

File No. 120039

Committee Item No. 5
Board Item No. 6

COMMITTEE/BOARD OF SUPERVISORS AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance Committee

Date: February 15, 2012

Board of Supervisors Meeting

Date 2/28/12

Cmte Board

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OTHER

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Completed by: Victor Young
Completed by: Victor Young

Date: February 10, 2012
Date: _____

An asterisked item represents the cover sheet to a document that exceeds 25 pages. The complete document is in the file.

1 [Real Property Lease, Sublease, and Transfer Agreement Amendment - Court Facility - 575
2 Polk Street]

3 **Resolution: 1) approving a lease of approximately 9,000 square feet at 575 Polk Street**
4 **with the Mattison Family Trust for an initial base rent of \$25,597 per month; 2) a**
5 **sublease of 575 Polk Street premises with the State of California, Judicial Council of**
6 **California - Administrative Office of the Courts for use by the San Francisco Superior**
7 **Court; 3) an amendment to the transfer agreement for the court facility at 575 Polk**
8 **Street; and 4) authorizing other actions in furtherance of this Resolution.**

9
10 WHEREAS, In 1991, the City leased approximately 9,000 square feet of ground floor
11 space at 575 Polk Street for additional Superior Court court rooms and administrative offices
12 (Polk Street Court Facility) under a lease dated as of December 3, 1990 (the "Polk Street
13 Lease"); and,

14 WHEREAS, In 2001, the Polk Street Lease term was extended through June 30, 2011
15 pursuant to Board of Supervisors Resolution 297-01; and,

16 WHEREAS, In 2002, the State of California passed the Trial Court Facilities Act of
17 2002, as set forth in California Government Code Section 70301 et seq. (the "Act"); and,

18 WHEREAS, The Act required California cities and counties to transfer their existing
19 court facilities to the State's Administrative Office of the Courts (the "AOC") and to make
20 ongoing, fixed county facility payments (the "CFP") to the State of California after such
21 transfer, with AOC taking over the maintenance and management responsibilities for the
22 transferred court facilities; and,

23 WHEREAS, The Act prevents City from using the Courthouse Facility Construction
24 Fund (the "CCF"), which is funded with a portion of parking ticket surcharges, filing fees, traffic
25

1 fines and interest earnings, to make CFP payments, but it permits City to use the CCF to
2 make rental payments for court facilities leased by City for use by the AOC and the Superior
3 Court of San Francisco for one additional extension period; and,

4 WHEREAS, In 2009, the City's Controller's Office and the AOC established the CFP for
5 the Polk Street Court Facility as \$322,190.00 per year (the "Polk Street CFP"); and,

6 WHEREAS, On December 31 2008, pursuant to Board of Supervisor's Ordinance 249-
7 08, the City transferred City's maintenance and management responsibilities for the Polk
8 Street Court Facility to the AOC under a Transfer Agreement between City and AOC (the
9 "Polk Street Transfer Agreement"), subject to City's continuing obligation to remain as tenant
10 under the Polk Street Lease; and,

11 WHEREAS, The Act and the Polk Street Transfer Agreement required City to begin its
12 payment in perpetuity of the Polk Street CFP following such transfer, but the Polk Street
13 Transfer Agreement allowed City to reduce the Polk Street CFP by an amount equal to the
14 Polk Street Lease rent payments (only until the Polk Street Lease expired on June 30, 2011
15 with one extension), and City uses the CCF for such rent payments; and,

16 WHEREAS, The Polk Street Lease expired on June 30, 2011, and AOC requested that
17 City enter into a new lease for the Polk Street Court Facility with the Mattison Family Trust
18 (the "Landlord") and sublease the Polk Street Court Facility to AOC for use by the AOC and
19 the Superior Court of San Francisco; and,

20 WHEREAS, City negotiated with Landlord for a ten year lease with a five year
21 extension option for the Polk Street Court Facility, which has an initial base rent of \$25,597.00
22 per month (approximately \$2.84 per sq. ft. monthly), requires City to pay its prorata share of
23 real estate taxes and operating expenses, and its own costs for utilities, refuse removal,
24 security and other typical tenant costs, on the terms and conditions set forth in the form of the
25

1 lease (the "New Lease") on file with the Clerk of the Board of Supervisors in File No. 120039,
2 which is incorporated herein by reference; and,

3 WHEREAS, City negotiated with AOC for a ten year sublease with a five year
4 extension option for the Polk Street Court Facility, which does not require AOC to pay
5 sublease rent if City is able to use the CCF for its New Lease rent payments, all on the terms
6 and conditions set forth in the form of sublease (the "Sublease") on file with the Clerk of the
7 Board of Supervisors in File No. 120039, which is incorporated herein by reference; and,

8 WHEREAS, AOC has agreed to amend the Polk Street Transfer Agreement to allow
9 City to reduce the amount of the Polk Street CFP payable during the term of the New Lease
10 by an amount equal to the New Lease rent payments made by City, and a copy of the
11 proposed amendment (the "Transfer Agreement Amendment") is on file with the Clerk of the
12 Board of Supervisors in File No. 120039 and incorporated herein by reference; and,

13 WHEREAS, By structuring the transaction with the New Lease, the Sublease, and the
14 Transfer Agreement Amendment, the City can continue to use the CCF to make rent
15 payments under the New Lease and reduce the amount of the Polk Street CFP payable
16 during the term of New Lease by an amount equal to such New Lease rent payments – thus
17 saving the City in excess of \$300,000 per year; now, therefore, be it

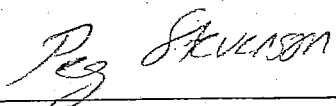
18 RESOLVED, That the Director of Property is hereby authorized to enter into the New
19 Lease, the Sublease, and the Transfer Agreement Amendment, and to take all actions under
20 such documents, including the exercise of the New Lease extension option and any
21 amendments or modifications to such documents (including without limitation, the exhibits),
22 that the Director of Property determines, in consultation with the City Attorney, are in the best
23 interest of the City, do not materially increase the rent or other obligations or liabilities of the
24 City or materially reduce the benefits to City, are necessary or advisable to effectuate the
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purposes of the New Lease, the Sublease, the Transfer Agreement Amendment, and this Resolution, and are in compliance with all applicable laws, including City's Charter; and, be it

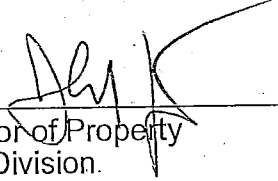
FURTHER RESOLVED, That all actions heretofore taken by the officers of the City with respect to the New Lease, the Sublease and the Transfer Agreement Amendment are hereby approved, confirmed and ratified; and, be it

FURTHER RESOLVED, That the New Lease shall be subject to certification as to funds by the Controller, pursuant to Section 3.105 of the Charter.



Controller

RECOMMENDED:



Acting Director of Property
Real Estate Division.

Items 5 & 6
Files 12-0039 and 12-0040

Department:
Real Estate
Department of Public Health (DPH)
Superior Court

EXECUTIVE SUMMARY

Legislative Objectives

- **File 12-0039:** The proposed resolution would approve (a) a new lease of approximately 9,000 square feet at 575 Polk Street between the City, as lessee, and the Mattison Family Trust, as lessor, for \$25,597 per month for use by the San Francisco Superior Court; (b) a sublease at the same 575 Polk Street Superior Court facility between the City, as sublessor, and the State of California, Judicial Council of California—Administrative Office of the Courts (AOC), as sublessee,; (c) an amendment to the Transfer Agreement for the court facility at 575 Polk Street; and (d) other actions in furtherance of this resolution.
- **File 12-0040:** The proposed resolution would (a) approve exercising a lease expansion option of approximately 9,000 square feet at 555 Polk Street between the City, as lessee and the Mattison Family Trust, as lessor, for \$16,100 per month, for use by the Department of Public Health (DPH) as a Community Justice Center, and (b) authorize other actions in furtherance of this resolution.

Key Points

- In 1990, the Board of Supervisors approved an initial ten year, and three month lease for approximately 9,000 square feet of ground floor space at 575 Polk Street for additional court rooms and administrative offices for the San Francisco Superior Court (Resolution 960-90). In 2001, the Board of Supervisors approved an option to extend this initial lease through June 30, 2011, with the Mattison Family Trust, the current lessor (Resolution 297-01). Since July 1, 2011, this lease has continued on a holdover month-to-month basis, at a rental cost of \$28,157 per month, or ten percent more than the \$25,597 per month rent paid in June of 2011.
- On October 28, 2008, the Board of Supervisors approved a Transfer Agreement between the City and the State AOC for (a) the transfer of the Polk Street Court Facility at 575 Polk Street from the City to the State AOC, including the maintenance and management responsibilities (Ordinance 249-08); (b) the City's payment of annual County Facility Payments to the State AOC, (c) the City's obligation to continue the lease with the Mattison Family Trust that extended through June 30, 2011, and (d) the City's use of Courthouse Construction Funds to make the annual County Facility Payments to the AOC.
- In 2008, the Board of Supervisors retroactively approved a separate 9,000 square foot five year sublease (Resolution 348-08) at 555 Polk Street between the California Culinary Academy, as sublessor, and the City, on behalf of DPH, as subleasee, for the City's new Community Justice Center at \$16,100 per month, from March 15, 2008 through March 15, 2013. The Community Justice Center, located at 555 Polk Street, is on the second floor of the same building housing the Superior Court facility, located at 575 Polk Street, on the ground floor.

Fiscal Impacts

- Under the proposed 575 Polk Street lease (File 12-0039), rent would remain at \$25,597 per month for the nine year, five month term, or approximately \$2.84 per square foot per month for the 9,000 square feet of space; a total of \$307,164 per year. Total annual operating expenses are estimated at approximately \$92,500. Therefore, total annual lease and operating costs total \$399,664. Over the nine year, five month term, total lease and operating costs for the 575 Polk Street court facility is \$3,882,466.
- The entire \$399,664 575 Polk Street annual lease and operating costs would continue to be funded from the City's Courthouse Construction Fund. However, the previously available surplus in the Courthouse Construction Fund has been depleted and the annual revenues of approximately \$3,000,000 accruing to the Courthouse Construction Fund are less than the annual expenses of approximately \$4,600,000, to primarily cover the debt service on the 400 McAllister Street court facility, such that the FY 2010-11 ending balance in the Courthouse Construction Fund was a negative \$1,096,000. The City's General Fund is the source of funding for the Courthouse Construction Fund shortfalls.
- The proposed sublease and amendment to the Transfer Agreement (File 12-0039) between the City and the State AOC allow the City to continue to reduce the annual County Facility Payments owed to the State AOC by an amount equal to the Polk Street lease payments and related operating expenses made by the City to the Mattison Family Trust. The FY 2011-12 County Facility Payment owed by the City to the State AOC is \$375,505, such that based on a current State allowable reduction of \$351,043 for the existing 575 Polk Street lease and operating costs, the City is currently obligated to pay the State the remaining \$24,462 in FY 2011-12, with Courthouse Construction Funds.
- The proposed 555 Polk Street Expansion Option (File 12-0040) for the existing 9,000 square foot sublease for the Community Justice Center, would be combined with the existing 9,000 square foot Superior Court lease, for a total lease of 18,000 square feet between the City and the Mattison Family Trust. The monthly rent for the Community Justice Center would be the same as the current rent of \$16,100 per month, through July 31, 2021, or \$1.79 per square foot per month for the 9,000 square feet of space, or \$193,200 per year. Over the eight year and four month term; the total rent cost to DPH would be \$1,610,000. Annual operating expenses are estimated at approximately \$95,096. Based on annual rent of \$193,200 plus operating expenses of approximately \$95,096 per year, results in total annual costs of approximately \$288,296 for DPH. Over the eight year and four month term, total expenses for DPH at 555 Polk Street would be \$2,496,000, to be funded with City General Fund revenues, subject to Board of Supervisors appropriation approval in DPH's annual budget.

