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

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TO: Budget and Finance Sub-Committee

FROM: Budget and Legislative Analyst

SUBJECT: April 29, 2015 Budget and Finance Sub-Committee Meeting

TABLE OF CONTENTS

Item	File		Page
1	15-0184	Health Code – Increase in Patient Rates for Certain Mental Health Services	1
2	15-0373	Lease Agreement – Glenridge Nursery School – Silver Tree Building – Initial Annual Base Rent of $32,652 and Rent Credits of Up to $25,000	5
4	15-0291	Lease Extension – Robert J. Cort Marital Trust – 760 Harrison Street - $304,200 in Initial Year	10
5	15-0210	Lease Agreement – Menzies Aviation (USA), Inc. – West Field Cargo Building 632 and Related Areas on Plot 9 - $6,434,187	15
6	15-0212	Lease Agreement Termination – Buth-na-Bodhaige, Inc., dba The Body Shop	20
11	15-0370	Accept and Expend Grant – Local Housing Trust Fund Program - $2,000,000	23

Item 1 **File 15-0184**	**Department:** Department of Public Health (DPH)

EXECUTIVE SUMMARY

Legislative Objectives

The proposed ordinance would amend San Francisco Health Code Section 128 to retroactively increase patient rates charged by the County of San Francisco to the State Department of Health Care Services (DHCS) for mental health services provided by DPH to Short-Doyle Medi-Cal beneficiaries in FY 2014-15 and FY 2015-16.

Key Points

- The State of California reimburses San Francisco for the Department of Public Health's expenditures for outpatient mental health services provided to Short-Doyle Medi-Cal beneficiaries. At the beginning of each fiscal year, the State publishes the maximum allowable reimbursement rates paid to each county to provide these mental health services, based on service costs incurred by each county in the prior fiscal year.
- Several of San Francisco's FY 2014-15 patient rates are less than the State's FY 2014-15 maximum allowable reimbursement rates, which results in San Francisco receiving reimbursement revenues from the State that are less than San Francisco could have received. To ensure that San Francisco receives the maximum allowable reimbursement rates from the State, DPH proposes an amendment to the San Francisco Health Code Section 128, adopting revised FY 2014-15 patient rates, retroactive to July 1, 2014, and revised FY 2015-16 patient rates.

Fiscal Impact

- Unless the requested amendment to Health Code Section 128 is adopted, DPH will lose an estimated $308,191 in net reimbursements from the State.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

In accordance with Section 2.105 of the City's Charter, any amendments to the City's Health Code are subject to approval by ordinance of the Board of Supervisors.

BACKGROUND

The State of California reimburses San Francisco for the Department of Public Health's (DPH) expenditures for outpatient mental health services provided to Short-Doyle Medi-Cal beneficiaries[1]. At the beginning of each fiscal year, the State publishes interim reimbursement rates paid to each county to provide these mental health services. The State sets these interim reimbursement rates based on service costs incurred by each county in the prior fiscal year and reported to the State after the close of the fiscal year.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend San Francisco Health Code Section 128 to retroactively increase patient rates charged by the Department of Public Health (DPH) to the maximum authorized rates allowed to be charged by the State Department of Health Care Services (DHCS) for mental health services provided by DPH to Short-Doyle Medi-Cal beneficiaries in FY 2014-15 and FY 2015-16.

The Board of Supervisors amended Health Code Section 128 on July 31, 2014 to adopt FY 2014-15 rates charged by DPH to patients and other third party payors, including the State, for health and mental health services. According to Ms. Anne Okubo, DPH Deputy Financial Officer, DPH submitted San Francisco's FY 2014-15 patient rates to the Board of Supervisors for approval before the State DHCS published the FY 2014-15 maximum allowable reimbursement rates. Several of San Francisco's FY 2014-15 patient rates are less than the State's FY 2014-15 maximum allowable reimbursement rates, as shown in Table 1 below, which results in San Francisco receiving reimbursement revenues from the State that are less than San Francisco could have received.

[1] The State enacted the Short-Doyle Act in 1956. As a result, local governments are eligible for a 50 percent reimbursement on costs of providing services to people with mental health issues. The State reimburses the City using Medi-Cal funds, which is the State's Medicaid pass-through program. The overall effect is a Federal reimbursement to local governments for mental health service costs.

Table 1: San Francisco's Adopted FY 2014-15 Patient Rates Charged to the State Compared to the State's FY 2014-15 Maximum Allowable Reimbursement Rates Paid to San Francisco

	Rates per Minute of Service		
Service	**FY 2014-15 State Maximum Allowable Reimbursement Rates Paid to San Francisco**	**FY 2014-15 San Francisco Patient Rates**	**San Francisco Patient Rates Greater Than/ (Less Than) the State Maximum Allowable Reimbursement Rate**
Case Management/Brokerage*	$3.32	$3.50	$.18
Mental Health Services	4.41	4.30	(.11)
Therapeutic Behavioral Services	4.41	4.30	(.11)
Medication Support	8.72	8.45	(.27)
Crisis Intervention	6.32	6.20	(.12)

* Case Management/Brokerage are services that assist a beneficiary to access needed medical, educational, social, prevocational, vocational, rehabilitative, or other community services.

To ensure that San Francisco receives the maximum allowable reimbursement revenues from the State, DPH proposes an amendment to the San Francisco Health Code Section 128, adopting revised FY 2014-15 patient rates, retroactive to July 1, 2014, and revised FY 2015-16 patient rates, as shown in Table 2 below.

Table 2: Proposed Increase in San Francisco's FY 2014-15 and FY 2015-16 Patient Rates

Service	**Fiscal Year 2014-15**		**Fiscal Year 2015-16**	
	Current Rate	**Proposed Rate**	**Current Rate**	**Proposed Rate**
Case Management/Brokerage	$3.50	$4.00	$3.65	$4.80
Mental Health Services	4.30	5.30	4.50	6.35
Therapeutic Behavioral Services	4.30	5.30	4.50	6.35
Medication Support	8.45	10.50	8.75	12.60
Crisis Intervention	6.20	7.60	6.45	9.10

*All services are invoiced at a rate per minute

FISCAL IMPACT

According to Ms. Okubo, unless the requested amendment to Health Code Section 128 is adopted, DPH will lose an estimated $308,191 in net reimbursements from the State, as shown in Table 3 below.

