



CITY AND COUNTY OF SAN FRANCISCO
DEPARTMENT OF CHILD SUPPORT SERVICES

617 Mission Street, San Francisco, CA 94105-3503 Tel. (415) 356-2700
Child Support Automated Information System 1-866-901-3212



MARK E. FARRELL
MAYOR

KAREN M. ROYE
DIRECTOR

May 1, 2018

Honorable Board of Supervisors
City and County of San Francisco
City Hall, Room 244
1 Carlton B. Goodlett Place
San Francisco, CA 94102

Dear Board Members:

Attached for your consideration is a Resolution authorizing the extension of a lease at 617 Mission Street, for use by the San Francisco Department of Child Support Services (SFDCSS) to facilitate child support for over 11,000 San Francisco children each year and for use by the Department of Public Health (DPH) for its IT Project Management and IT Mission Team.

California's child support program formally began in 1975 with the enactment of Title IV-D of the Social Security Act of 1975. The California's Child Support Reform Legislation of 1999 mandated the child support services program in its current form - administered by the California Department of Child Support Services (CA DCSS) and executed at the local level by the local child support agency (LCSA) also known as the San Francisco Department of Child Support Services.

SFDCSS promotes the well-being of San Francisco children by establishing and then delivering child support collection services that help both parents meet the financial, medical, and emotional needs of their children. Through the collection and distribution of funds, SFDCSS achieves cost savings to taxpayers by reducing dependency on public assistance and also improves the quality of life for affected San Francisco children who are not on assistance.

SFDCSS also locates absent parents and establishes paternity of and support for children – including medical insurance coverage. It reviews and adjusts support orders as appropriate, collects and distributes support payments, monitors and enforces payment performance and provides public outreach.

SFDCSS has leased approximately 33,998 sq. ft. of space at 617 Mission Street/109 New Montgomery St. since March of 1995. The lease, as extended by Board Resolution No. 372-14, expires on December 31, 2019 and includes one remaining five (5) year option to extend the term. The current Base Rent is \$121,117.88 per month (approximately \$42.75 per sq. ft. per year). The Base Rent is fully serviced, net of electricity. The City pays for its own separately metered electricity at a

current estimated cost of \$5,457.15 per month (approximately \$0.16 per sq. ft. monthly) and operating expense increases over a 2014 Base Year.

The California Department of Child Support Services (CDCSS) provides 100% of the SFDCSS's funding and SFDCSS does not impact the City's General Fund. State funding has not kept pace with the cost of providing services.

The Department of Public Health (DPH) is currently implementing a new \$203.7 million Electronic Health Record (EHR) system which will be used to digitally capture all clinical and diagnostic information, facilitate coordinated patient care and implement efficient billing across DPH's SF Health Network, including 2 major hospitals and over 40 clinics. According to the proposed plan, the implementation of the new DPH EHR system is projected to take five years.

In 2016, DPH was looking to rent space for its EHR - IT Project Management and IT Mission Team operations. At the same time, SFDCSS was able to consolidate its space. The Real Estate Division (RED) was able to arrange for a sharing of the Premises through a MOU between the departments which allowed DPH to occupy the 4th floor of the Premises and share rental costs on a prorata basis and avoid the upfront occupancy costs (telephone, data, furniture and tenant improvements) saving DPH likely more than \$750,000 and possibly as much as \$1,500,000 compared to renting new space.

DPH uses the 4th floor (9,631 sq. ft. or approximately 28.33% of the total Premises) for its IT Project Management Office and IT Mission Team. The IT Mission Team supports DPH's Enterprise Applications -- responsible for all the SF General Hospital's, Laguna Honda Hospital's and approximately 40 City and 20 City partnered clinic's software for tracking all patient records, medicines, referrals, etc. The IT Project Management Office handles the other major medical software and facilities interface needs for DPH facilities. All of these systems need to meet strict HIPAA laws and are unique to the medical field.

In 2018, rapidly rising San Francisco rents and anticipated further State of California budgetary pressures prompted SFDCSS to contact RED for additional assistance. RED contacted the owner and was able to negotiate a "blend and extend" lease extension - giving up 18 months of current \$42.75 per sq. ft. rent and avoiding a renewal at 95% of Fair Market Rent (FMR) for the period of January 1, 2019 through December 31, 2024 to get a fixed rent at \$56.00 psf (without the market 3% - 4% annual increases) which meets SFDCSS's and DHR's budget needs and saving the City an estimated \$3,073,264.32 over the 6 ½ years compared to waiting until December 31, 2018 and exercising the 95% fair market rent option. Attachment #2 provides the analysis of the \$3,000,000 savings.