Recommendations

- Amend the proposed resolution (File 12-0039) on page 2, line 5 to change the correct date of when the City transferred maintenance and management responsibilities for the Polk Street court facility to the AOC from December 31, 2009 to December 31, 2008.
- Amend the proposed resolution (File 12-0039) on page 2, line 13 to change the correct date of when the 575 Polk Street lease expired from July 31, 2011 to June 30, 2011.
- Approve the proposed resolution (File 12-0039), as amended.
- Approval of the proposed resolution (File 12-0040) is a policy decision for the Board of Supervisors.

MANDATE STATEMENT

In accordance with Sections 23.26 and 23.27 of the City's Administrative Code, leases of \$5,000 or more per month that extend for more than one year are subject to Board of Supervisors approval by resolution.

BACKGROUND

In 1990, the Board of Supervisors approved an initial lease between the City, as lessee, and Pasquan and Giraud¹, as lessor, for approximately 9,000 square feet of ground floor space at 575 Polk Street for additional court rooms and administrative offices for the San Francisco Superior Court (Resolution 960-90). This initial ten year and three month lease extended from April 1, 1991 through June 30, 2001. In 2001, the Board of Supervisors approved an option to extend this initial ten-year, three month lease for an additional ten years, or through June 30, 2011, with the Mattison Family Trust, the successor to the original lessor (Resolution 297-01). According to Ms. Sue Wong, Chief Financial Officer of the Superior Court, this leased space is used by the Superior Court for two courtrooms, two judges' chambers, two holding cells, three administrative offices, and one conference room primarily used for training purposes.

Since July 1, 2011, this lease has continued on a holdover month-to-month basis, at a rental cost of \$28,157 per month, or ten percent more than the \$25,597 per month rent paid in June of 2011. Mr. Charlie Dunn, Senior Real Property Officer in the Real Estate Division advises that the City has been in negotiations with the Mattison Family Trust and the State since the spring of 2011, or for approximately a year, regarding this lease and the related agreements discussed below.

In 2002, the State of California approved the Trial Court Facilities Act of 2002, which required that California cities and counties transfer their existing court facilities to the State's Administrative Office of the Courts (AOC) and make ongoing, fixed County Facility Payments (CFP) to the State of California. Under these arrangements, the AOC would assume the ongoing maintenance and management responsibilities for these transferred court facilities, which would be funded with the annual County Facility Payments paid by the City to the State AOC. In accordance with the Trial Court Facilities Act of 2002, if a transferred court facility was originally leased by a city or county, then rather than assuming the lease in the AOC's name, the city or county was permitted to retain the lease and continue to make the required lease payments and related operating costs and then deduct such ongoing lease payments and costs from the County Facility Payments that the county would otherwise have to pay to the State AOC for that court facility, until the lease terminated. Once the lease terminated, the AOC was authorized to permit one five-year extension on the court facility's lease term, unless the AOC Managing Director approved a longer lease extension.

¹ This original lease was between the City and County of San Francisco as lessee and Stephen L. Pasquan, Pamela Pasquan, Joseph J. Giraud and Beverly J. Giraud, as lessor.

On October 28, 2008, the Board of Supervisors approved a Transfer Agreement between the City and the AOC for the transfer of the Polk Street Court Facility at 575 Polk Street from the City to the State AOC, including the maintenance and management responsibilities (Ordinance 249-08), subject to the City's obligation to continue the lease with the Mattison Family Trust that extended through June 30, 2011. This Transfer Agreement also provided that an initial annual County Facility Payment of \$322,190² would be made by the City to the State's AOC in perpetuity, as adjusted annually for the 575 Polk Street Court Facility, but allowed the City to reduce these annual County Facility Payments by an amount equal to the Polk Street lease payments and related operating expenses made by the City to the Mattison Family Trust totaling \$290,925 in FY 2008-09, for a net payment of \$31,265 in FY 2008-09. In addition, this Transfer Agreement between the City and the State AOC permitted the City to use Courthouse Construction Funds to make such County Facility Payments to the State AOC. On December 31, 2008, the City transferred the 575 Polk Street court facility to the State AOC.³

In 1992, the Board of Supervisors established a Courthouse Construction Fund, as a Category Four Fund⁴, as authorized under Sections 76238, 76000 and 76100 of the California Government Code, to receive revenues from various penalty assessments in criminal and parking cases, including court filing fees and surcharges on parking fees and fines, traffic violations and interest earnings. Courthouse Construction Funds are authorized for use to acquire, rehabilitate, construct or finance courtrooms or buildings necessary or incidental to the operation of the justice system, as well as for any lease rental payments or debt service payments for such courthouse facilities. In accordance with Section 10.100-353 of the City's Administrative Code, the Courthouse Construction Fund is maintained by the Controller's Office.

In May of 2008, the Board of Supervisors retroactively approved a separate 9,000 square foot sublease (File 08-0484; Resolution 348-08) at 555 Polk Street between the California Culinary Academy, as sublessor, which leases the space from the Mattison Family Trust⁵, and the City and County of San Francisco, on behalf of the Department of Public Health (DPH), as sublessee, for the City's new Community Justice Center. According to Ms. Sue Wong, Chief Financial Officer for the Superior Court, the Community Justice Center, which commenced operations in March of 2009, is a criminal court and social service center that serves the Tenderloin, Civic Center, Union Square and South of Market neighborhoods to provide Court authorized alternatives to incarceration, including drug treatment programs, housing and employment assistance and mental and physical health programs. Community Justice Center defendants are

² According to Ms. Michelle Allersma of the Controller's Office, the County Facility Payments was determined based on the court facilities' operating expenses incurred by the City, including janitorial and maintenance costs, parking, utilities, insurance and lease payments between FY 1995-96 and FY 1999-2000, subject to both an initial inflation adjustment and annual increases based on the annual rent increases under the existing lease.

³ In addition to the 575 Polk Street court facility, in accordance with Trial Court Facilities Act of 2002, the City also transferred the 400 McAllister Street court facility, the Hall of Justice court facility and the Youth Guidance Center's court facility to the AOC in 2008, and in FY 2011-12 will pay the AOC a total of \$1,697,716 of County Facility Payments for the AOC to maintain and manage these court transferred facilities.

⁴ In accordance with Section 10.100-1 of the City's Administrative Code, a Category Four Fund accumulates interest provided that the balance in the fund exceeds \$50,000 and any unexpended and unencumbered balances are carried forward each fiscal year.

⁵ The California Culinary Academy, as lessee, entered into a nine year and eight month lease with the Mattison Family Trust, as lessor, on July 28, 2003, which extends through March 31, 2013, at which time this lease will terminate.

typically homeless, substance dependent, mentally ill, and/or frequent users of emergency services and police resources, who have proven difficult to serve at the Hall of Justice. The Community Justice Center, located at 555 Polk Street, is on the second floor of the same building housing the Superior Court facility, located at 575 Polk Street, on the ground floor. The initial Community Justice Center sublease was for five years, from March 15, 2008 through March 14, 2013, with no options to extend the term. The DPH, as sublessee, currently pays the California Culinary Academy, as lessor, \$16,100 per month for this 9,000 square foot sublease for the Community Justice Center, which includes a public area and counter, seven offices and 31 workstations and two large meeting rooms.

DETAILS OF PROPOSED LEGISLATION

File 12-0039: The proposed resolution (File 12-0039) would approve (a) a new lease of approximately 9,000 square feet on the ground floor at 575 Polk Street between the City, as lessee, and the Mattison Family Trust, as lessor, for use by the San Francisco Superior Court at \$25,597 per month, from approximately March 1, 2012⁶ through July 31, 2021, with one five-year option to extend, or through July 31, 2026; (b) a sublease of the 575 Polk Street premises between the City, as lessor, and the State of California, Judicial Council of California, Administrative Office of the Courts (AOC), as sublessee; (c) an amendment to the Transfer Agreement between the City and the State AOC for the court facility at 575 Polk Street; and (d) other actions in furtherance of this resolution.

The proposed resolution would approve a lease at 575 Polk Street between the City, on behalf of the Superior Court, and Mattison Family Trust, which includes the following specific provisions:

- Lease of approximately 9,000 square feet for the Superior Court would commence on approximately March 1, 2012 and extend for nine years and five months through July 31, 2021, and include one five-year option to extend, or through July 31, 2026.
- Rent would be paid by the City to Mattison Family Trust at the same monthly rent under the previous lease, which expired on June 30, 2011, of \$25,597 per month for the duration of the nine years and five months. For the five-year option period, rent would be based on 95 percent of the then prevailing market rate for comparable age, quality and sized properties located in the Civic Center/Van Ness Corridor.
- City would be required to pay its pro rata share of Property Taxes, and other operating expenses. City would be required to pay its own costs for utilities, refuse removal, security and other direct costs incurred.
- Mattison Family Trust, as lessor, would be responsible for normal repairs and maintenance of the facility. Any additional services provided by Mattison Family Trust to the City would be paid by the City to Mattison Family Trust, plus a ten percent administrative fee.

⁶ According to Mr. Dunn, the proposed lease would commence, upon final approval by the Board of Supervisors and the Mayor, and subsequent to execution of the final documents by all parties.

- City would have an Expansion Option to expand the leased premises to include approximately 9,000 square feet of space on the second floor of the building for the City's Community Justice Center at 555 Polk Street, and could exercise this option with written notice to the Mattison Family Trust no later than March 15, 2012, subject to termination of the existing lease between the Mattison Family Trust and the California Culinary Academy. Mr. Dunn advises that if the proposed resolution (File 12-0039) and the accompanying resolution (File 12-0040) are approved by the Board of Supervisors, the Board of Supervisors would not be required to approve a subsequent resolution to exercise the expansion option.
- After July 1, 2016, the City would have the right to require Mattison Family Trust, as lessor, to provide leasehold improvements at the lessor's expense of up to \$54,000, or up to \$108,000 if the City exercises the above-noted Expansion Option, adjusted annually by the Bay Area Consumer Price Index. Any leasehold improvements above these amounts would be paid by the City to the lessor, plus a ten percent administrative fee.