Table 3: Estimated Loss of Net Revenues at San Francisco's Current Patient Rates

Service	Units Served	San Francisco		State		State Amount More/ (Less) than SF Charge
		Rate	Amount	Rate	Amount	
Mental Health Services	1,359,336	$4.30	5,845,145	$4.41	5,994,672	$149,527
Medication Support	540,035	$8.45	4,563,296	$8.72	4,709,105	145,809
Crisis Intervention	107,123	$6.20	664,163	$6.32	677,017	12,855
Subtotal Other Services	**2,712,783**		**$11,072,603**		**$11,380,794**	**$308,191**

RECOMMENDATION

Approve the proposed resolution.

Item 2 **File 15-0373**	**Department:** Recreation and Parks Department (RPD)

EXECUTIVE SUMMARY

Legislative Objectives

The proposed resolution would authorize the General Manager of the Recreation and Park Department to execute a new 15-year lease with Glenridge Nursery School from June 6, 2015 through June 5, 2030 for the Silver Tree Building in Glen Canyon Park.

Key Points

- The Glenridge Nursery School, a non-profit cooperative nursery school, has leased 3,093 square feet (sf) in the Silver Tree Building in Glen Canyon Park since 1970. The current lease commenced on August 14, 2010 and will expire June 5, 2015. The Glenridge Nursery School operates for approximately nine and half months (42 weeks) of the year, similar to an academic year. For approximately 10 weeks during the summer months of June and August, RPD hosts the Silver Tree Day Camp at the Silver Tree Building
- The Recreation and Park Department proposes to enter into a new 15-year lease with Glenridge Nursery School without a competitive process because Glenridge Nursery School has occupied the space for 45 years, the building is not accessible by street, and the space is shared with the Silver Tree Day Camp.
- The Silver Tree Building needs a new roof at an estimated cost of $41,400. Under the proposed lease the Glenridge Nursery School will replace the roof and receive rent credits for 50 percent of the replacement costs.

Fiscal Impact

- Under the proposed lease, the initial rent payable by Glenridge Nursery School to RPD is $2,721 per month, or approximately $0.88 per square foot per month. The Recreation and Park Department determined that the rent of $0.88 per square foot per month was fair market value, based on rents paid by other similar schools and the condition, access and other factors of the Glenridge Nursery School.

Recommendations

- Amend the proposed resolution to add a “resolve clause” stating that the Board of Supervisors finds competitively bidding the subject lease to be “impractical or infeasible” due to the reasons noted in the section, “Waiving Competitive Bid for the Property,” below and stated on page 2, lines 20 through 25 of the proposed resolution.
- Amend the proposed resolution to state the correct initial annual base rent paid by Glenridge Nursery School to the City is $26,380.91 rather than $32,652, as stated in the proposed resolution.
- Approve the proposed resolution, as amended.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

City Charter Section 9.118(b) states that contracts entered into by a department, board or commission that (1) have a term of more than ten years, (2) require expenditures of $10 million or more, or (3) require a modification with a $500,000 impact or more is subject to Board of Supervisors approval.

Background

The City owns property located in Glen Canyon Park which is maintained by the Recreation and Park Department (RPD), consisting of a 3,093 square feet (sf) Silver Tree Building. The building can only be accessed through a one-third mile walking path, with the exception of emergency vehicles.

The Glenridge Nursery School, a non-profit cooperative nursery school, has operated out of the Silver Tree Building for 45 years, since 1970. The current lease between the Recreation and Park Department and the Glenridge Nursery School commenced on August 14, 2010 and will expire June 5, 2015. The Glenridge Nursery School operates for approximately nine and half months (42 weeks) of the year, similar to an academic year. For approximately 10 weeks during the summer months of June and August, RPD hosts the Silver Tree Day Camp at the Silver Tree Building, which has operated for 75 years, and out of the Silver Tree Building location since 1961.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the General Manager of the Recreation and Park Department to execute a new 15-year lease with Glenridge Nursery School, from June 6, 2015 through June 5, 2030, enabling the Glenridge Nursery School to continue to operate the nursery school located in 3,093 square feet of space in the Silver Tree Building at Glen Canyon Park. The key lease provisions are shown in Table 1 below.

Table 1: Key Lease Provisions for Silver Tree Building

Lease Provision	Proposed Lease
Premises	3,093 sf Silver Tree Building in Glen Canyon Park
Permitted use	Preschool educational and recreational programming
Initial Term	15 Lease Years (approximately 42 weeks, or 9.5 months per year)
Commencement & End Date	June 6, 2015 through June 5, 2030
Options to Extend	None
Base Rent	$2,721 per month during the first lease year In months of partial leasing, the rent will be prorated
Rent Adjustments	Annually based on the Consumer Price Index
Tenant improvements	$41,400 roof replacement to be funded up front by Glenridge Nursery School.
Rent Credit	$400 monthly rent credits not to exceed $25,000 based on total cost of roof replacement. The estimated rent credit is $20,700; see explanation below.
Utilities & Services	City pays water, gas, and electricity Tenant pays sewer, garbage, recycling, telephone, fax and internet
Repairs	Responsibility of the tenant

Waiving Competitive Bid for the Property

According to Mr. Jeff Suess, Recreation and Park Department Property Manager, the subject lease with Glenridge Nursery School was not competitively bid because:

- Required flexibility demanded of the tenant to accommodate the Silver Tree Day Camp during the summer months. The exact dates vary each year.
- Significant capital investment required of the tenant for repair of the building's roof.
- Difficulty in accessing the building which requires a one-third mile walk through Glen Canyon. Only service vehicles and RPD vehicles are permitted to use the service roads. Additionally, no parking is available.
- Unique historical relationship between Glenridge Nursery School and Silver Tree Day Camp, as well as Glenridge Nursery School's non-profit status which aligns with the Recreation and Park Department's mission.

The proposed resolution should be amended to add a "resolve clause" stating that the Board of Supervisors finds competitively bidding the subject lease to be "impractical or infeasible" due to the reasons noted in the section, "Waiving Competitive Bid for the Property," above and stated on page 2, lines 20 through 25 of the proposed resolution.

