Blanken Avenue. DPH's current annual base rent for this lease is $72,000 ($24 per square foot per year). Therefore, DPH's rent at 100 Blanken Avenue increased 100% from $36,000 in 2002 to $72,000 in 2015, a period of 13 years, reflecting an average annual rent increase of 7.7%.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize a new lease at 100 Blanken Avenue between DPH, as Tenant, and Celestina and Alan Salvador Jimenez, Co-Trustees of the Trust of Salvador Jimenez and Celestina Jimenez-Surviving Spouses Trust, as Landlord, to continue to provide 3,000 square feet of ground floor space for DPH's Southeast Child/Family Therapy Center. The term of the lease will be approximately four years and eight months, commencing with approval of the proposed resolution and expiring on January 31, 2020, with one five-year option to extend the lease through January 31, 2025. Base rent for the lease is $7,800 per month, or $93,600 annually ($31.20 per square foot per year), which is a 30 percent increase from the current annual base rent cost of $72,000. Key provisions of the lease are summarized in Table 1 below.

Table 1: Key Provisions of 100 Blanken Ave. Lease

Lease Provision	Proposed Lease
Premises	Approximately 3,000 sq. ft. of ground floor space
Permitted use	Counseling and office space for DPH
Initial Term	5 years
Extension Options	One five-year option
Base Rent	Annual Rent - $93,600, $31.20 per sq. ft. Monthly Rent - $7,800, $2.60 per sq. ft.
Rent Adjustments	Annual adjustments based on the Consumer Price Index (CPI). Annual increases will be no less than 3 percent, and no more than 5 percent. Initial rent for the extension period will be set at 95% of the prevailing market rate, as specified in the proposed lease.
Utilities & Services	City pays for separately metered utilities and janitorial services, approximately $6,000 per year.
Repairs	Landlord is responsible for exterior and structural portions of the premises. City is responsible for interior portions of the premises.

According to Ms. Venegas, base rent for the proposed lease was negotiated by the City's Real Estate Division to be fair market value based on a report by the CoStar Group[1], which found that annual rents were $33.37 per square foot per year for comparable properties. However, Ms. Venegas could not provide an example at a specific address of a comparably priced lease in the area.

[1] The CoStar Group is a commercial real estate information company that is frequently cited by Real Estate Division for their analyses of property valuations. The comparable rent amount of $33.37 is inclusive of utilities and janitorial services, which will be paid by the City under the proposed lease.

FISCAL IMPACT

Annual base rent for the proposed lease will increase from the current rate of $72,000 to $93,600, an increase of $21,600, or 30 percent. As noted above, base rent will then be subject to annual increases between three and five percent. According to Ms. Jenny Louie, Budget Director at DPH, sufficient funds to cover the total new lease costs were appropriated by the Board of Supervisors in DPH's Fiscal Year 2014-15 and 2015-16 budgets. Based on three percent annual CPI adjustments over a ten year period, base rent costs to lease 100 Blanken Avenue are projected to total $1,073,019 for the five-year initial lease term and five-year extension period as shown in Table 2 below.

Table 2: Rent costs for 100 Blanken Avenue Lease

Lease Year	Rent Costs*
Lease Year 1	$93,600
Lease Year 2	96,408
Lease Year 3	99,300
Lease Year 4	102,279
Lease Year 5	105,348
Subtotal 5 Year Initial Rent	*$496,935*
Lease Year 6	108,508
Lease Year 7	111,763
Lease Year 8	115,116
Lease Year 9	118,570
Lease Year 10	122,127
Subtotal 5 Year Extension rent	*$576,084*
Total	**$1,073,019**

*Annual increases calculated at 3 percent

POLICY CONSIDERATION

As noted above, the original five-year lease has been extended since 2007 on a month-to-month basis, an extension period of eight years, or three years longer than the original five-year lease. While Section 23.13 of the lease allowed the City to hold over on a month-to-month basis during this eight-year period, DPH's rent at 100 Blanken Avenue increased 100% from $36,000 in 2002 to $72,000 in 2015, reflecting an average annual rent increase of 7.7%.

Furthermore, without a long-term contractual lease agreement for important DPH services, in contrast to extending the lease on a month-to-month basis for eight years, DPH could be subject to eviction and/or other changes to conditions in terms. Mr. Updike acknowledged that his office wanted to negotiate a new lease for DPH, but DPH chose to continue the lease at Blanken Avenue on a month-to-month basis. The Board of Supervisors should urge the Director of Public Health to work with the Director of Real Estate to ensure that all DPH leases are negotiated prior to the expiration of the lease term, such that no City leases extend beyond six months on a month-to-month basis from their expiration.

RECOMMENDATIONS

1. Urge the Director of Public Health to work with the Director of Real Estate to ensure that all DPH leases are negotiated prior to the expiration of the lease term, such that no City leases extend beyond six months on a month-to-month basis from their expiration of the original lease terms.
2. Approve the proposed resolution.