The proposed resolution would also approve a sublease between the City and the State of California, Judicial Council of California, Administrative Office of the Courts (AOC) for the continued use of the 9,000 square foot space on the ground floor at 575 Polk Street by the San Francisco Superior Court. The term of this sublease would commence at the same time as the proposed lease, or approximately March 1, 2012 and extend through July 31, 2021, with one five year option to extend this sublease through July 31, 2026. Under the terms of this sublease:

- All applicable terms and conditions in the above-noted lease between the City and Mattison Family Trust would be incorporated into this sublease between the City and the AOC.
- The AOC would be required to provide the City with an Extension Notice, or notice of the AOC's intent to extend the term of the sublease, prior to the City exercising the five-year option to extend the above-noted lease.
- The City would reserve the right to access and use two holding cells in the subleased space to facilitate the operations of the City's Community Justice Center.
- The AOC would authorize the City to use the Courthouse Construction Fund to pay all base rent and additional charges, excluding janitorial or security expenses, during the initial nine-year and five month term of the sublease. If the State AOC does not authorize the City to use its Courthouse Construction Fund to pay base rent and charges during the five-year option period, then commencing on August 1, 2021, the State AOC would be responsible for paying the City the sublease monthly expenses.

The proposed resolution (File 12-0039) would also approve the First Amendment to the Transfer Agreement between the Judicial Council of California, Administrative Office of the Courts (AOC) and the City and County of San Francisco for the court facility at 575 Polk Street in order to allow the City, as lessee, to continue to use the Courthouse Construction Fund to pay rent to the Mattison Family Trust, as lessor, and to offset the County Facility Payments to be paid by the City to the State AOC during the proposed nine year and five month term of the lease, or through July 31, 2021.

The proposed resolution (File 12-0039) states that on December 31, 2009, the City transferred City's maintenance and management responsibilities for the Polk Street Court Facility to the AOC on page 2, line 5. In fact, the City transferred the City's maintenance and management responsibilities for the Polk Street Court Facility to the AOC on December 31, 2008. In addition, the proposed resolution (File 12-0039) states that the Polk Street lease expired on July 31, 2001 on page 2, line 13. The Polk Street lease actually expired on June 30, 2011.

Therefore, in order to provide for the correct dates, the proposed resolution should be amended on page 2, line 5 to change the December 31, 2009 date to December 31, 2008, and on page 2, line 13 to change the July 31, 2011 date to June 30, 2011.

File 12-0040: The proposed resolution (File 12-0040) would (a) approve exercising the above-noted Expansion Option by March 15, 2012 to expand the above-noted lease at 575 Polk Street by approximately 9,000 square feet at 555 Polk Street on the second floor between the City, as lessee, and the Mattison Family Trust, as lessor, for \$16,100 per month, for the continued use by the Department of Public Health (DPH) as a Community Justice Center through July 31, 2021, and (b) authorize other actions in furtherance of this resolution.

As noted above, the City, as sublessee, currently has a sublease with the California Culinary Academy, as sublessor, which expires on March 15, 2013, to use the second floor of the 555 Polk Street space for the Community Justice Center at a cost of \$16,100 per month.

If the proposed Expansion Option resolution is approved by the Board of Supervisors, Mr. Dunn advises that this Expansion Option would need to be formally exercised by the City with Mattison Family Trust by March 15, 2012, one year before the sublease between the California Culinary Academy and the City expires. Although the existing sublease between the California Culinary Academy and the City expires on March 15, 2013, given that and the lease between the California Culinary Academy and Mattison Family Trust for the space at 555 Polk Street expires on March 31, 2013, or two weeks later, Mr. Dunn advises that the City will extend its existing sublease for an additional two week holdover period, in order to coincide with the expiration of the lease. If the proposed resolution is approved by the Board of Supervisors, such that the option to expand the new lease is exercised and approved by March 15, 2012, the 9,000 square feet of space on the second floor of 555 Polk Street used by the Community Justice Center would then be automatically added on March 31, 2013 to the existing 9,000 square foot lease on the first floor of 575 Polk Street used by the Superior Court for courtrooms and administrative offices and extended for eight years and four months from March 31, 2013 through July 31, 2021, which would coincide with the expiration of the 575 Polk Street lease.

FISCAL IMPACTS

File 12-0039: Under the proposed nine year and five month lease between the City, as lessee, on behalf of the Superior Court, and the Mattison Family Trust, as lessor, the rent would remain at the same \$25,597 per month, or approximately \$2.84 per square foot per month for the 9,000 square feet of space at 575 Polk Street, or \$307,164 per year, as the City was paying under the previous lease, which expired on June 30, 2011. As noted above, since July 1, 2011, this lease has continued on a holdover month-to-month basis, at a cost of \$28,157 per month, or ten

percent more than the \$25,597 per month rent paid in June of 2011, when the previous lease expired. Therefore, the proposed monthly rent of \$25,597 would result in a \$2,560 monthly reduction from the \$28,157 monthly rent that the City has been paying to Mattison Family Trust since July 1, 2011. The rent would remain at this same \$25,597 monthly rate over the nine-year, five month term of the proposed 575 Polk Street lease, or through July 31, 2021.

If the City exercises the option to extend the lease by an additional five years, the monthly rent would be based on 95 percent of the then prevailing market rate for comparable age, quality and sized properties located in the Civic Center/Van Ness Corridor.

Under the proposed lease, the City would continue to pay for its own utilities, refuse removal and security costs. Under the proposed lease, the lessor would continue to provide janitorial, pest control, heating, ventilation and air conditioning (HVAC), and property management services, as well as pay annual Property Taxes and insurance expenses, which the City would reimburse the lessor for one-half of all such costs, based on 50 percent occupancy of the building. As shown in Table 1 below, total operating expenses for the City are estimated at approximately \$92,500, excluding security costs, during the first year. As shown in Table 1 below, the total costs for the Superior Court during the first year of the proposed lease for 575 Polk Street includes annual rent of \$307,164 (12 months x \$25,597 per month) plus annual operating expenses of approximately \$92,500, for a total of \$399,664.

According to Mr. Dunn, assuming a three percent annual increase, the total operating expenses over the nine year, and five month lease term will be approximately \$990,000. In accordance with the proposed lease, the annual rent will stay at the same \$307,164 over the nine year and five month term or a total cost of \$2,892,461. As shown in Table 1 below, the total costs of the proposed 575 Polk Street lease to the City would be \$3,882,466 for the continued operations of the Superior Courts leased courtrooms and administrative offices. As noted above, since July 1, 2011, this lease has continued on a holdover month-to-month basis, at a rental cost of \$28,157 per month, or ten percent more than (a) the \$25,597 per month rent paid in June of 2011 and (b) the \$25,597 per month rent to be paid under the proposed lease.

Table 1: Rent and Operating Expenses for 575 Polk Street

Expenses	Monthly	Annual	Nine Year, Five Month Lease Term
Rent for 575 Polk Street	\$25,597	\$307,164	\$2,892,461
Operating Expenses ⁷ for 575 Polk Street	7,709	92,500	990,000
Total Rent and Operating Expenses for 575 Polk Street	\$33,305	\$399,664	\$3,882,466

⁷ Operating Expenses shown in Table 1 do not include the projected FY 2011-12 security costs of \$522,000 for 575 Polk Street provided by the Sheriff's Department, which is funded with separate State Trial Court Security Account funds, according to Ms. Wong.

The entire \$399,664 575 Polk Street annual lease and operating costs would continue to be funded from the City's Courthouse Construction Fund.

As noted above, court filing fees and surcharges on parking fees and fines, traffic violations and interest earnings are the source of revenue for the Courthouse Construction Fund, which generates approximately \$3,000,000 annually. Ms. Allersma advises that annual payments from the Courthouse Construction Fund currently include approximately (a) \$4,200,000 of debt service for the courthouse at 400 McAllister Street, and (b) \$400,000 (\$399,664) for the subject 575 Polk Street lease and related operating expenses, or a total of approximately \$4,600,000 in FY 2011-12. Ms. Allersma notes that the annual debt service payments for the 400 McAllister Street courthouse will decrease substantially in FY 2016-17 from \$4,200,000 to approximately \$2,000,000, and this debt will be fully repaid in FY 2020-21. However, the previously available surplus in the Courthouse Construction Fund has been depleted and the annual revenues of approximately \$3,000,000 accruing to the Courthouse Construction Fund are less than the annual expenses of approximately \$4,600,000, such that the FY 2010-11 ending balance in the Courthouse Construction Fund was a negative \$1,096,000. According to Ms. Allersma, the City's General Fund is the source of funding for the Courthouse Construction Fund shortfalls. Ms. Allersma advises that the City is in discussions with the State regarding potential future reimbursements from the Courthouse Construction Fund to the City's General Fund in future years, as the debt service for the 400 McAllister Street court facility is retired.

In addition, the proposed sublease and amended Transfer Agreement between the City and the State AOC allow the City to continue to reduce the annual County Facility Payments owed to the State AOC by an amount equal to the Polk Street lease payments and related operating expenses made by the City to the Mattison Family Trust. Ms. Allersma advises that the FY 2011-12 County Facility Payment owed to the State AOC is \$375,505, such that based on a current allowable reduction of \$351,043⁸ for the existing 575 Polk Street lease and operating costs, the City is currently obligated to pay the State the remaining \$24,462 in FY 2011-12, which is funded with Courthouse Construction Funds.

File 12-0040: Under the proposed resolution, the City would exercise its Expansion Option to include the 9,000 square foot sublease between the City, on behalf of DPH, and the California Culinary Academy for the Community Justice Center, with the existing 9,000 square foot lease on the ground floor between the City, on behalf of the Superior Court, and the Mattison Family Trust, for a total lease of 18,000 square feet of space between the City and the Mattison Family Trust. The monthly rent for the 9,000 square feet of additional space for the Community Justice Center on the second floor would be the same as the current rent of \$16,100 per month or approximately \$1.79 per square foot per month for the 9,000 square feet of space, or \$193,200 per year, as shown in Table 2 below.

⁸ The State AOC allowable reduction of \$351,043 is less than the total lease costs of \$307,164 plus the total operating expenses of \$92,500 because janitorial and pest control expenses are not included. According to Mr. Michael Yuen of the Superior Court, janitorial and pest control costs are covered under the State Trial Court funding for the Superior Court.

The rent would remain at this same \$16,100 monthly rate over the eight year and four month term of the proposed 555 Polk Street lease, or through July 31, 2021. Over the eight year and four month term, the total rent cost to DPH would be \$1,610,000.

Under the proposed Expansion Option, the City and the lessor would continue to pay for all of the same costs, with such costs passed through to the City based on 50 percent occupancy of the building, as discussed above for the existing lease. Based on these lease provisions, as shown in Table 2 below, total operating expenses for the City are estimated at approximately \$95,096 during the first year. Based on annual rent of \$193,200 plus operating expenses of approximately \$95,096 per year, results in total costs of approximately \$288,296 for DPH during the first year of the proposed extended lease for the Community Justice Center at 555 Polk Street, as shown in Table 2 below.