Silver Tree Building Roof Replacement

The roof of the Silver Tree Building is in poor condition, and requires replacement at an estimated cost of $41,400. According to Mr. Suess, members of the Glenridge Nursery School became aware of the need for a new roof and came to the Recreation and Park Department with a proposal to fund the improvements. According to Mr. Suess, Glenridge Nursery School members conducted a capital campaign, raising $50,000, to fund the replacement of the Silver Tree Building roof.

According to Mr. Suess, the roofing work needs to be completed during a short time period between the last week of Silver Tree Day Camp and the start of the Glenridge Nursery School term for the fall. Glenridge Nursery School will contract with an outside contractor to replace the existing roof. Under the proposed lease, Glenridge Nursery School will receive monthly rent credits of $400 per month (approximately $4,000 per year for a 42-week year), up to 50 percent of the tenant's costs of the roof replacement (estimated to cost $41,400), up to $25,000, whichever is less.

California Environmental Quality Act (CEQA)

On February 13, 2015, the Planning Department determined that the proposed roof replacement at the Silver Tree Building is in compliance with CEQA.

Future Lease Modifications

The proposed resolution authorizes the Recreation and Park Department General Manager to enter into any additions, amendments or other modifications to the lease as determined to be in the best interest of the City, as long as they do not decrease the revenue to the City, or otherwise increase the obligations or liabilities of the City.

FISCAL IMPACT

Under the proposed lease, the initial rent payable by Glenridge Nursery School to RPD is $2,721 per month, or approximately $0.88 per square foot per month for 3,093 square feet of space, which is 17.3 percent higher than their current rent of $2,320 per month, or $0.75 per square foot. According to Mr. Suess, the Recreation and Park Department determined the rental rate of $0.88 per sf based on a market rental survey of three comparable properties for school lease agreements from CoStar, as RPD determined the use is more important than the location in determining fair market rent. Mr. Suess applied cost adjustments based on differences in building quality, location, number of months of use, size, utilities and caretaker contribution[1] between the selected comparable properties to come up with an average rent of $0.88 per square foot. According to Mr. Suess, the City's Real Estate Division concurred with this determination.

Under the proposed lease, Glenridge Nursery School will pay estimated net rent to the Recreation and Park Department over the 15-year lease term of $452,360, as shown in Table 2 below. In addition, Glenridge Nursery School will pay for an estimated $41,400 in roof replacement costs, of which $20,700 will be refunded by the Recreation and Park Department through rent credits.

[1] According to Mr. Suess, the caretaker contribution accounts for the time spent by Glenridge Nursery School parents to maintain the property. The prior lease also accounted for the caretaker contribution.

Table 2: Estimated Rent Paid by Glenridge Nursery School to the Recreation and Park Department

Year	Annual Rent*	Estimated CPI	Roof Replacement Rent Credit**	Remaining Roof Credit	Net Rent Paid to RPD
1	$ 26,380.91		$ 4,200.00	$ 16,500.00	$ 22,180.91
2	$ 27,040.43	2.50%	$ 4,200.00	$ 12,300.00	$ 22,840.43
3	$ 27,716.44	2.50%	$ 4,200.00	$ 8,100.00	$ 23,516.44
4	$ 28,409.36	2.50%	$ 4,200.00	$ 3,900.00	$ 24,209.36
5	$ 29,119.59	2.50%	$ 3,900.00		$ 25,219.59
6	$ 29,847.58	2.50%			$ 29,847.58
7	$ 30,593.77	2.50%			$ 30,593.77
8	$ 31,358.61	2.50%			$ 31,358.61
9	$ 32,142.58	2.50%			$ 32,142.58
10	$ 32,946.14	2.50%			$ 32,946.14
11	$ 33,769.80	2.50%			$ 33,769.80
12	$ 34,614.04	2.50%			$ 34,614.04
13	$ 35,479.39	2.50%			$ 35,479.39
14	$ 36,366.38	2.50%			$ 36,366.38
15	$ 37,275.54	2.50%			$ 37,275.54
			$ 20,700.00		**$ 452,360.56**

*Silver Tree Day Camp will operate for 10 weeks each year. Glenridge Nursery School will pay rent for 42 weeks per year.

**Rent credits will be $400 per month, or $4,200 per year until 50% of the cost of the roof is recovered, not to exceed $25,000. Partial month is calculated at $200.

The proposed resolution should be amended to correctly state that the annual rent in the first year is $26,381 for an approximate 42-week lease year, rather than $32,652 for a 52-week lease year.

RECOMMENDATIONS

1. Amend the proposed resolution to add a "resolve clause" stating that the Board of Supervisors finds competitively bidding the subject lease to be "impractical or infeasible" due to the reasons noted in the section, "Waiving Competitive Bid for the Property," above and stated on page 2, lines 20 through 25 of the proposed resolution.
2. Amend the proposed resolution to state the correct initial annual base rent paid by Glenridge Nursery School to the City is $26,380.91 rather than $32,652, as stated in the proposed resolution.
3. Approve the proposed resolution, as amended.

Item 4 **File 15-0291**	**Department:** Real Estate Division

EXECUTIVE SUMMARY

Legislative Objectives

The proposed resolution would authorize DPH to enter into a new seven-year lease for 13,000 sf of space at 760 Harrison St with the Robert H. Cort Marital Trust for the South of Market Mental Health Services Clinic from July 1, 2015 to June 30, 2022 with three five-year options to extend, through 2037.

Key Points

- The Department of Public Health (DPH) has leased 13,000 square feet of space for its South of Market Mental Health Services Clinic ("Clinic") at 760 Harrison Street since November 1996. The Clinic provides intensive case management, crisis evaluation and management, medication, individual psychotherapy, group therapy services for approximately 1,200 people annually with mental, medical and behavioral health conditions.
- DPH plans to make $919,713 worth of improvements to the property including a larger waiting room, four medical examination rooms, a wellness center for group therapy sessions, landscaping and perimeter lighting, and bringing existing space into Americans with Disabilities Act (ADA) compliance. Therefore, the City's Real Estate Division determined a new lease was necessary if DPH planned to spend the estimated $919,713 for tenant improvements to the facility with only two years left on the current lease and no options to extend.