As discussed above, the existing Lease has one remaining 5 year option to extend the term through December 31, 2024 which needs to be exercised if at all by December 31, 2018. The proposed legislation extends the existing lease through the same

December 31, 2024. In addition, the proposed Amendment adds two additional five year options at 95% of the then fair market rate.

The proposed Base Rent for the extension is \$158,657.33 per month (approximately \$56.00 per sq. ft. per year) and is fixed for the entire extension term. The Base Rent continues to be fully serviced, net of electricity. The City shall continue to pay for its own separately metered electricity at a current estimated cost of \$5,457.15 per month (approximately \$0.16 per sq. ft. monthly) and operating expense increases over a new 2017 Base Year.

Pursuant to the requirements of Administrative Code Chapter 23, Fair Market Rent for the extended term was appraised by Runde & Partners Inc. dated May 1, 2018, Tim Runde MAI, at \$83.00 per sq. ft. or \$2,821,004 per year (as compared to the proposed \$56 per sq. ft.)

The California Department of Child Support Services (CDCSS) provides 100% of the SFDCSS's funding and SFDCSS does not impact the City's General Fund. In addition, SFDCSS is cooperating with our Department to potentially co-locate other general fund departments should space become available and such use benefits the City's General Fund.

Attachment #1 provides the "before and after" table.

RED, DPH, and SFDCSS recommend approval of the proposed lease extension.

If you have any questions regarding the funding or operations of SFDCSS, please me at 356-2919. If you have any questions regarding the funding or operations of DPH, please Kathy Jung at 554-2858. If you have any questions regarding the lease extension, please contact Charlie Dunn of the Real Estate Division at 554-9861.

Respectfully,



Karen Roye,
Director, SFDCSS

cc John Updike, Director of Real Estate
Barbara Garcia, Director, DPH
Greg Wagner, DPH

Attachment #1

Table 1. Summary of Current and Proposed Lease Amendment Details

	Current Lease	Proposed Lease Amendment
Premises	33,988 square feet	No change
Base Rent	\$121,117.88 per month (approximately \$42.75 per sq. ft. per year)	\$158,657.33 per month (approximately \$56.00 per sq. ft. per year)
Operating Expenses (monthly)	Separately metered electricity estimated to cost \$5,457.15 per month (approximately \$0.16 per sq. ft.)	No change
Term ¹	To December 31, 2019	To December 31, 2024
Extension Options	One 5-year option at 95% of FMR, subject to further Board approval	Two 5-year options at 95% of FMR, subject to further Board approval

Assumes 95% Renewal Rent and \$75 Market Rent & annual 3% increases

33,998 Total SF
 9,631 DPH 4th flr
 24,367 SFDCSS SF
 \$1,453,414.50 Total Rent
 \$411,725.25 DPH 4th flr
 \$1,041,689.25 SFDCSS Rent

Assumes July 1, 2018 start and July 1 lease years

								Total
Option 1	<u>Do nothing now & exercise option on 12.31.18 for five year option period (1/1/19 to 12/31/24)</u>							
	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY24/25	
DCSS Rent:	\$1,041,689.25	\$1,388,919.00	\$1,762,190.98	\$1,815,056.71	\$1,869,508.41	\$1,925,593.66	\$1,983,361.47	\$11,786,319.49
DPH Rent:	<u>\$411,725.25</u>	<u>\$548,967.00</u>	<u>\$696,501.88</u>	<u>\$706,795.01</u>	<u>\$727,998.86</u>	<u>\$749,838.83</u>	<u>\$772,333.99</u>	<u>\$4,614,160.83</u>
City Contract Rent	\$1,453,414.50	\$1,937,886.00	\$2,458,692.86	\$2,521,851.72	\$2,597,507.27	\$2,675,432.49	\$2,755,695.47	\$16,400,480.32
Option 2	<u>Blend and extend the lease now</u>							
	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY24/25	
DCSS New Rent	\$1,364,552.00	\$1,364,552.00	\$1,364,552.00	\$1,364,552.00	\$1,364,552.00	\$1,364,552.00	\$1,364,552.00	\$9,551,864.00
DPH New Rent	\$539,336.00	\$539,336.00	\$539,336.00	\$539,336.00	\$539,336.00	\$539,336.00	\$539,336.00	<u>\$3,775,352.00</u>
City Contract Rent	\$1,903,888.00	\$1,903,888.00	\$1,903,888.00	\$1,903,888.00	\$1,903,888.00	\$1,903,888.00	\$1,903,888.00	\$13,327,216.00
Option 2 Saving over 6 1/2 years								(\$3,073,264.32)