Table 2: Rent and Operating Expenses for 555 Polk Street Lease

Expenses	Monthly	Annual	Eight Year, Four Month Term of Lease
Rent for 555 Polk Street	\$16,100	\$193,200	\$1,610,000
Operating Expenses for 555 Polk Street	7,925	95,096	886,000
Total Rent and Operating Expenses for 555 Polk Street	\$24,025	\$288,296	\$2,496,000

Based on an estimated three percent annual increase in operating expenses, total costs are estimated at \$886,000 over the eight year and four month lease term. As shown in Table 2 above, over the eight year and four month term, the rent and operating expenses for DPH at 555 Polk Street would be \$2,496,000 for the continued operations of the Community Justice Center.

The subject 555 Polk Street lease for the Community Justice Center on the second floor is currently funded with City General Fund revenues, under the DPH annual budget. According to Mr. Craig Murdock of the Department of Public Health, if the proposed lease for the Community Justice Center at 555 Polk Street is approved, the ongoing lease and operating costs would continue to be funded with City General Fund revenues in DPH's annual budgets.

As noted above, the rent for 575 Polk Street for the Superior Court on the ground floor would be \$25,597 per month, or approximately \$2.84 per square foot per month for the 9,000 square feet of space, or \$307,164 per year. In comparison, under the proposed 555 Polk Street lease for the Community Justice Center on the second floor, the rent would be \$16,100 per month or approximately \$1.79 per square foot per month for 9,000 square feet of space on the second floor of the same building, or \$193,200 per year. According to Mr. Dunn, because rents on upper floors are generally less expensive than ground floor leases, although the square footage is the

BUDGET AND LEGISLATIVE ANALYST

same in both of these leases in the same building, the rent on the ground floor at \$307,164 per year for the Superior Court will be \$113,964, or approximately 59 percent more per year than the \$193,200 annual rent for the Community Justice Center on the second floor of the building.

POLICY CONSIDERATIONS

According to Mr. Murdock, there are currently a total of 11.5 full-time equivalent (FTE) staff working at the 555 Polk Street Community Justice Center, including five from DPH, two from Adult Probation, two from Human Services Agency, one from the Public Defender, one from the District Attorney's Office, and one part-time administrative assistant from the Superior Court. Mr. Murdock advises that DPH's FY 2011-12 budget for the Community Justice Center is approximately \$1,500,000 in General Fund expenditures.

Ms. Wong advises that since March of 2009, the Community Justice Center has heard over 6,000 cases involving 4,200 defendants. According to Ms. Wong, in FY 2010-11, the Community Justice Center received 1,786 cases. However, as of the writing of this report, disposition of all of these cases is not available. Ms. Wong further advises that in 2011, the Superior Court entered into a \$200,000⁹ two-year sole source agreement with the RAND Corporation, a nonprofit organization, to conduct an independent evaluation of the Community Justice Center. According to Ms. Wong, the final results of this study will be available in late 2013.

Given that this independent evaluation of the Community Justice Center will be completed in late 2013, the Budget and Legislative Analyst questions whether the Board of Supervisors should approve exercising an option at this time, which would result in continuing the 555 Polk Street lease for the Community Justice Center for an additional eight years and four months, which would commence in March of 2013 and extend through July 31, 2021. However, according to Mr. Dunn, entering into a shorter-term lease for the 555 Polk Street facility would result in significantly higher monthly lease costs. However, Mr. Dunn advises that Mattison Family Trust, the lessor, only agreed to continue the lease at the same monthly rent of \$16,100 per month, if the lease would be continued for a the longer term of eight years and four months. Therefore, the Budget and Legislative Analyst considers approval of the proposed resolution (File 12-0040) to exercise the option to continue the lease for eight years and four months at 555 Polk Street for the Community Justice Center to be a policy decision for the Board of Supervisors.

⁹ Ms. Wong advises that \$150,000 was provided by the Controller's Office, with Proposition C funds, and \$50,000 was provided by DPH from prior year unexpended funds for the Community Justice Center evaluation.

RECOMENDATIONS

1. Amend the proposed resolution (File 12-0039) on page 2, line 5 to change the correct date of when the City transferred maintenance and management responsibilities for the Polk Street court facility to the AOC from December 31, 2009 to December 31, 2008.
2. Amend the proposed resolution (File 12-0039) on page 2, line 13 to change the correct date of when the 575 Polk Street lease expired from July 31, 2011 to June 30, 2011.
3. Approve the proposed resolution (File 12-0039), as amended.
4. Approval of the proposed resolution (File 12-0040) is a policy decision for the Board of Supervisors because although the results of an independent evaluation of the Community Justice Center will not be known until such evaluation is completed in late 2013, the proposed resolution would exercise an option to continue the 555 Polk Street lease for the Community Justice Center for an additional eight years and four months, which would commence in March of 2013 and extend through July 31, 2021.



John Updike
Acting Director of Real Estate



January 9, 2012

SF Superior Court
Renewal of Lease of Real Property
575 Polk Street
Assignment #6554

Through Naomi Kelly,
Acting City Administrator

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 renewal of a lease at 575 Polk Street, a sublease to the State of California, Judicial Council of California – Administrative Office of the Courts (the "AOC"), and an Amendment to the Transfer Agreement which transferred responsibility for the lease at 575 Polk Street to the State of California, Judicial Council of California – AOC for use by the San Francisco Superior Court.

In 1991, the City leased approximately 9000 sq. ft. of ground floor space at 575 Polk St for use by Superior Court of San Francisco for additional court rooms and administrative office space (the "Polk Street Court Facility"). In 2001, the lease was extended through June 30, 2011, pursuant to Board of Supervisors Resolution 297-01.

In 2002, the State of California passed the Trial Court Facilities Act of 2002 (California Government Code Section 70301 et seq.) (the "Act"). Under the Act, California cities and counties transferred their existing court facilities to the AOC and were required to make a fixed county facility payment (the "CFP") to the State in perpetuity. The City's Controller's Office and the AOC established the CFP for the Polk Street Court Facility as \$322,190.00 per year (the "Polk Street CFP").

On December 31 2009, pursuant to Board of Supervisor's Ordinance 249-08, the City transferred City's responsibility for the Polk Street Court Facility to the AOC, subject to City's continuing obligation to remain as tenant under the Polk Street Lease for the duration of the lease and to provide for City's payment of the Polk Street CFP following such transfer.

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The Act allows the City to use the Courthouse Facility Construction Fund (the "CCF") for payment of rent for the initial transfer and up to one extension of such lease after the transfer. The CCF was established for the purpose of receiving all funds collected pursuant to Resolution No. 713-92 of the Board of Supervisors as authorized by Section 76238 of the California Government Code from surcharges on filing fees and all funds collected pursuant to Resolution No. 713-92 as authorized by Sections 76000 and 76100 of the California Government Code from penalty assessments in criminal and parking cases. Funds from court filing fees and surcharges to parking fees, parking fines, and moving traffic fines are administered by the Controller's Office.

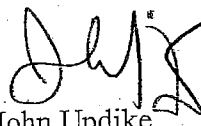
Under the Act, by structuring the transaction with a lease and sublease, the City can continue to fund the CFPs for the next ten years with the CCF revenue which would alternatively belong to the State – thus saving the City more than \$300,000 per year.

The proposed Resolution authorizes a renewal lease through June 30, 2021 and a sublease to the State of California on the same terms and conditions as the lease. The proposed Resolution also amends the 2009 Transfer Agreement to allow the City to continue to use the CCF to pay rent and offset the CFP.

The proposed Base Rent for the renewal lease is the same as the current rent of \$25,597.00 per month, (approximately \$2.84 per sq. ft. monthly) and the Base Rent does not increase over the ten (10) year term. The City shall continue to pay for its own janitorial and its prorata share of common area expenses (CAM charges) and other typical tenant costs.

We recommend approval of the proposed lease renewal. If you have any questions regarding this matter, please contact Charlie Dunn of our office at 554-9861.

Sincerely,



John Updike
Acting Director of Real Estate

cc. Carol R Wong, City Attorney's Office
Michelle Allersma, Controller's Office

FIRST AMENDMENT TO TRANSFER AGREEMENT

THIS FIRST AMENDMENT TO TRANSFER AGREEMENT (this "**Amendment**") is made as of June 1, 2011, by and between the Judicial Council of California, Administrative Office of the Courts ("**AOC**"), and the City and County of San Francisco, a municipal corporation ("**City**").

RECITALS

A. AOC and City are parties to a Transfer Agreement (the "**Original Agreement**") fully executed as of November 12, 2008 (the "**Transfer Date**"), which transferred responsibility for funding and operating the trial court facility commonly known as the Polk Street Annex (the "**Court Facility**") from City to AOC.

B. The Court Facility was located at 575 Polk Street, San Francisco, California 94102 (the "**Premises**"), which was leased by City pursuant to a lease by and among City and Stephen L. Pasquan, Pamela Pasquan, Joseph J. Giraudo, and Beverly Giraudo, Landlord's predecessors in interest, and dated as of December 3, 1990, as amended by an Exercise of Option Agreement between City and the Mattison Family Trust ("**Landlord**"), dated as of May 4, 2001 (together, the "**Original Lease**").

C. After the Transfer Date, the Court Facility remained at the Premises, City remained the tenant under the Original Lease, and AOC occupied the Premises subject to its obligation to not take, or fail to take, any act that would result in City being in default of its obligations under the Original Lease.

D. In consideration for City's agreement to remain as the tenant under the Original Lease after the Transfer Date, Section 6.3 of the Transfer Agreement permits City to subtract the rent and utilities City makes to Landlord under the Original Lease from the county facility payment for the Court Facility ("**CFP**") that City is required to pay to the AOC under the Transfer Agreement and the Act (as defined in the Transfer Agreement) until June 30, 2011 (the "**Scheduled Expiration Date**").

E. The AOC has requested that City enter into a new lease with Landlord in substantially the form attached as Exhibit A (the "**New Lease**") and to permit AOC's continued operation of the Court Facility at the Premises after the Scheduled Expiration Date pursuant to a sublease in substantially the form attached as Exhibit B (the "**Sublease**").

F. The AOC is not obligated to pay any rent to City under the Sublease if AOC permits City to use its Courthouse Construction Fund to make all rent payments (including base rent and all additional rent) owed by City under the New Lease (the "**New Lease Rent**") and further permits City to subtract the New Lease Rent from the CFP during the term of the New Lease.

G. If City's Board of Supervisors and Mayor approves the execution of the New Lease and the Sublease by City on or before September 1, 2011, City intends to execute the New Lease and the Sublease, with the term of the New Lease commencing as of the date it is fully executed and delivered by City and Landlord (the "**New Lease Commencement Date**") and the term of the Sublease commencing as of the date it is fully executed and delivered by City and AOC (the "**Sublease Commencement Date**").

