

File No. 120040

Committee Item No. 6

Board Item No. 7

### 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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| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Resolution                                   |
| <input type="checkbox"/>            | <input type="checkbox"/> | Ordinance                                    |
| <input type="checkbox"/>            | <input type="checkbox"/> | Legislative Digest                           |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Budget & Legislative Analyst Report          |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Ethics Form 126                              |
| <input type="checkbox"/>            | <input type="checkbox"/> | Introduction Form (for hearings)             |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Department/Agency Cover Letter and/or Report |
| <input type="checkbox"/>            | <input type="checkbox"/> | MOU  |
| <input type="checkbox"/>            | <input type="checkbox"/> | Grant Information Form                       |
| <input type="checkbox"/>            | <input type="checkbox"/> | Grant Budget                                 |
| <input type="checkbox"/>            | <input type="checkbox"/> | Subcontract Budget                           |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | *Contract/Agreement                          |
| <input type="checkbox"/>            | <input type="checkbox"/> | Award Letter                                 |
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#### OTHER

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Completed by: Victor Young

Date: February 10, 2012

Completed by: Victor Young

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 Expansion – Mattison Family Trust – 555 Polk Street]

2  
3 **Resolution 1) approving the exercise of a lease expansion of approximately 9,000**  
4 **square feet at 555 Polk Street with the Mattison Family Trust at a base rent of \$16,100**  
5 **per month, for use by the Department of Public Health as a Community Justice Center;**  
6 **and 2) authorizing other actions in furtherance of this Resolution.**

7  
8 WHEREAS, Since 1991, the City has leased approximately 9,000 square feet of  
9 ground floor space at 575 Polk Street for additional Superior Court court rooms and  
10 administrative offices (575 Polk Street Court Facility) under a lease dated as of December 3,  
11 1990 (575 Polk Street Lease) and,

12 WHEREAS, By companion legislation, the Board is considering the renewal of the 575  
13 Polk Street Lease through July 31, 2021; and,

14 WHEREAS, The City subleased approximately 9,000 square feet of second floor space  
15 with an entrance off Polk Street which is commonly known as 555 Polk Street from the  
16 California Culinary Academy, LLC (the 555 Polk Street Facility) under the jurisdiction of the  
17 Department of Public Health (DPH) for use as a Community Justice Center working with the  
18 Superior Court functions already located on the ground floor under a sublease dated as of  
19 March 13, 2008 (555 Polk Street Sublease) pursuant to Board of Supervisors Resolution 348-  
20 08; and,

21 WHEREAS, The Community Justice Center at the 555 Polk Street Facility works in  
22 conjunction with the Superior Court functions at the 575 Polk Street Facility to provide  
23 essential public services; and

1           WHEREAS, The 555 Polk Street Sublease expires March 15, 2013 and there are no  
2 further options to extend the sublease; and,

3           WHEREAS, The Real Estate Division has negotiated an option to add the 555 Polk  
4 Street facility to the proposed 575 Polk Street Lease, which would make the lease expirations  
5 for the two functions co-terminus.

6           WHEREAS, The proposed expansion option retains the current rental of \$16,100.00  
7 (approximately \$1.79 per square foot) per month without increase for the next eight years,  
8 four months (from March 31, 2013 through July 31, 2021) on the terms and conditions set  
9 forth in the form of the lease (the "New 575 Polk Lease") on file with the Clerk of the Board of  
10 Supervisors in File No. 120040, which is incorporated herein by reference; and,,

11           WHEREAS, The exercise of the option to add the 555 Polk Street facility to the 575  
12 Polk Street Lease is subject to Board approval, therefore, be it

13           RESOLVED, That the Director of Property is hereby authorized to exercise the option  
14 to expand the New 575 Polk Street Lease subject to Board ratification no later than March 1,  
15 2013, to include the Premises known as 555 Polk Street and enter into any amendments or  
16 modifications to such Lease (including without limitation, the exhibits), that the Director of  
17 Property determines, in consultation with the City Attorney, are in the best interest of the City,  
18 do not materially increase the rent or other obligations or liabilities of the City or materially  
19 reduce the benefits to City, are necessary or advisable to effectuate the purposes of the  
20 Lease, and this Resolution, and are in compliance with all applicable laws, including City's  
21 Charter; and, be it

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

1 FURTHER RESOLVED, That the Director of Property shall provide to the Board, no  
2 later than February 1, 2013, a report indicating all potential alternative uses of the Premises;  
3 and be it

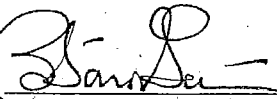
4 FURTHER RESOLVED, That the expansion of the Lease shall be subject to  
5 certification as to funds by the Controller, pursuant to Section 3.105 of the Charter.