Fiscal Impact

- Under the proposed new lease, DPH will pay the existing rent of $304,200 per year in the first two years of the lease through June 30, 2017, and will pay the increased rent of $509,856 per year beginning on July 1, 2018. The proposed rental rate of $39.22 per sf per year represents a 67.6 percent increase over the existing rent of $23.40 per sf per year.
- The proposed rent of $39.22 per sf per year was found to be fair market rent by the City's Real Estate Division based on seven comparable properties. On average, the comparable properties were 12,500 sf and rent per sf was $49.71 per sf per year, which is 26.7 percent higher than the proposed rate for 760 Harrison St.

Recommendations

- Amend the proposed resolution to correctly state that the resolution is authorizing a *new* lease, and not an extension of the existing lease.
- Approve the proposed resolution, as amended.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

City Administrative Code Section 23.27 states that any lease with a term of one year or longer or with rent of $5,000 or more and where the City is the tenant is subject to Board of Supervisors approval.

Background

The Department of Public Health (DPH) has leased 13,000 square feet of space at 760 Harrison Street from the Cort Family Trust for its South of Market Mental Health Services Clinic ("Clinic") since November 1996. The Clinic provides intensive case management, crisis evaluation and management, medication, individual psychotherapy, group therapy services for approximately 1,200 people annually with mental, medical and behavioral health conditions. 64 DPH staff work at the Clinic.

A majority of patients served by the Clinic are dually diagnosed with major mental illness and one or more substance abuse disorders. Most of the Clinic's patients are residents of the South of Market (SOMA), Tenderloin and Western Addition neighborhoods, and many are homeless. Additionally, the Clinic serves residents with a history of repeated hospitalizations and incarcerations within the last 12 months.

<u>Lease History</u>

DPH originally leased the 13,000 square feet (sf) of space from the Cort Family Trust in 1996 at $12.00 per square foot per year, or $13,000 monthly ($156,000 annually) for a ten-year term, with two five-year options to extend. In 2007, the City exercised the first option to extend at a negotiated increased lease rate of 95 percent of fair market value, which was determined to be $23.40 per sf per year, or $25,350 monthly ($304,200 annually). In 2012, the City exercised its second five-year option to extend at the same lease rate of $23.40 per sf per year. The lease currently in place extends through June 30, 2017.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize DPH to enter into a new seven-year lease for 13,000 sf of space at 760 Harrison St with the Robert H. Cort Marital Trust for the South of Market Mental Health Services Clinic set to expire in June 30, 2017. Subject to approval, the lease will go into effect on July 1, 2015 and expire on June 30, 2022, with three five-year options to extend through 2037.

The proposed resolution authorizes the extension of an existing lease, and therefore should be revised to correctly state that the resolution is authorizing a *new* lease, not an extension of the existing lease.

<u>South of Market Mental Health Services Clinic Facility Improvements</u>

In order to comply with the Affordable Care Act (ACA) and best practices, DPH plans to integrate primary care into the current services offered by the South of Market Mental Health Services Clinic which would provide combined medical and mental health care services. In order to do so, DPH plans to install medical examination rooms at the Clinic that would allow DPH to provide on-site routine medical care, potentially reducing SFGH emergency room use. This would also allow DPH case managers to track the physical and mental health of their patients to provide more comprehensive service.

If the subject lease is approved, the following facility modifications will be made to the Clinic:

- Reconfigure existing space to increase the waiting room area and relocate existing institutional police officer space,
- Construct four private medical examination rooms,
- Construct a wellness center for group therapy sessions,
- Bring the existing space into Americans with Disabilities (ADA) compliance, and
- Add landscaping and perimeter lighting.

Improvement Costs

Under the proposed new lease, the landlord will construct the tenant improvements and DPH will reimburse the landlord for the cost of the tenant improvements. According to Mr. Charlie Dunn, Administrative Services Real Estate Division Senior Real Property Officer, the estimated costs for the improvements are $919,713. The DPH FY 2014-2015 budget, previously appropriated by the Board of Supervisors, includes $947,211 budgeted for this project, of which $300,000 will come from Proposition 63 Mental Health Services Act funds, and the remainder will come from the City's General Fund. If project costs exceed the prior budgeted amount of $974,211, DPH will reduce the scope of work for the improvements as set forth in the lease.

Improvements will take place in an area no longer needed by the Medical Records Division due to DPH's conversion to an electronic medical record system. No new square footage will be added at the 760 Harrison Street property.

Necessity of a New Lease

According to Mr. Dunn, the Real Estate Division determined a new lease was necessary if DPH planned to expend the estimated $919,713 worth of tenant improvements to the facility with only two years left on the current lease and no options to extend.

Proposed Lease Terms

Under the proposed new lease, the City will continue to pay the existing rent of $23.40 per sf per year through June 30, 2017, which is the current lease expiration date. The City will pay the new rent of $39.22 per sf per year beginning July 1, 2017, which is a 67.6 percent increase from the previous lease. Key provisions of the proposed lease are shown in Table 1 below.

Table 1: Key Provisions of 760 Harrison Street Lease

Lease Provision	**Proposed Lease**
Premises	13,000 sf at 760 Harrison Street
Initial Term	7 years from July 1, 2015 through June 30, 2022
Extension Options	Three 5-year extension options through June 30, 2037
Base Rent as of July 1, 2017	\$39.22 per sf/yr. \$42,488 monthly \$509,856 annually
Rent Adjustments	2% annually beginning as of July 1, 2018 and extending through the three 5-year extension options
Tenant improvements	City will pay for 100 percent of tenant improvements expected to cost \$919,713 to be constructed by the Landlord
Utilities & Services	City pays for gas, water, and electricity, maintenance of HVAC system, janitorial services
Repairs	City will pay for all repairs to be provided by the Landlord
Purchase Option	City has a Right of First Offer to Purchase

<u>Comparable Properties</u>

According to Mr. Dunn, the proposed rent of \$39.22 per sf per year was found to be fair market rent as determined by seven comparable properties reviewed by the Real Estate Division.[1] On average, the comparable properties were 12,500 sf and rent per sf was \$49.71 per sf per year, which is 26.7% higher than the proposed rate for 760 Harrison St. With the exception of one property, the average annual rental increase per year is three percent, which is one percentage point higher than the two percent annual rental increases in subject lease. According to Mr. Dunn, although the proposed rent of \$39.22 per sf per year does not begin until July 1, 2017, more than two years away, (a) rents in the neighborhood are currently 27.6 percent higher than the rent under the proposed lease, and (b) the Real Estate Division does not anticipate a decrease in rents below the proposed \$39.22 in this neighborhood.