H. If the New Lease Commencement Date occurs after the Scheduled Expiration Date, AOC has requested that City continue as a holdover tenant under the Original Lease during the period (the "**Holdover Period**") commencing on the Scheduled Expiration Date and

terminating on the earlier to occur of the New Lease Commencement Date and the Sublease Commencement Date (together, the "**Full Commencement Date**") and August 31, 2011, to continue to permit the AOC to operate the Court Facility at the Premises during the Holdover Period, and to pay the holdover rent payable to Landlord under the Original Lease during the Holdover Period (the "**Holdover Rent**").

I. City has agreed to such request, provided that AOC permits City to use its Courthouse Construction Fund to make all payments of Holdover Rent and to subtract all payments of Holdover Rent from the CFP, which conditions are accepted by the AOC.

J. City and AOC wish to amend the Original Agreement to provide for their mutual agreement regarding the Holdover Rent, the New Lease, and the Sublease.

AGREEMENT

ACCORDINGLY, in consideration of the matters described in the foregoing Recitals and for other good and valuable consideration, the receipt and sufficiency of which are mutually acknowledged, City and AOC agree as follows:

1. Holdover Period. If the Full Commencement Date occurs after the Scheduled Termination Date, neither AOC nor City shall be deemed to be in default of its respective obligations under Section 4.3.5 of the Original Agreement by reason of continuing to occupy the Premises during the Holdover Period.
2. Holding Cells. City installed the Holding Cells (as defined in the Original Agreement) in the Premises with the consent of Landlord and AOC. If the Full Commencement Date occurs, City shall not be obligated to remove the Holding Cells pursuant to Section 4.3.16 of the Original Agreement until the termination of the New Lease. If Landlord requires the removal of the Holding Cells on the termination of the New Lease, City shall perform such removal at its sole cost.
3. Use of City's Courthouse Construction Fund. If the Full Commencement Date occurs after the Scheduled Termination Date, City shall have the right to use City's Courthouse Construction Fund make all Holdover Rent payments. If the Full Commencement Date occurs, City shall further have the right to use City's Courthouse Construction Fund make all New Lease Rent payments until the termination of the New Lease.
4. Deductions from CFP. If the Full Commencement Date occurs after the Scheduled Termination Date, City shall have the right to subtract all Holdover Rent payments from the CFP. If the Full Commencement Date occurs, City shall further have the right to subtract all New Lease Rent payments from the CFP until the termination of the New Lease if the Premises continued to be used for court or court-related purposes.
5. No Joint Venture. This Amendment or any activity by the City hereunder does not create a partnership or joint venture between the City and AOC relating to the Original Lease, the New Lease, the Sublease or the AOC's operations at the Premises.
6. Attorneys' Fees. If a dispute arises concerning this Amendment, the party not prevailing in such dispute shall pay any and all costs and expenses incurred by the other party in enforcing or establishing its rights hereunder, including, without limitation, court costs and reasonable attorneys' fees. For purposes of this Amendment, reasonable attorneys' fees of the City's Office of the City Attorney shall be based on the fees regularly charged by private attorneys with the equivalent number of years of experience in the subject matter area of the law for which the City Attorney's services were rendered who practice in the City of San Francisco in law firms with approximately the same number of attorneys as employed by the Office of the City Attorney, and

reasonable attorneys' fees of the attorneys of the AOC shall be based on the fees regularly charged by private attorneys with the equivalent number of years of experience in the subject matter area of the law for which the services of the AOC's attorneys were rendered who practice in the City of San Francisco in law firms with approximately the same number of attorneys as employed by the AOC.

7. Applicable Law. This Amendment shall be governed by, construed and enforced in accordance with the laws of the State of California.

8. Effective Date. This Amendment shall become effective as of the date it is duly executed and exchanged by the parties hereto.

9. Miscellaneous. (a) Except as expressly modified herein, the terms, covenants and conditions of the Lease shall remain unmodified and in full force and effect. (b) The Original Agreement as amended by this Amendment constitutes the entire agreement of the parties concerning the subject matter hereof, and supersedes and conceals any and all previous negotiations, agreements, or understandings, if any, regarding the matters contained herein. (c) The execution of this Amendment shall not constitute a waiver of relinquishment of any rights that City may have relating to the Original Agreement. (d) City and AOC hereby ratify and confirm all of the provisions of the Original Agreement as amended by this Amendment. (e) This Amendment binds the parties hereto and their respective successors and assigns.

In Witness Whereof, the parties hereto have executed this Amendment as of the date written above.

AOC:

JUDICIAL COUNCIL OF CALIFORNIA,
ADMINISTRATIVE OFFICE OF THE COURTS

By: _____

Grant Walker
Senior Manager, Business Services

APPROVED AS TO FORM:
Administrative Office of the Courts
Office of the General Counsel

By: _____

Leslie G. Miessner
Supervising Attorney

[CITY SIGNATURE ON FOLLOWING PAGE]

CITY:

CITY AND COUNTY OF SAN FRANCISCO,
a municipal corporation

By: _____

John Updike
Acting Director of Real Estate

APPROVED AS TO FORM:

DENNIS J. HERRERA, City Attorney

By: _____

Carol Wong, Deputy City Attorney

EXHIBIT A

FORM OF NEW LEASE

EXHIBIT B
FORM OF SUBLEASE



**Judicial Council of California
Administrative Office of the Courts
Office of Court Construction and Management
455 Golden Gate Avenue, San Francisco, CA 94102-3688**

For the benefit of the Superior Court of California, County of San Francisco
Location: 575 Polk Street, San Francisco, California

SUBLEASE AGREEMENT

This Sublease Agreement ("**Sublease**") dated _____ 2011, is made by and between the Judicial Council of California, Administrative Office of the Courts (the "**AOC**"), and the City and County of San Francisco, a municipal corporation (the "**City**"), for the benefit of the Superior Court of California, City and County of San Francisco ("**Court**"). AOC and City will hereinafter be collectively referred to as the "**Parties**" or individually as a "**Party**."

RECITALS

A. City is tenant under that certain Lease between City and the Mattison Family Trust, a California Trust (the "**Master Landlord**"), dated _____ (the "**Master Lease**"), pursuant to which City leases the ground floor portion (the "**Ground Floor**") of a two-story free-standing building located at 575 Polk Street, San Francisco, California (the "**Building**"). The Master Lease further grants City the right to use the portion of the Building mezzanine that is accessible from interior stairs within the Sublease Premises (the "**Mezzanine**"), with no Master Landlord representation regarding the habitability thereof or obligation to provide maintenance or services thereto, and permits the operation of courtrooms and public programs by City, the AOC, or the Superior Court of California for the County of San Francisco at the Ground Floor. A copy of the Master Lease is attached hereto as Exhibit "A" and incorporated herein. Any undefined, initially-capitalized term used in this Sublease shall have the meaning given to such term in the Master Lease.

B. City additionally occupies the second floor portion of the Building (the "**Second Floor**") pursuant a sublease with the California Culinary Academy, LLC, dated March 13, 2008 (the "**CCA Sublease**"). The CCA Sublease is scheduled to expire on the earlier date to occur of (i) the termination of that certain Lease Agreement between CCA and Master Landlord dated as of July 21, 2003, and (ii) March 15, 2013, and City has the right to cause the Master Lease to include the Second Floor (which is defined as the "Expansion Space" in the Master Lease) pursuant to the terms and conditions set forth in Section 22 of the Master Lease.

C. City wishes to sublease to AOC, and AOC wishes to sublease from City, the Ground Floor and the Mezzanine (the "**Sublease Premises**") subject to the terms and conditions of the Master Lease and this Sublease.

NOW THEREFORE, in consideration of the Sublease Premises subleased to AOC hereunder and the mutual covenants and conditions herein contained, City and AOC hereby agree as follows:

AGREEMENT

1. Sublease. City subleases to AOC, and AOC subleases from City, the Sublease Premises on the terms and conditions in this Sublease; provided, however, that City reserves the sole right to access and use the two holding cells located in the Sublease Premises (the "**Holding Cells**") to facilitate the operations of a community justice court in San Francisco, California.

2. Warranty by City. City warrants to AOC that the Master Lease has not been amended or modified; that to its knowledge, City is not now, and as of the commencement of the term of this Sublease will not be, in default or breach of any of the provisions of the Master Lease; and that City has no knowledge of any claim by Master Landlord that City is in default or breach of any of the provisions of the Master Lease.

3. Term.

3.1 Initial Term. The term of this Sublease ("**Term**") will commence on _____, 2011 and will terminate on the earlier date to occur of (i) July 31, 2021 (the "**Outside Date**"), subject to any adjustment pursuant to the following paragraph, or (ii) the termination or expiration of the Master Lease; provided, however, that AOC shall have the right to terminate this Sublease at any time for lack of funding due to the State of California's failure to timely approve and adopt a State budget by delivering sixty (60) days' prior written notice of such termination to City, together with documentation reasonably evidencing such matter. AOC shall further have the right to terminate this Sublease as of June 30, 2016 for any reason if AOC delivers written notice of its exercise of such right to City on or before April 30, 2015.

3.2 Additional Term. Subject to the conditions in this Section 3, AOC shall have the right to extend the Outside Date by five (5) years by giving written notice to City of such extension (the "**AOC Notice**") on or before December 15, 2019; provided, however, that if AOC is in material default under this Sublease on the date it delivers the AOC Notice and AOC fails to timely cure such default as provided in this Sublease, City may reject the AOC Notice by delivering written notice thereof to AOC promptly after such failure to cure, and AOC shall have no right to extend the Outside Date.

If AOC timely delivers the AOC Notice to City, and such AOC Notice is not rejected by City pursuant to the foregoing paragraph, City shall timely exercise the Extension Option (as defined in Section 3.3 of the Master Lease). Notwithstanding anything to the contrary in this Section, if Master Landlord rejects City's exercise of the Extension Option or City's Board of Supervisors and Mayor do not duly adopt a resolution approving City's exercise of

the Extension Option during the Board Extension Approval Period (as defined in Section 3.3 of the Master Lease) (the "**Board Approval Requirement**"), the AOC Notice shall be automatically deemed to be revoked and AOC shall have no right to extend the Outside Date. City shall deliver written notice of any Master Landlord rejection of City's exercise of the Extension Option and any satisfaction of the Board Approval Requirement to AOC within ten (10) business days following the date of such occurrence.

If AOC timely delivers the AOC Notice, the Master Landlord does not reject City's exercise of the Extension Option, and the Board Approval Requirement is timely satisfied, the Outside Date shall automatically be revised to be July 31, 2026, and the period commencing on August 1, 2021 and terminating on such revised Outside Date shall be the "**Additional Term**".

