

File No. 160833

Committee Item No. 11
Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS
AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Sub-Committee Date July 27, 2016

Board of Supervisors Meeting Date _____

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Completed by: Linda Wong Date July 22, 2016
Completed by: Linda Wong Date _____



San Francisco Public Library
100 Larkin Street
San Francisco, CA 94102

July 5, 2016

Supervisor Mark Farrell
Chair, Budget and Finance Committee
San Francisco Board of Supervisors
1 Dr. Carlton B. Goodlett Place
City Hall, Room 244
San Francisco, CA 94102

Subject: Release of property lease reserves for the San Francisco Public Library

Dear Supervisor Farrell:

The San Francisco Public Library (Library) respectfully requests that the Budget and Finance Committee release \$1,227,344 in property lease monies placed on reserve for fiscal year 2016-17. The Budget and Finance Committee placed \$1,772,592 of property lease budget on reserve as part of the fiscal year 2016-17 Annual Appropriation Ordinance pending submission of a proposed lease for the 750 Brannan site or another site for the consolidation of several of the Library's operations into one location.

In May 2016 the Department of Real Estate and the Library were in the beginning stages of lease negotiations with the landlord of 750 Brannan Street, 750 Brannon Street Props, LLC. Leasing this location would allow the Library to co-locate the City Archives, the Library's Community Redistribution Program, and the Mobile Outreach Services (bookmobiles), as well as locate a neighborhood book donation drop off and bookstore for the Friends of the San Francisco Public Library (Friends). Since May the Real Estate Department has developed a lease agreement for 750 Brannan Street and a sublease for a portion of that space for the Friends.

The Real Estate Department has drafted a resolution to authorize the lease and sublease for 750 Brannan Street, which accompanies this request to release the reserved property lease monies. Releasing \$1,227,344 in the property lease reserved monies would allow the City to proceed with the lease agreement and sublease with the Friends for 750 Brannan, including tenant improvements. Thank you for your consideration.

Sincerely,

Luis Herrera
City Librarian
San Francisco Public Library

cc: Angela Calvillo
Melissa Whitehouse
Ben Rosenfield
Board of Supervisors Budget and Legislative Analyst

<p>Items 9 and 11 Files 16-0798 and 16-0833</p>	<p>Departments: Public Library Real Estate Division</p>
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EXECUTIVE SUMMARY

Legislative Objectives

File 16-0798 would authorize (1) a new lease between the Public Library, as tenant, and 750 Brannan Street Props, LLC, as landlord, to provide retail, production, warehouse and related office space at 750 Brannan Street; and (2) a sublease between the Public Library and the Friends & Foundation. The lease is for ten years with three five-year options to extend, totaling 25 years.

File 16-0833 is a request to release \$1,227,344 on Budget and Finance Committee reserve for FY 2016-17 to pay the Library’s tenant improvement costs and six months of rent at 750 Brannan Street.

Key Points

- The Library plans to relocate three Library programs – the City’s Archives, the Community Redistribution Program, and Mobile Outreach Services – from the Main Library and Brooks Hall to the new lease space at 750 Brannan Street. The new lease space consists of 24,173 square feet of building space and 6,430 square feet of yard space, totaling 30,603 square feet. First year rent is \$39 per square foot or \$942,747 for 24,173 square feet of building space. Rent increases by 3 percent per year.
- Friends & Foundation would sublease 2,833 square feet from the Library, of 11.7 percent of the building space, and pay the Library for rent and operating expenses equal to 11.7 percent of the Library’s total rent and operating expenses.
- The Budget and Finance Committee placed \$1,772,592 on Budget and Finance Committee reserve during the FY 2016-17 budget deliberations, pending the submission of a lease for a site to consolidate the Library’s operations in one location. The Library is requesting release of \$1,227,344 on Budget and Finance Committee reserve.

Fiscal Impact

- The Library’s total costs over the initial ten-year lease term are \$10,452,694.

Policy Consideration

- Approval of the proposed resolution (File 16-0798) and release of \$1,227,344 on Budget and Finance Committee reserve (File 16-0833) are a policy matter for the Board of Supervisors because the proposed new lease results in new costs to the Library of \$10,452,694 over ten years.

Recommendations

- Approval of the proposed resolution and requested release of \$1,227,344 on Budget and Finance Committee reserve is a policy matter for the Board of Supervisors.
- If the Board of Supervisors approves the release of \$1,227,344 on Budget and Finance Committee reserve, the balance of \$545,250 should be returned to the Library fund balance.

MANDATE STATEMENT

City Administrative Code 23.27 states that leases 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.

Section 3.3 of the City's Administrative Code provides that the committee of the Board of Supervisors that has jurisdiction over the budget (i.e., Budget and Finance Committee) may place requested expenditures on reserve until released by the Budget and Finance Committee of the Board of Supervisors.

BACKGROUND**Three Existing Public Library Programs and Services**

The Public Library collects, maintains and provides public access to the City's Archives, historical records and photographs, some of which date back to the mid-1800s. The City's Archives are currently stored in the basement of Brooks Hall at no cost, across from the Main Public Library. Library staff archivists retrieve City Archive materials for patrons, as requested.

The Public Library's Community Redistribution Program provides schools, nonprofits, community-based and other organizations both locally and abroad with approximately 75,000 books and materials annually for re-use. As Library staff de-select volumes to allow room for new books and materials in the Public Libraries, these recycled materials are kept out of landfills and repurposed for use by others. The Community Redistribution Program, which has limited staff hours, is currently housed in the basement of Brooks Hall at no lease cost.