6 Available: \$48,300.00  
7 (Base Rent for April 1, 2013  
8 to June 30, 2013)

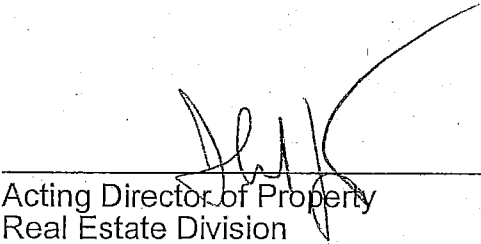
9 

10 \_\_\_\_\_  
11 Controller  
12 Subject to enactment of an Annual  
13 Appropriation Ordinance for Fiscal Year  
14 2012/2013

15 RECOMMENDED:

16 

17 \_\_\_\_\_  
18 Director  
19 Department of Public Health

20   
21 \_\_\_\_\_  
22 Acting Director of Property  
23 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 sublessee, 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 Giraudo<sup>1</sup>, 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.

<sup>1</sup> This original lease was between the City and County of San Francisco as lessee and Stephen L. Pasquan, Pamela Pasquan, Joseph J. Giraudo and Beverly J. Giraudo, 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 \$322,190<sup>2</sup> 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.<sup>3</sup>

In 1992, the Board of Supervisors established a Courthouse Construction Fund, as a Category Four Fund<sup>4</sup>, 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 Trust<sup>5</sup>, 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

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> 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.

<sup>5</sup> 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, 2012<sup>6</sup> 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 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 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.

<sup>6</sup> 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 <sup>7</sup> 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

<sup>7</sup> 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 \$351,043<sup>8</sup> 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.

<sup>8</sup> 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**

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

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

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 \$200,000<sup>9</sup> 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.

<sup>9</sup> 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.





RECEIVED  
BOARD OF SUPERVISORS  
SAN FRANCISCO

2012 JAN 11 AM 9:31



John Updike  
Acting Director of Real Estate

January 9, 2012

Through Naomi Kelly,  
Acting City Administrator

Community Justice Center  
555 Polk Street  
DPH  
Assignment #6554

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 continuation of existing space at 555 Polk Street for the Department of Public Health (DPH) for use as the Community Justice Center.

In 2008, the City subleased from the California Culinary Academy approximately 9000 sq. ft. of second floor space (with a separate entrance off Polk Street) at 555 Polk St for use as the Community Justice Center pursuant to Board of Supervisors Resolution 348-08. The Sublease expires March 31, 2013 and there are no options to extend the sublease.

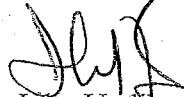
The Community Justice Center provides services to the public and Court authorized alternatives to incarceration for the San Francisco Superior Court which is located on the ground floor. Services include drug treatment programs, housing and employment assistance, and mental and physical health programs.

The San Francisco Superior Court lease expired July 31, 2011. The Real Estate Division has been in negotiations with the owner of the property to not only renew the ground floor area for the State's Administrative Office of the Courts but to also extend the lease of second floor area for the Department of Public Health. The proposed agreement with the owner is an initial lease for the Superior Court area and an expansion option to begin when the California Culinary Academy sublease expires on March 31, 2013. Separate companion legislation has been submitted for the initial lease transaction, sublease to the State, and amendment of the 2009 Transfer Agreement transactions. The proposed Resolution authorizes the expansion of the initial lease to include the DPH area and make the two areas coterminous (through June 30, 2021).

The proposed Base Rent for the renewal lease is \$16,100.00 per month, (approximately \$1.79 per sq. ft. monthly and approximately \$21.47 psf annually) which is the same as City is paying under the current sublease. There are no increases in Base Rent over the eight year four month (8.33 years) 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. Barbara Garcia, Director, DPH  
Greg Wagner, DPH  
Tyrone Navarro, DPH

Complete Copy of Document  
located in File NO. 120040

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)

<b>City Elective Officer Information</b> <i>(Please print clearly.)</i>	
Name of City elective officer(s): Members, Board of Supervisors	City elective office(s) held: Members, Board of Supervisors
<b>Contractor Information</b> <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	
<b>Contractor address:</b> 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>	<b>Amount of contract:</b> \$193,200 per year for 9.33 years
<b>Describe the nature of the contract that was approved:</b> Lease of Real Property at 555 Polk	
<b>Comments:</b> Companion lease to 575 Polk St. 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

<b>Filer Information</b> <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