<u>Alternative Site Options</u>

According to Mr. Dunn, given the 67.6 percent rental increase, the Real Estate Division and DPH Facilities staff considered other properties to house the Clinic, but were unable to find anything suitable for serving clients for less than \$60 per sf per year as compared to the proposed rental rate of \$39.22 per sf per year.

<u>Right of First Offer Purchase Option</u>

According to Mr. Dunn, because DPH has a long-term need for clinic space to provide behavioral and physical health services to SOMA residents, the City would consider purchasing the property should the 760 Harrison Street building owner want to sell. The Real Estate

[1] The seven properties are: 1045 Bryant Street, 1550 Bryant Street, 2125 Mission Street, 1000 Brannon Street, 70 Oak Grove Street, 501 2nd Street, and 2101 Mission Street.

Department included a provision for the right of first offer to purchase in order to secure this option for the proposed new lease in the future.

FISCAL IMPACT

Under the proposed new lease, DPH will pay the existing rent of $304,200 per year in the first two years of the lease through June 30, 2017, and will pay the increased rent of $509,856 beginning on July 1, 2018. As noted above, the proposed rental rate of $39.22 per sf per year represents a 67.6 percent increase over the existing rent of $23.40 per sf per year. However, the Real Estate Division reports that comparable properties are 27.6 percent more expensive than the proposed rent.

The total rent paid by DPH over the initial seven-year lease term is $2,653,311, as shown in Table 2 below. If DPH exercises their option to extend for three five-year terms, the total rent to be paid by DPH over the total 22-year term of the lease will be $12,996,560.

Table 2: Total Rent Paid by DPH for 760 Harrison Street Lease

Extension of Existing Lease (Current Rent)	Annual Rent
Lease Year 1	$304,200
Lease Year 2	$304,200
Subtotal	**$608,400**
Extension of Existing Lease (Rent Escalation – 2 percent annually)	**Annual Rent**
Lease Year 3	$509,856
Lease Year 4	$520,053
Lease Year 5	$530,454
Lease Year 6	$541,063
Lease Year 7	$551,885
Subtotal	**$2,653,311**
Five Year Extension Option #1	$2,929,470
Five Year Extension Option #2	$3,234,371
Five Year Extension Option #3	$3,571,007
Total	**$12,996,560**

**Assumes a 2% annual increase per the terms of the agreement*

The proposed resolution incorrectly states that the existing lease will be extended. However, this is a new lease, and not an extension of the existing lease.

RECOMMENDATIONS

1. Amend the proposed resolution to correctly state that the resolution is authorizing a *new* lease, and not an extension of the existing lease.

2. Approve the proposed resolution, as amended.

Item 5 **File 15-0210**	**Department:** San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

The proposed resolution would approve a new three-year lease with three one-year options between Menzies Aviation (USA) Inc., (Menzies) and the Airport, for approximately 50,319 sf of exclusive use space in West Field Cargo Building 632 and related areas on Plot 9.

Key Points

- Menzies Aviation (USA), Inc. (Menzies) provides passenger, ramp, and cargo handling services to airlines operating at the Airport.
- Currently, Menzies leases 50,319 square feet (sf) of space from the Airport on a month-to-month basis. The Airport Commission approved a three-year lease with Menzies in October 2014 for 36,012 sf of exclusive use office and warehouse space in the West Field Cargo Building. The Airport Commission subsequently approved a lease with Menzies in February 2015 for 50,319 sf of West Field Cargo Building space based on Menzies' request to increase the space from 36,012 sf to 50,319 sf.
- Because the individual airlines operating at the Airport contract directly with Menzies for services, the contract and associated lease were not competitively bid by the Airport.

Fiscal Impact

- The Airport completed construction of the new 69,000 sf West Field Cargo Building in June 2014 to replace the existing cargo building at a cost of approximately $35 million. In order to ensure that the lease rates for the new West Field Cargo Building would not be significantly higher than rental rates for other Airport warehouse buildings, and remain affordable to Airport tenants, the Airport established a blended rental rate for space at all cargo buildings, which is $23.00 per sf in FY 2014-15 regardless of the age or location of the building.
- Under the proposed lease, Menzies would pay rent of $23.00 per square foot in FY 2014-15, increased annually by rates set by the Airport for warehouse space. Over the six-year term of the lease, including the initial three-year term and three one-year extensions, Menzies will pay an estimated $7,546,780 in rent to the Airport.

Recommendations

- Amend the proposed resolution to state the correct estimated minimum rent payable by Menzies to the Airport over the lease term ending April 30, 2021 to be $7,546,780, rather than $6,434,187, as stated in the proposed resolution.
- Approve the proposed resolution, as amended.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

City Charter Section 9.118(c) states that leases, including options to renew, and modifications to leases, having anticipated revenue to the City of $1 million or more are subject to Board of Supervisors approval.

Background

Menzies Aviation (USA), Inc. (Menzies) provides passenger, ramp, and cargo handling services to airlines operating at San Francisco International Airport (Airport). Currently, Menzies leases 50,319 square feet (sf) of space from the Airport on a month-to-month basis under Permit No. 4096 pending approval of a long-term lease by the Airport Commission. The Airport Commission approved a three-year lease with Menzies in October 2014 for 36,012 sf of exclusive use office and warehouse space in the Airport's West Field Cargo Building and related areas on the Airport's Plot 9. Menzies subsequently requested in December 2014 that the Airport expand its exclusive use warehouse and office space in the West Field Cargo Building to 50,319 sf. The 50,319 sf is comprised of 42,620 sf of warehouse space and 7,699 sf of office space. Following this request, the Airport Commission approved the lease with Menzies for the 50,319 sf of space in February 2015.

