



Edwin M. Lee, Mayor
Naomi M. Kelly, City Administrator



John Updike
Director of Real Estate

October 13 2016

**Request for Approval of a Resolution of Necessity
Authorizing Acquisition of a Lease by Eminent Domain
1975 Galvez**

Through Harlan Kelly,
Director Public Utilities Commission

Honorable Board of Supervisors
City & County of San Francisco
1 Dr. Carlton B. Goodlett Place
City Hall, Room 224
San Francisco, CA 94102

Dear Board Members:

The Real Estate Division requests your approval of a Resolution of Necessity making required findings and authorizing acquisition, through eminent domain if necessary, of the leasehold rights (“Leasehold” or “Lease”) from Blueline Rental, LLC (“Tenant”) at Assessor’s Parcel No. 5250-016, commonly referred to as 1975 Galvez for the public purposes of relocating the City’s Central Fleet Maintenance Shop (“Central Shops”) and facilitating repair and expansion of the Southeast Water Pollution Plant (“SEP”) facilities; affirming the Planning Department’s Categorical Exemption determination under the California Environmental Quality Act; and making findings of consistency with the General Plan and the eight priority policies of Planning Code Section 101.1.

The 1975 Galvez property, along with the contiguous site commonly referred to as 555 Selby and the leased site at 450 Toland, will be used for the proposed relocation of the Central Shops, and will facilitate maintenance, repair, and expansion of the San Francisco Public Utilities Commission (“SFPUC”) SEP facilities at the existing Central Shops site.

Background material and other documentation supporting this Resolution of Necessity are included in the Board of Supervisors packets for the November 29, 2016 meeting.

Background

The San Francisco General Services Agency (“GSA”) desires to relocate the City’s Central Shops to an updated and modernized facility. The Central Shops provide fleet services to over 70 City departments with a total combined municipal fleet of approximately 6,000 units and processes over 34,000 work orders annually. The existing facility and infrastructure, which began operations in the 1960s, are functionally obsolete and no longer meet the current needs of the City’s Central Shops operations.

The City acquired 1975 Galvez and 555 Selby in the first quarter of 2016. 1975 Galvez is a 48,338 square foot parcel with 7,050 square-foot 30-foot-tall corrugated metal warehouse building. 555 Selby is a 72,788 square foot parcel with 9,600 square foot, 30-foot-tall corrugated metal building. Both properties are currently used to maintain, repair, and store vehicles and equipment for their respective tenants: Blueline Rental at 1975 Galvez and Desoto taxi cabs at 555 Selby. Desoto has a month-to-month leasehold interest, whereas Blueline Rental has an interest that, if the tenant were to exercise its options, would terminate on September 25th 2027.

The proposed project would demolish the existing building on the 555 Selby and 1975 Galvez properties, remove two above-ground fuel storage tanks, and construct a 53,690 square-foot building encompassing the two lots. The lots would be merged and the new building would be a triangle-shaped 35-foot-tall single-story structure with a mezzanine that would be 240 feet wide on average and 286 feet long.

The new building would be used for maintenance and repair of medium- and heavy-duty vehicles, such as fire trucks, heavy equipment, dump trucks, and sweepers. Approximately 50 employees will staff the new facility, which in addition to vehicle and equipment maintenance, will provide fleet management support, administrative functions, and employee amenities. In short, the relocated and updated facilities will modernize and facilitate the City's delivery critical maintenance and repair services to over 70 City departments and the public in general.

The relocation of the Central Shops, will also allow SFPUC to use the 1800 Jerrold Avenue site for its on-going repair and maintenance work in connection with future capital improvement projects at its SEP facilities. SFPUC anticipates, for example, using the Jerrold Avenue site for a new Biosolids Digester Facility Project at some point in the future.

The proposed Project is the culmination of an extensive search by both GSA and SFPUC for additional properties that suit their respective needs to modernize and expand their aging facilities. The Project is a unique opportunity in San Francisco's competitive and rapidly growing real estate market to construct a modern Central Shops facility close to the existing site, while providing the necessary expansion potential for the SEP. Because the Project will relocate the Central Shops to contiguous parcels that the City already owns or largely controls, and allow the SFPUC to use City-owned property adjacent to its existing SEP facilities, the Project is able to provide these public benefits with minimum displacement and inconvenience to private businesses.