4. Rent. In consideration of its rights under this Sublease, AOC has authorized City to use its Courthouse Construction Fund to pay all Base Rent (as defined in Section 4.1 of the Master Lease) and Additional Charges (as defined in Section 4.3 of the Master Lease) payable during the initial ten (10) year term of the Master Lease; provided that AOC has not authorized City to use its Courthouse Construction Fund to pay any Additional Charges that are comprised of janitorial or security services provided to the Sublease Premises. If AOC does not authorize City to use its Courthouse Construction Fund to pay all Base Rent and Additional Charges payable during the Extended Term (as defined in the Master Lease), then commencing on July 1, 2021, AOC shall pay to City an amount (the "**Sublease Rent**") equal to Base Rent and Additional Charges paid by City for such month under the Master Lease. Sublease Rent shall be paid in arrears on the last day of each month.

If any Base Rent and Additional Charges paid by City is for the Sublease Premises and the Expansion Space (as defined in the Master Lease), the Sublease Rent shall be adjusted by multiplying the Base Rent for such month by a fraction with a numerator of 16,100 and a denominator of 41,697, and reducing the Additional Charges for such month by the amount of such portion allocated to the provision of services, utilities or Additional Services (as defined in the Master Lease) to the Expansion Space or for the Building elevator.

If Master Landlord delivers any revised good faith estimate of Operating Costs (as defined in Section 4.4 of the Master Lease) and Real Estate Taxes (as defined in Section 4.4 of the Master Lease) to City during the Additional Term without copying AOC on such estimate, City shall deliver a copy to AOC within five (5) business days of City's receipt thereof. If Master Landlord delivers any Landlord Expense Statement (as defined in Section 4.5 of the Master Lease) to City during the Additional Term without copying AOC on such Landlord Expense Statement, City shall deliver a copy to AOC within five (5) business days of City's receipt thereof. If Master Landlord refunds City for any overpayment by City for any Additional Charges pursuant to Section 4.7 of the Master Lease during the Additional Term, City shall deliver such refund (less any audit costs incurred by City in determining such overpayment) to AOC; provided, however, that if such Additional Charge payment was for the Sublease Premises and the Expansion Space, such refund shall be reduced to the amount allocable to the Sublease Premises.

5. Use of Premises. AOC may use the Sublease Premises as a courtroom and for office space for personnel of the Superior Court of California for the County of San Francisco

("Court") or any other legal use that is reasonably comparable thereto and complies with the terms and conditions of the Master Lease.

6. **Delivery of Premises; Leasehold Improvements.** AOC acknowledges that it has had continuous possession of the Sublease Premises since November 14, 2008 and accepts the Sublease Premises in its current as-is condition (the "**Delivery Condition**"). After July 1, 2016, AOC shall have the right to receive the benefit of any leasehold improvements provided by the Master Landlord pursuant to Article 6 of the Master Lease as follows: on or before May 1, 2015, AOC shall deliver written notice (the "**AOC Work Notice**") to City of the leasehold improvement work AOC requests to be performed by Master Landlord in the Sublease Premises (the "**AOC Work**"), which shall include AOC's representation that the anticipated cost of the AOC Work will not exceed the AOC Leasehold Allowance (defined as follows). The "**AOC Leasehold Allowance**" shall be an amount equal to \$54,000 multiplied by a fraction with a numerator of the Adjustment Index (as defined in Section 6.2 of the Master Lease) and a denominator of the Base Index (as defined in Section 6.2 of the Master Lease).

If AOC timely delivers the AOC Work Notice, City shall describe the AOC Work in the Leasehold Work Notice (as defined in Section 6.1 of the Master Lease) and shall obtain AOC's written consent to any plans or specifications prepared by Master Landlord for the AOC Work; provided, however, that if AOC does not deliver written notice of its disapproval of such plans or specifications within fifteen (15) business days of City's delivery thereof to AOC, AOC shall be deemed to have approved of such plans and specifications.

7. **Master Lease.** All applicable terms and conditions of the Master Lease are incorporated into and made a part of this Sublease as if AOC was the lessee, City was the landlord, the Sublease Premises was the premises, and City's Personal Property was AOC's Personal Property, except for the following articles, sections and exhibits: 1, 3, 4, 5.1, 5.3, 6, 7.1, 7.2, 7.3, 7.4, 8.1, 9.1, 9.2, 9.4, 10.1, 10.2, 12, 13, 14, 15, 16.1, 16.2, 17.1, 17.2, 21.2, 21.3, 22, 23.1, 23.7, 23.8, 23.12, 23.13, 23.18, 23.19, 23.20, 23.23, 23.25, 23.27, 23.31, 23.34, Exhibit B, Exhibit C, Exhibit E and Exhibit F.

AOC assumes and agrees to perform the City's obligations under the Master Lease other than those identified in the foregoing sentence during the Term, except as otherwise expressly set forth in this Sublease. AOC will not commit or suffer any act or omission that will violate any of the provisions of the Master Lease. City shall have no obligation to perform any of the obligations of the Master Landlord under the Master Lease, provided that if AOC delivers written notice to City of the failure of Master Landlord to perform its obligations under the Master Lease, City will exercise reasonable due diligence in attempting to cause Master Landlord to perform its obligations under the Master Lease for the benefit of AOC. If the Master Lease terminates at any time, this Sublease shall automatically terminate as of such termination of the Master Lease and the parties will be relieved of any further liability or obligation under this Sublease. However, if the Master Lease terminates as a result of a default or breach by City or AOC under this Sublease or the Master Lease, the defaulting party will be liable to the non-defaulting party for the actual damages caused by such default or breach (but excluding any consequential or incidental damages).

8. Utilities; Services; Alterations.

8.1 Utilities and Services. If the AOC wishes to directly contract for any of the utilities or services to be provided to the Sublease Premises by Master Landlord pursuant to Section 9.1 of the Master Lease, AOC shall deliver written notice of such matter to the Master Landlord and the City, and AOC shall thereafter obtain such described utility or service at its sole cost. If the AOC wishes to request any additional work or services to the Sublease Premises by Master Landlord pursuant to Section 9.2 of the Master Lease, AOC shall deliver written notice of such matter to the Master Landlord and the City. If Master Landlord agrees to perform such additional services and AOC agrees to the cost of such services, AOC shall reimburse Master Landlord for the pre-approved actual cost of such expenses plus Master Landlord's ten percent (10%) administrative fee for such work or services.

8.2 Alterations. AOC shall not make or permit any alterations to the Sublease Premises or to the Building Systems (as defined in the Master Lease), and shall not make or permit any alterations, installations, additions or improvements, structural or otherwise (collectively, "**Alterations**"), in, to or about the Sublease Premises, without the prior written consent of City and Master Landlord in each instance. All Alterations shall be done at AOC's expense in accordance with plans and specifications approved by City and Master Landlord, only by duly licensed and bonded contractors or mechanics approved by City and Master Landlord, and subject to any conditions that City and Master Landlord may reasonably impose. With respect to any Alterations which would be visible from the exterior of the Building, AOC shall obtain the prior written approval of City's Arts Commission to the extent the Arts Commission has jurisdiction over the design of such proposed alterations under City's Charter Section 5.103. If the cost of any Alterations is in excess of Five Thousand Dollars (\$5,000), then AOC shall pay to City an administrative fee equal to ten percent (10%) of the total "hard" costs of the work to compensate City for the costs of review.

9. Compliance with Disability Laws. AOC shall be responsible for causing the following items in the Sublease Premises to comply with all Disability Laws (as defined in Section 10.2 of the Master Lease): furniture, court seating, benches, specialty (non office) improvements, judge's washrooms, mechanical lifts, any previous tenant improvement or future alterations constructed by the AOC at the Sublease Premises, any furniture, furnishings, equipment, trade fixtures and articles of movable personal property installed in the Sublease Premises by or for the account of AOC and that can be removed without structural damage to the Sublease Premises (collectively, "**AOC's Personal Property**"), and any items at the Building that must be modified to comply with Disability Laws as a result of AOC's use of the Sublease Premises pursuant to this Sublease.

10. Insurance; Post Casualty Rent Abatement.

10.1 Insurance. City acknowledges and accepts that AOC does not maintain commercial insurance coverage for general liability, motor vehicle claims and is an authorized self insurer for workers compensation obligations. AOC acknowledges and agrees that City shall have no obligation to carry any insurance coverage for its obligations under this Sublease or the Master Lease. AOC shall be responsible, at no cost to the City, for separately insuring AOC's Personal Property.

10.2 Abatement of Rent. In the event the Sublease Premises is wholly or partially damaged or destroyed by casualty, any Sublease Rent will be wholly or proportionally abated, as the case may be, to the extent to which the Base Rent or Additional Charges are abated under the Master Lease from the date of the casualty event until the Sublease Premises are again as fully usable by AOC as they were before such partial damage or destruction. AOC acknowledges and agrees that any repairs required to be made by Master Landlord under Article 12 of the Master Lease shall not include, and the Sublease Rent shall not be abated as a result of, any damage by fire or other cause to any of AOC's Personal Property, or any damage caused by the negligence or willful misconduct of AOC or its Agents.

10.3 Repair of Premises by Master Landlord. If the Sublease Premises are damaged or destroyed by reason of flood or earthquake, and such damage or destruction is not fully covered by insurance proceeds payable under the insurance policies Master Landlord is required to carry under the Master Lease (excluding any deductible, for which Master Landlord shall be responsible), AOC acknowledges that Master Landlord may terminate the Master Lease by written notice to City within thirty (30) days of the date Master Landlord receives written notice that such damage is not covered by insurance. Such notice from Master Landlord shall include adequate written evidence of the denial of insurance coverage. If Master Landlord does not elect to terminate the Master Lease pursuant to such right, this Sublease shall remain in full force and effect.

If Master Landlord delivers a notice (a "**Master Landlord Repair Notice**") to City that repairs for any casualty to the Sublease Premises cannot be made within the Repair Period (as defined in the Master Lease), City shall promptly deliver a copy of the Master Landlord Repair Notice to the AOC and either City or AOC may terminate this Sublease by delivering written notice of such termination to the other party (a "**Repair Termination Notice**") as of the date specified in the Repair Termination Notice, provided that such date shall be no earlier than thirty-five (35) days nor more than fifty-five (55) days following AOC's receipt of the Master Landlord Repair Notice from City.

If, at any time during the last six (6) months of the term of the Master Lease, but excluding the last six (6) months of the Initial Term (as defined in the Master Lease) if City has exercised the Extension Option, there is substantial damage that Master Landlord would be required to repair under the Master Lease, City or AOC may, at the respective option of each, terminate this Sublease as of the date such damage occurred by giving written notice to the other party of its election to do so within twenty (20) days after the date of such damage.

The parties intend that the provisions of this Section govern fully their rights and obligations in the event of damage or destruction, and City and AOC each hereby waives and releases any right to terminate this Sublease in whole or in part under Section 1932, subdivision 2, Section 1933, subdivision 4, and Sections 1941 and 1942 of the Civil Code of California or under any similar law, statute or ordinance now or hereafter in effect, to the extent such rights are inconsistent with the provisions hereof.