Because the individual airlines operating at the Airport contract directly with Menzies for services, the contract and associated lease were not competitively bid by the Airport.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new three-year lease with three one-year options (Agreement No. 15-0033) between Menzies Aviation (USA) Inc., and the City, acting by and through its Airport Commission, for approximately 50,319 sf of exclusive use space in West Field Cargo Building 632 and related areas on Plot 9.

The proposed new three year lease would replace the existing lease which Menzies currently operates under a month-to-month permit at the Airport. The key lease provisions are shown in Table 1 below.

Table 1: Key Lease Provisions

Premises	50,319 sf of exclusive use warehouse and office space
Permitted Use	To conduct air cargo business for airlines operating at the Airport including receiving , delivering, dispatching, processing, handling and storage of air cargo and mail, and any other lawful purpose directly related to such activities
Term	Three years expected to commence May 1, 2015 for a total initial term through April 30, 2018
Options to Extend	3 one-year options through approximately April 30, 2021
Square Feet	42,620 sf warehouse space 7,699 sf of office space (3,853 sf 1st floor + 3,846 2nd floor) 50,319 sf total
First Year Rent to be Paid by Menzies to Airport	$23.00 per sf ($96,445 per month or $1,157,337 per year)
Rent Adjustments	Annual adjustments estimated to be 2.5 percent based on Airport's Rates and Charges for Cargo Facilities
Utilities	Tenant shall pay all utilities costs
Repairs	Airport shall pay the cost of repair to Airport Building infrastructure, systems, and equipment, which is deemed Airport Responsibility, in addition to routine maintenance and repair of the ramp and parking areas adjacent to said Premises. Airport shall provide janitorial services on all public areas, including public hallways, lobbies, elevators, stairwells, and bathrooms. Repair to all other systems or equipment is the responsibility of the Tenant.

FISCAL IMPACT

The proposed resolution would result in $7,546,780 in estimated rent to be paid by Menzies to the Airport for 50,319 sf of exclusive use space over the proposed lease term ending on April 30, 2021, as shown in Table 2 below.

Table 2: Total Estimated Rent to be Paid by Menzies to the Airport from May 1, 2015 through April 30, 2021

Initial Term	Rate/SF*	Square Feet	Rent
5/1/15 to 6/30/15 (2 months)	$23.00	50,319	$192,890
7/1/15 to 4/30/16 (10 months)	$23.58	50,319	$988,559
Year One Subtotal			**$1,181,448**
5/1/16 to 6/30/16 (2 months)	$23.58	50,319	$197,712
7/1/16 to 4/30/17 (10 months)	$24.16	50,319	$1,013,273
Year Two Subtotal			**$1,210,984**
5/1/17 to 6/30/17 (2 months)	$24.16	50,319	$202,655
7/1/17 to 4/30/18 (10 months)	$24.77	50,319	$1,038,604
Year Three Subtotal			**$1,241,259**
Initial Term Total Rent			**$3,633,692**
Option Terms			
5/1/18 - 6/30/18 (2 months)	$24.77	50,319	$207,721
7/1/18 - 4/30/19 (10 months)	$25.39	50,319	$1,064,570
Option Year One Subtotal			**$1,272,290**
5/1/19 - 6/30/19 (2 months)	$25.39	50,319	$212,914
7/1/19 - 4/30/20 (10 months)	$26.02	50,319	$1,091,184
Option Year Two Subtotal			**$1,304,098**
5/1/20 - 6/30/20 (2 months)	$26.02	50,319	$218,237
7/1/20 - 4/30/21 (10 months)	$26.67	50,319	$1,118,463
Option Year Three Subtotal			**$1,336,700**
Total Rent			**$7,546,780**

** Assumes an annual 2.5 percent increase*

The proposed resolution incorrectly states that the total estimated rent payable by Menzies to the Airport is $6,434,187 rather than the correct amount of $7,546,780.

The Airport completed construction of the new 69,000 sf West Field Cargo Building in June 2014 to replace the existing cargo building at a cost of approximately $35 million. According to Mr. Dan Ravina, Senior Property Manager, in order to ensure that the lease rates for the new West Field Cargo Building would not be significantly higher than rental rates for other Airport warehouse buildings, and remain affordable to Airport tenants, the Airport established a blended rental rate for space at all cargo buildings, which is $23.00 per sf in FY 2014-15 regardless of the age or location of the building. The Airport estimates an annual rental rate increase of 2.5 percent, equal to $23.58 per sf in FY 2015-16, based on a combination of rates and charges at the Airport, as well as the expected increase in inflation.

RECOMMENDATIONS

1. Amend the proposed resolution to state the correct estimated minimum rent payable by Menzies to the Airport over the lease term ending April 30, 2021 to be $7,546,780, rather than $6,434,187, as stated in the proposed resolution.

2. Approve the proposed resolution, as amended.

Item 6 **File 15-0212**	**Department:** San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve an early lease termination retroactively as of March 31, 2015 for The Body Shop, which currently occupies 2,500 square feet of Pharmacy, Health, and Beauty Store retail space in Terminal 3 Boarding Area F of the San Francisco International Airport.

Key Points

- On November 21, 2014, the Body Shop notified the Airport of its desire to terminate their lease agreement on March 31, 2015, more than one year prior to the April 7, 2016 lease expiration date due to the low volume of business in Boarding Area F. United Airlines, which is the only airline operating in Boarding Area F, shifted many of their flights from Boarding Area F to Boarding Area E in Terminal 3 after the completion of construction and the reopening of Boarding Area E in January 2014, resulting in a 23.8 percent decrease in passengers in Boarding Area F from 2013 to 2014.
- On January 20, 2015, the Airport Commission approved The Body Shop's request for an early lease termination date of March 31, 2015, provided that The Body Shop pay the Airport an early termination fee of $198,166, which is the equivalent of nine months of the MAG rent through December 31, 2015, prorated on a monthly basis.
- The Airport has identified the Hudson Group as a replacement tenant in Terminal 3 Boarding Area F. The Hudson Group's Fickle Bag product line, which specializes in handbags and accessories, is being displaced by the Airport due to construction at its current location in Terminal 3.