Blueline Rental LLC Leasehold

The current lease at 1975 Galvez, held by Blueline Rental LLC, was assigned to the City of San Francisco as a part of the purchase of the property in March of 2016. The Lease was executed on September 25th 2012, for an initial 5-year term, set to expire on September 26th 2017. The Tenant has two options to extend at the Tenant's sole discretion, each for an additional 5-year term. If the Tenant were to exercise each option, the Lease could be extended through September 24th 2027. Current monthly rent paid by the Tenant is \$14,220, with annual increases of 2% per annum throughout the base term and all extended terms. All expenses are paid for by the Tenant. Under the terms of the Lease, at termination of the Lease any and all site improvements on the site revert to the ownership of the property owner, which is now the City and County of San Francisco.

Environmental Review & General Plan Consistency

On October 28th 2015, the Planning Department made required findings and determined that the Project is categorically exempt from the California Environmental Quality Act (California Public Resources Code Sections 21000 et seq) as a Class-32 in-fill development project. (Planning Dept., Case No. 2015-004781ENV.) The Planning Department subsequently reviewed the proposed acquisition of the Lease and confirmed that no further environmental review is required.

On November 5, 2015, the Planning Department verified that the Project, including the City's acquisition of 1975 Galvez, on balance conforms with the General Plan, including the Bayview Hunters Point Area Plan and the Eight Priority Policies under the Planning Code Section 101.1. (Planning Dept., Case No. 2015-013598GPR.) The Planning Department subsequently confirmed that acquisition of the Lease is consistent with its prior determination, and therefore no further General Plan Referral is required.

Acquisition of the Leasehold Interest

Acquisition and termination of the Lease will vacate the 1975 Galvez property, allowing the City to proceed with relocating the Central Shops to its new site. Because the Project requires demolishing the existing structure and removing other improvements on the site, terminating the Lease and relocating the Tenant is an important initial step towards commencing construction of the Project.

The Real Estate Division initiated informal discussions and negotiations with the Tenant beginning in June of 2016 and engaged Associated Right of Way Services, Inc. ("ARWS") for assistance with negotiation and relocation of the Tenant. The City Attorney's Office, on behalf of the Real Estate Division, obtained an appraisal of the Leasehold interest. On September 14th 2016, in compliance with California Government Code Section 7267 et seq., the Real Estate Division offered to purchase the Leasehold interest for \$1,388,000, based upon the appraised fair market value of the Lease.

The Real Estate Division has and will continue to negotiate in good faith with the Tenant in the hopes of reaching an agreement to acquire and terminate the Leasehold interest. However, to the extent the Real Estate Division and the Tenant are unable to reach a negotiated agreement, the Real Estate Division requests that the Board adopt this Resolution of Necessity to authorize commencement of eminent domain proceedings so as to avoid any further delays in construction of the Project.

Resolution of Necessity

The Resolution of Necessity sets forth the findings required by State law concerning, among others, the public interest and necessity of the proposed project and the need to acquire the Lease. The Resolution further authorizes and directs the City Attorney to take all necessary steps to commence and prosecute proceedings in eminent domain and take any and all actions to obtain an order for immediate possession of the Lease.

The Tenant will be notified prior to the Board's hearing on the Resolution and advised of its right to appear to be heard on the following issues:

- (a) Whether the public interest and necessity require the Project;
- (b) Whether the Project is planned or located in the manner that will be most compatible with the greatest public good and the least private injury;
- (c) Whether the property sought to be acquired is necessary for the Project; and

(d) Whether the offer required by California Government Code Section 7267.2 has been made.

Adoption of the Resolution of Necessity would not determine the value of the Lease or the compensation owed to the Tenant. Should the Board adopt the Resolution, the Real Estate Division will continue to negotiate in good faith towards an amicable acquisition and termination of the Lease. Only if no voluntary purchase and sale can be reached would eminent domain proceedings be necessary. In such proceedings, a court or jury would determine the fair market value of the Lease. Any final negotiated settlement would be subject to Board approval, and at that time, appropriate source of funds for such settlement would be provided to the Board, from the project's approved budget.


Recommendation

The Real Estate Division recommends that the Board of Supervisors adopt the Resolution of Necessity:

- (a) making required findings, including that (i) the public interest and necessity require the proposed Project; (ii) the proposed Project is planned and located in the manner that will be most compatible with the greatest public good and the least private injury; (iii) the Lease is necessary for the Project; and (iv) the offer required by California Government Code Section 7267.2 has been made; and
- (b) authorizing and directing the City Attorney to take all necessary steps to commence and prosecute proceedings in eminent domain and take any and all actions to obtain an order for immediate possession of the Lease.

If you have questions regarding this, please do not hesitate to contact me.

Respectfully submitted,



John Updike
Director of Property

c: Naomi Kelly, City Administrator