11. Eminent Domain.

11.1 Waiver. If there is any Taking (as defined in Section 13.1 of the Master Lease) of all or any part of the Sublease Premises or any interest in this Sublease during the

term hereof, the rights and obligations of the parties hereunder shall be determined pursuant to this Section. City and AOC intend that the provisions hereof govern fully in the event of a Taking and accordingly, the parties each hereby waive any right to terminate this Sublease in whole or in part under Sections 1265.110, 1265.120, 1265.130 and 1265.140 of the California Code of Civil Procedure or under any similar law now or hereafter in effect.

11.2 Total Taking. If there is a total Taking of the Sublease Premises, then this Sublease shall terminate as of the Date of Taking (as defined in Section 13.1 of the Master Lease). If there is a Taking of any portion (but less than all) of the Sublease Premises, then this Sublease shall terminate in its entirety if all of the following exist: (i) the partial Taking, in AOC's reasonable judgment, renders the remaining portion of the Sublease Premises untenable or unsuitable for continued use by AOC for its permitted uses or otherwise materially adversely affects AOC's normal operations in the Sublease Premises, (ii) the condition rendering the Sublease Premises untenable or unsuitable either is not curable or is curable but Master Landlord is unwilling or unable to cure such condition, and (iii) AOC elects to terminate.

11.3 Partial Taking. In the case of a partial taking of a substantial portion of the Building, and if Section 11.2 above does not apply, City and AOC shall each have the right to terminate this Sublease by written notice to the other within twenty (20) days after the Date of Taking, provided that, as a condition to AOC's right to terminate, the portion of the Building taken shall, in AOC's reasonable judgment, render the Sublease Premises unsuitable for continued use by AOC for its permitted uses or otherwise materially adversely affect AOC's normal operations in the Sublease Premises. Either party electing to terminate under the provisions of this Section shall do so by giving written notice to the other party before or within twenty (20) days after the Date of Taking, and thereafter this Sublease shall terminate upon the later of the twentieth (20th) day after such written notice is given or the Date of Taking.

11.4 Rent; Award. Upon termination of this Sublease in its entirety pursuant to Section 11.2, or pursuant to an election under Section 11.3 above, then: (a) AOC's obligation to pay Sublease Rent shall continue up until the date of termination and thereafter shall cease, and (b) City shall be entitled to the entire Award (as defined in Section 13.1 of the Master Lease) in connection therewith, except that AOC shall receive any Award made specifically for AOC's relocation expenses or the interruption of or damage to AOC's business or damage to AOC's Personal Property. If there is a partial Taking of the Sublease Premises under circumstances where this Sublease is not terminated in its entirety under Section 11.3 above, then this Sublease shall terminate as to the portion of the Sublease Premises so taken, but shall remain in full force and effect as to the portion not taken, City shall be entitled to the entire Award in connection therewith, provided that AOC shall receive any Award made specifically for AOC's relocation expenses or the interruption of or damage to its business or damage to its Personal Property.

11.5 Temporary Taking. Notwithstanding anything to contrary in this Section, if a Taking occurs with respect to the Sublease Premises for a limited period of time not in excess of sixty (60) consecutive days, this Sublease shall remain unaffected thereby, and AOC shall continue to perform all of the terms, conditions and covenants of this Sublease. In the event of such temporary Taking, AOC shall be entitled to receive that portion of any Award

representing compensation for the use or occupancy of the Sublease Premises during the Term up to the total Sublease Rent, if any, owing by AOC for the Sublease Premises during such period of the Taking.

12. Default.

12.1 Event of Default. Any of the following shall constitute an event of default by AOC hereunder:

(a) AOC fails to make any timely payment of Sublease Rent and to cure such nonpayment within five (5) business days after receipt of written notice thereof from City, provided that an event of default shall not be deemed to occur if AOC is unable to pay any Sublease Rent when due because of the State of California's failure to timely approve and adopt a State budget. If AOC fails to pay any Sublease Rent when due as a result of the State of California's failure to timely approve and adopt a State budget, the AOC shall promptly pay any previously due and unpaid Sublease Rent upon approval and adoption of the State budget.

(b) AOC abandons the Sublease Premises (within the meaning of California Civil Code Section 1951.3).

(c) AOC fails to perform any other covenant or obligation of AOC hereunder (not involving the payment of money) and to cure such non-performance within twenty (20) days of the date of receipt of notice thereof from City, provided that if more than twenty (20) days are reasonably required for such cure, no event of default shall occur if AOC commences such cure within such period and diligently prosecutes such cure to completion.

12.2 Remedies. Upon the occurrence of any event of default by AOC that is not cured within the applicable grace period as provided above, City shall have all rights and remedies available pursuant to law or granted hereunder, including the following:

(a) The rights and remedies provided by California Civil Code Section 1951.2 (damages on termination for breach), including, but not limited to, the right to terminate AOC's right to possession of the Sublease Premises and to recover the worth at the time of award of the amount by which the unpaid Sublease Rent for the balance of the term of this Sublease after the time of award exceeds the amount of rental loss for the same period that City proves could be reasonably avoided, as computed pursuant to subsection (b) of such Section 1951.2.

(b) The rights and remedies provided by California Civil Code Section 1951.4 (continuation of lease after breach and abandonment), which allows City to continue this Sublease in effect and to enforce all of its rights and remedies under this Sublease, including the right to recover Sublease Rent as it becomes due, for so long as City does not terminate AOC's right to possession, if AOC has the right to sublet or assign, subject only to reasonable limitations.

13. **Surrender.** AOC shall perform all obligations of City under Section 20 of the Master Lease as to the Sublease Premises; provided however, that AOC shall have no obligation to remove the Holding Cells.

14. **Assignment and Subletting.** AOC will not assign this Sublease or further sublet all or any part of the Sublease Premises without the prior written consent of City and Master Landlord; provided, however, that AOC shall have the right to sublease the Sublease Premises to any department or agency of the State of California provided that AOC delivers written notice of such sublease to City and Master Landlord. If City consents to AOC's request enter into a Private Sublease (as defined in Article 14 of the Master Lease), City shall be entitled to receive fifty percent (50%) of any rent or other consideration realized by AOC under any such Private Sublease in excess of the Sublease Rent (or the amount thereof proportionate to the portion of the Sublease Premises subject to such Private Sublease) ("**Bonus Rent**"), which AOC shall pay to City after AOC has recovered its direct costs, including any reasonable brokers' commissions and the cost of any leasehold improvements for such subtenant that AOC incurs, in connection with such Private Sublease. Notwithstanding anything to the contrary in the foregoing sentence, the Bonus Rent shall not exceed nor be less than the additional rent or consideration that City must pay to Master Landlord pursuant to Section 14 of the Master Lease with respect to such Private Sublease.

15. **Indemnity.**

(a) AOC shall indemnify, defend and hold harmless ("**Indemnify**") City and its employees, representatives, contractors, subcontractors, and agents (collectively "**Agents**") from and against any and all claims, costs and expenses, including, without limitation, reasonable attorneys' fees (collectively, "**Claims**"), incurred as a result of (i) AOC's use of the Sublease Premises, (ii) any default by AOC in the performance of any of its material obligations under this Sublease, or (iii) any negligent acts or omissions of AOC or its Agents in, on or about the Sublease Premises or the Property; provided, however, AOC shall not be obligated to Indemnify City or its Agents to the extent any Claim arises out of the gross negligence or willful misconduct of City or its Agents. In any action or proceeding brought against City or its Agents by reason of any Claim Indemnified by AOC hereunder, AOC may, at its sole option, elect to defend such Claim by AOC attorneys, by other attorneys selected by AOC, or both. AOC shall have the right to control the defense and to determine the settlement or compromise of any action or proceeding, provided that City shall have the right, but not the obligation, to participate in the defense of any such Claim at its sole cost. AOC's obligations under this Section shall survive the termination of this Sublease.

(b) City shall Indemnify AOC and its Agents against any and all Claims incurred as a result of (i) any default by City in the performance of any of its obligations under this Sublease, (ii) any negligent acts or omissions of City or its Agents in, on or about the Sublease Premises or the Property; provided, however, City shall not be obligated to Indemnify AOC or its Agents to the extent any Claim arises out of the negligence or willful misconduct of AOC or its Agent. City shall further Indemnify AOC and its Agents against any and all Claims arising during or after the term of this Sublease (i) related to any incorrect Master Landlord representation or breach of any of Master Landlord's warranties or covenants in Section 21.1 of the Master Lease, or (ii) in connection with the presence or Release of Hazardous Material (each as defined in Section 21.1 of the Master Lease) in the Building or

on, under or about the Property, unless AOC or its Agents caused such presence or Release or AOC had actual knowledge of such presence or Release before the Commencement Date.

In any action or proceeding brought against AOC or its Agents by reason of any Claim Indemnified by City hereunder, City may, at its sole option, elect to defend such Claim by attorneys in City's Office of the City Attorney, by other attorneys selected by City, or both. City shall have the right to control the defense and to determine the settlement or compromise of any action or proceeding, provided that AOC shall have the right, but not the obligation, to participate in the defense of any such Claim at its sole cost. City's obligations under this Section shall survive the termination of this Sublease.

16. **No Broker.** City and AOC each warrant that they have not dealt with any real estate broker in connection with this transaction. City and AOC each agree to indemnify, defend, and hold the other harmless against any damages incurred as a result of the breach of the warranty contained in this Sublease.

17. **Notices.** Every notice required by this Sublease shall be delivered either by (i) personal delivery (including delivery by an overnight courier service which obtains confirmation of receipt) or (ii) postage prepaid return receipt requested certified mail addressed to the party for whom intended at the addresses given below. A party may change its address by written notice to the other party.

If to City: City and County of San Francisco
Attn: Director of Property
Real Estate Division
25 Van Ness Avenue, Suite 400
Telephone: 415-554-9875
Fax: 415-552-4755

With a copy to: City and County of San Francisco
Office of City Attorney
Attn: Real Estate/Finance Team
City Hall, Room 234
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102
Telephone: 415-554-4700
Fax: 415-554-4755

If to AOC: Administrative Office of the Courts
Office of Court Construction and Management
Attn: Portfolio Administration Analyst
455 Golden Gate Avenue
San Francisco, CA 94102-3688
Telephone: 415-865-5334
Fax: 415-865-4986

With a copy to:

Administrative Office of the Courts
Office of Court Construction and Management
Attn: Manager, Real Estate
455 Golden Gate Avenue
San Francisco, CA 94102-3688
Telephone: 415-865-4048
Fax: 415-865-4986

In addition, all notices relating to termination of the Sublease or an alleged breach or default by AOC must also be sent to:

Administrative Office of the Courts
455 Golden Gate Avenue
San Francisco, CA 94102-3688
Attention: Senior Manager, Business Services
Telephone: 415-865-4090
Fax: 415-865-4326

18. Successors and Assigns. This Sublease will be binding on and inure to the benefit of the parties to it, their heirs, executors, administrators, successors in interest, and assigns.

