

**CITY AND COUNTY OF SAN FRANCISCO  
BOARD OF SUPERVISORS  
BUDGET AND LEGISLATIVE ANALYST**

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June 15, 2016

**TO:** Budget and Finance Committee

**FROM:** Budget and Legislative Analyst



**SUBJECT:** June 17, 2016 Budget and Finance Committee Meeting

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<b>Item 13</b> <b>File 16-0652</b>	<b>Department:</b> Real Estate Division
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution authorizes a purchase and sale agreement between the City and the San Francisco Housing Authority (SFHA) for the City to purchase 440 Turk Street from SFHA for an amount of no more than \$5,000,000.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• 440 Turk Street is residential/commercial property owned by SFHA. The property consists of two floors of office space and a residential tower above the office space. The proposed purchase would be for 29,609 square feet of office space, plus certain limited use for 11,932 square feet of parking and other space in the basement. The Mayor’s Office proposes the purchase of 440 Turk Street in order to house the new Department of Homelessness and Supportive Housing.</li> <li>• The City’s Real Estate Division will select an appraiser through a competitive process to determine the fair market value of 440 Turk Street. The price paid by the City to SFHA will not exceed the appraised value, and in any event, will not exceed \$5,000,000.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• Total estimated costs to purchase 440 Turk Street are \$9,000,000, which are General Fund costs. Of the \$9,000,000, \$5,000,000 is for the property purchase and \$4,000,000 is for tenant improvements.</li> </ul> <p style="text-align: center;"><b>Policy Consideration</b></p> <ul style="list-style-type: none"> <li>• According to Mr. John Updike, Director of Real Estate, purchase of the new office space at 440 Turk Street for the new Department of Homelessness and Supportive Housing is justified, even though 98 of the 109 positions are existing HSA and DPH positions, because HSA and DPH are overcrowded and require new space for both existing positions and new positions proposed in the FY 2016-17 budget. As an alternative to incurring \$9,000,000 in property purchase and tenant improvement costs that could otherwise be allocated to direct homeless services, such as navigation centers, the 98 existing City positions could remain in their current HSA and DPH locations; and the up to 11 new Department of Homelessness and Supportive Housing positions could locate to other City space or new leased space.</li> </ul> <p style="text-align: center;"><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>• Amend the proposed resolution to require the Director of Property to provide the Clerk of the Board of Supervisors a copy of the executed Purchase and Sale Agreement, the results of the completed appraisal of the property within 5 days of execution, and notify the Board of Supervisors immediately upon the close of the escrow with the San Francisco Housing Authority.</li> <li>• Approval of the proposed resolution, as amended, is a policy matter for the Board of Supervisors because the Board of Supervisors has not yet approved the creation of the new Department of Homelessness and Supportive Housing or the FY 2016-17 budget for the new Department.</li> </ul>	

**MANDATE STATEMENT**

Administrative Code Section 23.1 provides that acquisitions of real property are subject to Board of Supervisors approval.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution authorizes a purchase and sale agreement between the City and the San Francisco Housing Authority (SFHA) for the City to purchase 440 Turk Street from SFHA for an amount of no more than \$5,000,000.

**440 Turk Street**

440 Turk Street is residential/commercial property owned by SFHA. The property consists of two floors of office space and a residential tower above the office space. The proposed purchase would be for 29,609 square feet of office space, plus certain limited use to 11,932 square feet of parking and other space in the basement. The purchase would not include the residential tower, which is used by SFHA for affordable housing.

According to the proposed legislation, the City's Real Estate Division will select an appraiser through a competitive process to determine the fair market value of 440 Turk Street. The price paid by the City to SFHA will not exceed the appraised value, and in any event, will not exceed \$5 million.

**Department of Homelessness and Supportive Housing**

The Mayor's Office proposes the purchase of 440 Turk Street in order to house the new Department of Homelessness and Supportive Housing. The Mayor's proposed budget for the new department has 109 positions, of which 98 are existing positions in the Human Services Agency (HSA) and Department of Public Health (DPH), and 11 are proposed new positions.