Fiscal Impact

- The loss in revenues to the Airport for the early termination of the lease with The Body Shop is $71,193, which is the difference between the MAG rent of $269,359 that The Body Shop would have paid from April 1, 2015 through April 7, 2016 less the early termination fee of $198,166. The Airport does not anticipate an overall loss in revenues since the estimated MAG paid by Hudson combined with rental of the storage areas will exceed the lost rent from The Body Shop.
- Under the Airport's residual rate-setting methodology (break-even policy), any reductions in non-airline revenues are automatically offset by increasing the total rent payable by the airlines operating at the Airport in accordance with the respective leases between the Airport and the airlines. The Airport's break-even policy requires that the total revenues paid to the Airport by all airlines in the fiscal year are sufficient to balance the Airport's budget.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

Mandate Statement

City Charter section 9.118(c) requires approval by the Board of Supervisors for the modification, amendment or termination of any lease that was entered into for a period of ten or more years, including options to renew, or had anticipated revenue to the City and County of one million dollars or more.

BACKGROUND

On October 2, 2008, the Board of Supervisors approved a lease agreement between Harmony Pharmacy and Health Center, Inc. (Harmony) and the Airport for the Boarding Area "F" Pharmacy, Health, and Beauty Store retail space in Terminal 3 of the San Francisco International Airport (File 08-1075). The lease agreement was for 2,500 square feet of retail space and an initial lease term of five years to November 2013, with one two-year option to extend through November 2015.

Under this lease, the annual rent payable by Harmony to the Airport was the greater of (a) the Minimum Annual Guarantee (MAG) or (b) percentage rent. Each year, Harmony paid the Airport MAG rent because their percentage rent based on gross revenues did not exceed the MAG. The MAG was adjusted annually to account for consumer price index (CPI) increases and adjustments to enplanements, representing the total number of passengers boarding the airline carrier.

In 2013, Harmony requested a transfer of their lease to another company because they were experiencing financial difficulties. On May 21, 2013, the Airport agreed to transfer the lease from Harmony to Butha-na-Bodhaige, Inc. (dba The Body Shop), and extend the lease term through April 7, 2016. While The Body Shop only used approximately 716 square feet of the total 2,500 square feet of available retail space, The Body Shop paid the required MAG rent based on the total 2,500 square feet of retail space.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve an early lease termination retroactively as of March 31, 2015 for The Body Shop, which currently leases 2,500 square feet of the Pharmacy, Health, and Beauty Store retail space in Terminal 3 Boarding Area F of the San Francisco International Airport.

On November 21, 2014, the Body Shop notified the Airport of its desire to terminate their lease agreement on March 31, 2015, more than one year prior to the April 7, 2016 lease expiration date, due to the low volume of business in Boarding Area F. According to Mr. Trevor Brumm, Airport Property Manager, United Airlines shifted many of their flights from Boarding Area F to Boarding Area E in Terminal 3 after the completion of construction and the reopening of Boarding Area E in January 2014. This caused a significant decline in enplanements in Boarding Area F. While United Airlines, the only airline operating in Boarding Area F since 2011, has since reinstated their Express flights in Boarding Area F, annual enplanements declined by 23.8 percent from 2013 to 2014 in Boarding Area F.

Mr. Brumm advised that Airport approval of early lease terminations is rare for concession operators at the Airport, unless the Tenant can obtain another concession operator for the assignment of the lease to such other concession operator. However, with the lease termination date set at April 7, 2016, it was difficult for The Body Shop to find an alternate tenant to take over the lease for such a short period of time.

Based on negotiations with The Body Shop, on January 20, 2015, the Airport Commission approved The Body Shop's request for an early lease termination, provided that The Body Shop pay the Airport an early termination fee of $198,166, which is the equivalent of nine months at $22,018 per month of the MAG rent through December 31, 2015, prorated on a monthly basis.

New Tenant Already Identified to Lease Space

The Airport has identified the Boarding Area "F" Pharmacy, Health, and Beauty Store retail space as replacement space for the Hudson Group, whose Fickle Bag product line, which specializes in handbags and accessories, is being displaced by the Airport due to construction at its current location in Terminal 3. Under the lease amendment between the Airport and the Hudson Group for Fickle Bag, the Hudson Group is required to pay the Airport an estimated MAG rent of approximately $215.59 per square foot. The new Hudson store will occupy the 716 square feet of space vacated by The Body Shop, resulting in a first year MAG rent to the Airport of $154,362. The new lease with Fickle Bag will be subject to future approval of the Board of Supervisors.

The Airport will rent the remaining 1,784 square feet of space to other concession operators in the Airport for use as storage units on a month-to-month basis.

FISCAL IMPACT

The loss in revenues to the Airport for the early termination of the lease with The Body Shop is $71,193, which is the difference between the MAG rent of $269,359 that The Body Shop would have paid from April 1, 2015 through April 7, 2016 less the early termination fee of $198,166. According to Mr. Brumm, the Airport does not anticipate an overall loss in revenues since the estimated MAG paid by Hudson combined with rental of the storage areas will exceed the lost rent from The Body Shop.

Under the Airport's residual rate-setting methodology (break-even policy), any reductions in non-airline revenues are automatically offset by increasing the total rent payable by the airlines operating at the Airport in accordance with the respective leases between the Airport and the airlines. The Airport's break-even policy requires that the total revenues paid to the Airport by all airlines in the fiscal year are sufficient to balance the Airport's budget.

RECOMMENDATION

Approve the proposed resolution.

Item 11 **File 15-0370**	**Department:** Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

Through the proposed resolution, the Board of Supervisors would authorize the City and County of San Francisco to accept and expend the award of $2,000,000 from the California Department of Housing and Community Development, Local Housing Trust Fund Grant Program to create, acquire, and/or rehabilitate affordable housing in San Francisco, and promote affordable homeownership programs.