19. Attornment. If the Master Lease terminates, AOC will, if requested, attorn to Master Landlord and recognize Master Landlord as City under this Sublease, provided that this Sublease shall be automatically amended as of such attornment date so all obligations of Master Landlord to City under the Master Lease shall be incorporated in this Sublease and shall become the obligations of Master Landlord to AOC under this Sublease. However, AOC's obligation to attorn to Master Landlord will be conditioned on AOC's receipt of a non-disturbance agreement.

20. Entry. City reserves the right to enter the Sublease Premises on reasonable advance written notice to AOC and Court to inspect the Sublease Premises or the performance by AOC of the terms and conditions of this Sublease. In an emergency, no notice will be required for entry. AOC acknowledges that Master Landlord has reserved the right to enter the Sublease Premises under Section 18 of the Master Lease and this Sublease is expressly subject to such reserved right of Master Landlord.

21. Entire Agreement. This Sublease sets forth all the agreements between City and AOC concerning the Sublease Premises, and there are no other agreements either oral or written other than as set forth in this Sublease.

22. Consent by Master Landlord. This Sublease will have no effect unless consented to by Master Landlord within thirty (30) days after its execution. City shall use commercially reasonable best efforts to obtain the consent of the Master Landlord within such 30-day period.

23. Governing Law. This Sublease will be governed by and construed in accordance with California law without regard to conflict of law rules.

24. **Controller's Certification of Funds.** The terms of this Sublease shall be governed by and subject to the budgetary and fiscal provisions of the City's Charter. Notwithstanding anything to the contrary contained in this Sublease, there shall be no obligation for the payment or expenditure of money by City under this Sublease or the Master Lease unless the Controller of the City and County of San Francisco first certifies, pursuant to Section 3.105 of the City's Charter, that there is a valid appropriation from which the expenditure may be made and that unencumbered funds are available from the appropriation to pay the expenditure. Without limiting the foregoing, if in any fiscal year of City after the fiscal year in which the Term commences, sufficient funds for the payment of any payments required of City under this Sublease or the Master Lease are not appropriated, then City may terminate this Sublease, without penalty, liability or expense of any kind to City, as of the last date on which sufficient funds are appropriated. City shall use its reasonable efforts to give AOC reasonable advance notice of such termination.

25. **Attorneys' Fees.** If either AOC or City fails to perform any of its obligations under this Sublease or a dispute arises concerning the meaning or interpretation of any provision of this Sublease, the defaulting party or the non-prevailing party in such dispute, as the case may be, shall pay the prevailing party reasonable attorneys' and experts' fees and costs, and all court costs and other costs of action incurred by the prevailing party in connection with the prosecution or defense of such action and enforcing or establishing its rights hereunder (whether or not such action is prosecuted to a judgment). For purposes of this Sublease, reasonable attorneys' fees of the City's Office of the City Attorney shall be based on the fees regularly charged by private attorneys with the equivalent number of years of experience in the subject matter area of the law for which the City Attorney's services were rendered who practice in the City of San Francisco in law firms with approximately the same number of attorneys as employed by the Office of the City Attorney, and reasonable attorneys' fees of the attorneys of the AOC shall be based on the fees regularly charged by private attorneys with the equivalent number of years of experience in the subject matter area of the law for which the services of the AOC's attorneys were rendered who practice in the City of San Francisco in law firms with approximately the same number of attorneys as employed by the AOC. The term "attorneys' fees" shall also include, without limitation, all such fees incurred with respect to appeals, mediations, arbitrations, and bankruptcy proceedings, and whether or not any action is brought with respect to the matter for which such fees were incurred. The term "costs" shall mean the costs and expenses of counsel to the parties, which may include printing, duplicating and other expenses, air freight charges, hiring of experts, and fees billed for law clerks, paralegals, and others not admitted to the bar but performing services under the supervision of an attorney.

26. **Holding Over.** If AOC holds over in possession of the Sublease Premises after the expiration of the Term with City's consent, such holding over shall not be deemed to extend the Term or renew this Sublease, but such tenancy thereafter shall continue as a month-to-month tenancy. Such tenancy shall be on all the terms and conditions set forth in this Sublease.

27. **No Relocation Assistance; Waiver of Claims.** AOC acknowledges that it will not be a displaced person at the time this Sublease is terminated or expires by its own terms, and AOC fully RELEASES, WAIVES AND DISCHARGES forever any and all liabilities, losses, costs, claims, judgments, settlements, damages, liens, fines, penalties and expenses, including,

without limitation, direct and vicarious liability of every kind against, and covenants not to sue, City, its departments, commissions, officers, directors and employees, and all persons acting by, through or under each of them, under any laws, including, without limitation, any and all claims for relocation benefits or assistance from City under federal and state relocation assistance laws (including, but not limited to, California Government Code Section 7260 *et seq.*), except as otherwise specifically provided in this Sublease with respect to a Taking.

28. Pesticide Prohibition. AOC shall comply with the provisions of Section 308 of Chapter 3 of the San Francisco Environment Code (the "**Pesticide Ordinance**") which (i) prohibit the use of certain pesticides on City owned or leased property, (ii) require the posting of certain notices and the maintenance of certain records regarding pesticide usage and (iii) require AOC to submit to City's Director of Property an integrated pest management ("**IPM**") plan that (a) lists, to the extent reasonably possible, the types and estimated quantities of pesticides that AOC may need to apply to the Sublease Premises during the terms of this Sublease, (b) describes the steps AOC will take to meet the City's IPM Policy described in Section 300 of the Pesticide Ordinance and (c) identifies, by name, title, address and telephone number, an individual to act as the AOC's primary IPM contact person with the City. In addition, AOC shall comply with the requirements of Sections 303(a) and 303(b) of the Pesticide Ordinance.

29. Non-Discrimination. In the performance of this Sublease, AOC and City each agree not to discriminate against any of its respective employees, any City employee working with AOC, any AOC or Court employee working with the City, any applicant for employment with AOC, Court or City or any person seeking accommodations, advantages, facilities, privileges, services, or membership in all business, social, or other establishments or organizations, on the basis of the fact or perception of a person's race, color, creed, religion, national origin, ancestry, age, height, weight, sex, sexual orientation, gender identity, domestic partner status, marital status, disability or Acquired Immune Deficiency Syndrome or HIV status (AIDS/HIV status), or association with members of such protected classes, or in retaliation for opposition to discrimination against such classes.

30. Successors and Assigns. Subject to the provisions of Section 14 relating to assignment and subletting, the terms, covenants and conditions contained in this Sublease shall bind and inure to the benefit of City and AOC and, except as otherwise provided herein, their personal representatives and successors and assigns. There are no third-party beneficiaries to this Sublease.

31. Quiet Enjoyment and Title. City covenants and represents that it has full right, power and authority to grant the subleasehold estate hereunder, and covenants that AOC, upon paying the Rent (if any) payable hereunder and performing the covenants hereof, shall peaceably and quietly have, hold and enjoy the Sublease Premises and all appurtenances during the full term of this Sublease as against all persons or entities claiming by and through City or on account of any action, inaction or agreement of City or its Agents. Without limiting the provisions of Section 15(b), City agrees to Indemnify AOC and its Agents against Claims arising out of any assertion that would interfere with AOC's right to quiet enjoyment as provided in this Section.

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IN WITNESS WHEREOF, the parties have executed this Sublease as of the date first above written.

APPROVED AS TO FORM:
Administrative Office of the Courts,
Office of the General Counsel

By: _____
Name: Leslie G. Miessner
Title: Supervising Attorney
Date: _____

**AOC: JUDICIAL COUNCIL OF
CALIFORNIA, ADMINISTRATIVE OFFICE
OF THE COURTS**

By: _____
Name: Grant S. Walker
Title: Senior Manager, Business Services
Date: _____

APPROVED AS TO FORM:
DENNIS J. HERRERA, City Attorney

By: _____
Name: Carol Wong
Title: Deputy City Attorney
Date: _____

**CITY: CITY AND COUNTY OF SAN
FRANCISCO, a municipal corporation**

By: _____
Name: John Updike
Title: Acting Director of Property
Date: _____

MASTER LANDLORD'S CONSENT TO SUBLEASE

The undersigned ("**Master Landlord**"), lessor under the Master Lease, consents to the Sublease without waiver of any restriction in the Master Lease concerning further assignment or subletting. Master Landlord certifies that, as of the date of Master Landlord's execution, City is not in default or breach of any of the provisions of the Master Lease, and that the Master Lease has not been amended or modified except as expressly set forth in the Sublease.

MASTER LANDLORD:

The Mattison Family Trust, a California Trust

By: _____
J. Stanley Mattison

Its: _____

Date: _____

EXHIBIT A

MASTER LEASE

(See Attached)

*Complete Copy of
Document Located in
File No. 120039

LEASE

between

MATTISON FAMILY TRUST,

as Landlord

and

CITY AND COUNTY OF SAN FRANCISCO,
as Tenant

For the lease of
575 Polk Street
San Francisco, California

November 18, 2011

FORM SFEC-126:
NOTIFICATION OF CONTRACT APPROVAL
(S.F. Campaign and Governmental Conduct Code § 1.126)

City Elective Officer Information <i>(Please print clearly.)</i>	
Name of City elective officer(s): Members, Board of Supervisors	City elective office(s) held: Members, Board of Supervisors
Contractor Information <i>(Please print clearly.)</i>	
Name of contractor: Mattison Family Trust, a California Trust	
<i>Please list the names of (1) members of the contractor's board of directors; (2) the contractor's chief executive officer, chief financial officer and chief operating officer; (3) any person who has an ownership of 20 percent or more in the contractor; (4) any subcontractor listed in the bid or contract; and (5) any political committee sponsored or controlled by the contractor. Use additional pages as necessary.</i>	
J. Stanley Mattison and Christine A. Mattison, Trustees No person has more than 1% interest in the Mattison Family Trust	
Contractor address: c/o JS Mattison + Co., Inc. 50 California St., Suite 1500, San Francisco, CA 94111	
Date that contract was approved: <i>(By the SF Board of Supervisors)</i>	Amount of contract: \$307,164 per year for 10 years
Describe the nature of the contract that was approved: Lease of Real Property	
Comments: Renewal of existing lease	

This contract was approved by (check applicable):

the City elective officer(s) identified on this form

a board on which the City elective officer(s) serves: San Francisco Board of Supervisors
Print Name of Board

the board of a state agency (Health Authority, Housing Authority Commission, Industrial Development Authority Board, Parking Authority, Redevelopment Agency Commission, Relocation Appeals Board, Treasure Island Development Authority) on which an appointee of the City elective officer(s) identified on this form sits

Print Name of Board

Filer Information <i>(Please print clearly.)</i>	
Name of filer: Angela Calvillo, Clerk of the Board	Contact telephone number: (415) 554-5184
Address: City Hall, Room 244, 1 Dr. Carlton B. Goodlett Pl., San Francisco, CA 94102	E-mail: Board.of.Supervisors@sfgov.org

Signature of City Elective Officer (if submitted by City elective officer)

Date Signed

Signature of Board Secretary or Clerk (if submitted by Board Secretary or Clerk)

Date Signed