According to Mr. John Updike, Director of Real Estate, purchase of the new office space at 440 Turk Street for the new Department of Homelessness and Supportive Housing is justified, even though 98 of the 109 positions are existing HSA and DPH positions, because HSA and DPH are overcrowded and require new space for both existing positions and new positions proposed in the FY 2016-17 budget. According to Mr. Updike, existing HSA and DPH space that will be vacated when the 98 positions relocate to 440 Turk Street will be backfilled by other HSA and DPH positions, including proposed new positions in the FY 2016-17 budget.

## FISCAL IMPACT

The total estimated costs to the City to purchase 440 Turk Street from SFHA are \$9,000,000, as follows:

Property purchase (not-to-exceed amount)	\$5,000,000
Tenant improvements	
Generator and electrical upgrades	1,000,000
Heating, ventilation, air conditioning (HVAC)	1,000,000
Data switch gear room cooling	100,000
Interior wall reconfiguration	900,000
Carpet and paint	250,000
Furniture and telecommunications	<u>750,000</u>
Tenant improvements subtotal	4,000,000
<b>Total</b>	<b>\$9,000,000</b>

\$9,000,000 is included in the Mayor's proposed FY 2016-17 budget for the new Department of Homelessness and Supportive Housing, subject to Board of Supervisors approval. The source of funds for the \$5,000,000 to pay for the purchase of 440 Turk Street comes from the sale of 50 1<sup>st</sup> Street, which the City will sell for \$22.6 million in 2016 (Files 16-0382 and 16-0387). The balance of \$4,000,000 for tenant improvements is General Fund.

## POLICY CONSIDERATION

### Administrative costs for the new Department of Homelessness and Supportive Housing

The Budget and Legislative Analyst considers approval of the purchase of 440 Turk Street to be a policy matter for the Board of Supervisors because the Board of Supervisors has not yet approved the creation of the new Department of Homelessness and Supportive Housing or the FY 2016-17 budget for the new Department.

According to Ms. Melissa Whitehouse, Mayor's Budget Director, the purchase of 440 Turk Street for the new Department of Homelessness and Supportive Housing allows department staff to be collocated in one space so that they can function as one new department. According to Ms. Whitehouse, purchase of the property is cost-effective in the long term, because leasing space for the 109 positions in the new Department of Homelessness and Supportive Housing could cost up to \$1 million per year.

However, as noted above, 98 of the 109 positions in the new Department of Homelessness and Supportive Housing are existing City positions. The proposed increase in positions in FY 2016-17 is 11, not all of which may be approved by the Board of Supervisors. As an alternative to incurring \$9,000,000 in property purchase and tenant improvement costs that could otherwise be allocated to direct homeless services, such as navigation centers, the 98 existing City positions could remain in their current HSA and DPH locations; and the up to 11 new

Department of Homelessness and Supportive Housing positions could locate to other City space or new leased space.<sup>1</sup>

### **Purchase and sale agreement for the proposed purchase of 440 Turk Street**

The proposed resolution authorizes the Director of Real Estate to enter into a purchase and sale agreement with SFHA without further Board of Supervisors approval for the City to purchase 440 Turk Street for an amount not-to-exceed the appraised value of the property up to \$5 million. According to Mr. Updike, the proposed resolution authorizes the Director of Real Estate to finalize the purchase and sale agreement without further Board of Supervisors approval because (1) the U.S. Department of Housing and Urban Development will review and approve the sale prior to the City finalizing the purchase and sale agreement; and (2) the purchase and sale agreement must be finalized by the end of the federal fiscal year on October 1, 2016. The Budget and Legislative Analyst recommends revising the proposed resolution to require the Director of Real Estate to provide the Clerk of the Board of Supervisors a copy of the executed Purchase and Sale Agreement, the results of the completed appraisal of the property within 5 days of execution, and notify the Board of Supervisors immediately upon the close of the escrow with the San Francisco Housing Authority.

### **RECOMMENDATIONS**

1. Amend the proposed resolution to require the Director of Property provide the Clerk of the Board of Supervisors a copy of the executed Purchase and Sale Agreement, the results of the completed appraisal of the property within 5 days of execution, and notify the Board of Supervisors immediately upon the close of the escrow with the San Francisco Housing Authority.
2. Approval of the proposed resolution, as amended, is a policy matter for the Board of Supervisors because the Board of Supervisors has not yet approved the creation of the new Department of Homelessness and Supportive Housing or the FY 2016-17 budget for the new Department.

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<sup>1</sup> According to Mr. Updike, the City currently has 2,500 square feet of available vacant space.