Key Points

- The California Department of Housing and Community Development, Local Housing Trust Fund Grant Program issued a Notice of Funding Availability (NOFA) to provide grant funds up to $2,000,000 to municipalities that have established local housing trust funds. According to the NOFA, grant funds are awarded to local governments that have committed funds to the development of affordable housing and must be matched dollar-for-dollar by the applicant. 30 percent of grant funds must be used on projects restricted for Extremely Low Income households and no more than 20 percent of grant funds may be used for projects affordable to Moderate Income households. These income eligibility criteria are consistent with the San Francisco Housing Trust Fund income guidelines, which limit household income to 120 percent of Area Median Income, as noted above. Grant funds must be spent within 36 months of receiving the award from the State.
- The $2,000,000 grant award will be used as a source of financing for the construction of an affordable housing project at 1036 Mission St. (Project) consisting of 88 units of housing for Extremely Low- and Very Low-income individuals and families. MOHCD staff chose to use the $2,000,000 grant award to finance the 1036 Mission Street Project because its focus on Extremely Low and Very Low-Income populations makes it an ideal fit for the grant's criteria. Additionally, because the grant requires that all funds are allocated within three years, MOHCD needed a project that could use the funds within that timeframe.

Fiscal Impact

- The cost of 1036 Mission St. Project is $49,385,241. Of this $49,385,241, $8,149,277 in City funding is being allocated to the Project and serve as matching funds to the State's $2,000,000 grant. No funding from the San Francisco Housing Trust Fund will be used to develop this Project.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Administrative Code Section 10.170-1 states that accepting Federal, State, or third-party grant funds in the amount of $100,000 or more, including any City matching funds required by the grant, is subject to Board of Supervisors approval.

BACKGROUND

In November 2012, San Francisco voters approved Proposition C, a charter amendment establishing the San Francisco Housing Trust Fund for the purpose of creating, acquiring and rehabilitating housing that is affordable for households earning up to 120 percent of Area Median Income; and promoting affordable homeownership programs.

The California Department of Housing and Community Development Local Housing Trust Fund Grant Program issued a Notice of Funding Availability (NOFA) to provide grant funds of up to $2,000,000 to municipalities that have established local housing trust funds. According to the State NOFA, grant funds are awarded to local governments that have committed funds to the development of affordable housing and must be matched dollar-for-dollar by the applicant.

In April 2014, the Board of Supervisors authorized the Mayor's Office of Housing and Community Development (MOHCD) to apply for the State grant funds. In October 2014, the State approved an award of $2,000,000 in grant funds to the City and County San Francisco to create, acquire, and/or rehabilitate affordable housing in San Francisco, and promote affordable homeownership programs.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the City and County of San Francisco to accept and expend the award of $2,000,000 in State Local Housing Trust Fund Grant funds to create, acquire, and/or rehabilitate affordable housing in San Francisco, and promote affordable homeownership programs.

State Local Housing Trust Fund Grant awards are provided to municipalities that have established local housing trust funds. These grants awards are not allocated to a specific project, but are provided to the municipality administering a local housing trust fund which then selects projects that meet the grant's eligibility criteria.

30 percent of grant funds must be used on projects restricted for Extremely Low Income households[1] and no more than 20 percent of grant funds may be used for projects affordable to Moderate Income households. These income eligibility criteria are consistent with the San Francisco Housing Trust Fund income guidelines, which limit household income to 120 percent of Area Median Income. Grant funds must be spent within 36 months of receiving the award from the State.

<u>1036 Mission St. Project</u>

According to Mr. Benjamin McCloskey, Deputy Director of MOHCD, the proposed $2,000,000 grant award will be used as a source of financing for the construction of an affordable housing project at 1036 Mission St. (Project). The Project will consist of 88 units of housing for Extremely Low- and Very Low-Income individuals and families.[2] Forty-three of the units will be restricted to Extremely Low-Income households that must be formerly homeless referred to the Project by the Department of Public Health. Forty-four units will be restricted to Very Low-Income households. One unit will be a property manager’s unit. Rent paid by tenants for the units will be capped at 30 percent of income.

Mr. McCloskey states that MOHCD staff chose to use the $2,000,000 grant award to finance the 1036 Mission Street Project because its focus on Extremely Low and Very Low-Income populations makes it an ideal fit for the grant’s criteria. Additionally, because the grant requires that all funds are allocated within three years, MOHCD needed a project that could be completed within three years.

FISCAL IMPACT

The 1036 Mission Street Project will be developed by the non-profit Tenderloin Neighborhood Development Corporation and funded by a combination of developer, Federal, State and City funding, totaling $49,385,241, as shown in Table 1 below. Of the $49,385,241 in funding sources, $8,149,277 in City funding is being allocated to the Project.

[1] According to the U.S. Department of Housing and Urban Development (HUD), Extremely Low-Income households earn less than 30 percent of the Area Median Income, equal to approximately $22,773 of the 2015 San Francisco median income of $75,910.

[2] According to HUD, Very Low-Income households earn less than 50 percent of Area Median Income, equal to approximately $37,955 of the 2015 San Francisco median income of $75,910.

Table 1: Sources of Funds for 1036 Mission St. Project

Funding Source	Amount
Developer Contributions	*$2,360,815*
Federal Funding	
Federal Low-Income Housing Tax Credits	$20,088,000
Federal HOME program	5,787,149
Federal Funding Subtotal	*$25,875,149*
California State Funding	
Multi-Family Housing Program Grant	$7,000,000
Transit Oriented Development Grant	3,000,000
Local Housing Trust Fund Grant (subject of proposed resolution)	2,000,000
Affordable Housing Program Grant	1,000,000
California State Funding Subtotal	*$13,000,000*
San Francisco City Funding	
Inclusionary Housing Fees	$1,936,426
California Pacific Medical Center Development Agreement Fees	2,000,000
Jobs Housing Linkage Fees	2,212,851
Low-Moderate Income Housing Asset Fund	2,000,000
City Funding Subtotal	*$8,149,277*
Total Project Funding	**$49,385,241**

Estimated project expenditures of $49,385,241 are shown in Table 2 below.

Table 2: Estimated Cost for 1036 Mission St. Project

Budget Category	Amount
Construction (75%)	$36,900,012
Planning, Permitting, Design, Engineering, Other (19%)	9,249,830
Reserves (5%)	666,359
Developer Costs (1%)	2,569,040
Total Costs	$49,385,241

RECOMMENDATION

Approve the proposed resolution.