The Public Library's Mobile Outreach Services provide bookmobile visits for an average of 2,243 patrons monthly, with four vehicles: (1) Green Bookmobile, serving Treasure Island community and special events, (2) Early Literacy Mobile, serving children 0-5 years and their caregivers at child care centers and parks, (3) Library on Wheels, serving seniors and mobility impaired individuals, (4) Techmobile, providing digital literacy with high-tech devices. The Mobile Outreach Services staff is currently located on two floors in the Main Library. Two bookmobiles are parked in the Main Library's underground garage and two bookmobiles are currently parked at Pier 19½, under an existing sublease with Space Plus, LLC at a cost of \$15,000 per year.

The Friends & Foundation

The Friends & Foundation of the San Francisco Public Library (Friends & Foundation) is a nonprofit organization that advocates, fundraises and provides financial support of approximately \$720,000 annually to the Public Library. The Friends & Foundation currently operate a small public bookstore in the Main Library from donated books, with the revenue from these book sales provided to the Public Library. The Friends & Foundation currently lease private office space at 710 Van Ness for their administrative staff for \$7,549 per month, which extends through November 30, 2021. Anticipating a significant rent increase in December of 2016, the Friends & Foundation are currently negotiating with their landlord to terminate this existing lease and relocate to less expensive and more suitable space.

DETAILS OF PROPOSED LEGISLATION

File 16-0798 is a resolution that would authorize (1) a new lease between the Public Library, as tenant, and 750 Brannan Street Props, LLC, as landlord, to provide retail, production, warehouse and related office space at 750 Brannan Street; and (2) a sublease between the Public Library and the Friends & Foundation. The lease is for ten years with three five-year options to extend, totaling 25 years. The terms of the proposed lease and sublease are shown in Table 1 below.

The resolution also finds this transaction conforms to the City's General Plan and Planning Code Section 101.1.

File 16-0833 is a request to release \$1,227,344 on Budget and Finance Committee reserve for FY 2016-17 to proceed with the lease agreement at 750 Brannan Street and related sublease with the Friends & Foundation, including tenant improvements.

Table 1 below shows the key provisions of the lease.

Table 1: Key Provisions of Lease for 750 Brannan Street

Permitted Uses	Library archival collection, community redistribution program, bookmobile parking, general office and Friends & Foundation bookstore and book donation drop-off
Premises	24,173 square feet of building 6,430 square feet of yard area 30,603 total square feet
Term	Ten years, from January 1, 2017 through December 31, 2026 Lease will commence upon completion of tenant improvements
Options to Extend	Three five-year options to extend through December 31, 2041 Rent adjusted to 95 percent of Fair Market Value, subject to Board of Supervisors approval
Rent in First Year	\$78,562 per month or \$942,747 first year (\$39 per square foot annually for 24,173 square feet of building space)
Annual Increase to Rent	3 percent
Estimated Expenses	\$2,518 per month or \$30,216 annually City pays for utilities, janitorial, security and maintenance
Library's Tenant Improvement Costs	\$755,970, equal to total estimated tenant improvement costs of \$997,700 less landlord allowance of \$241,730
Purchase Option	City has First Right of Negotiation if landlord decides to sell property
Sublease with Friends & Foundation	2,833 square feet (approximately 11.7% of total building) Rent and operating expenses paid by Friends & Foundation to Library equals 11.7% of Library's base rent and operating expenses

According to Ms. Maureen Singleton, Chief Financial Officer of the Public Library, the proposed lease at 750 Brannan Street would enable the Library to relocate and consolidate the City Archives, Community Redistribution Program and Mobile Outreach Services into one space. In addition, the Friends & Foundation staff would provide a neighborhood book donation drop off and bookstore at the 750 Brannan Street location. Overall, the Library currently occupies 34,728 square feet of space, including portions of two different floors in the Main Library and space in Brooks Hall that would be vacated. In the proposed lease, the Library would occupy 24,173 square feet of space, a reduction of 10,555 square feet, or 30.4 percent, because the Library would be able to reorganize and consolidate space and use space more efficiently than in the current Brooks Hall location.

Release of Reserve

The Budget and Finance Committee recommended a Budget and Finance Committee reserve of \$1,772,592 in the Library's proposed FY 2016-17 budget, pending details on the proposed lease. Of the \$1,772,592, the Library is requesting release of \$1,227,344 to pay for the City's share of tenant improvement expenses and six months of rent in FY 2016-17 (see Table 4 below). If approved, \$545,250 would remain on reserve.

FISCAL IMPACT

Comparable Lease Costs and Operating Expenses

According to Mr. Charlie Dunn, Senior Property Officer in the Real Estate Division, in order to determine fair market value for rent of the 750 Brannan Street facility, the Real Estate Division reviewed six other comparable property leases. The annual rent per square foot for these six other properties ranged from \$24.00 to \$68.00 per square foot. At \$39 per square foot, the 750 Brannan Street facility is in the lower portion of this range.

To estimate the monthly utility, janitorial, security and maintenance expenses as \$2,518 or \$30,216 annually, Mr. Dunn reviewed the current expenses for various comparable properties leased by the City.

Proposed Lease and Operating Expenses

Rent for the first year of the lease would be \$942,747 or \$78,562 per month and will increase by three percent each subsequent year. Annual operating expenses of \$30,216 are projected to increase by three percent annually. As shown in Table 2 below, the Library's expected total lease costs are \$11,153,931 for the initial ten-year term of the lease.

Table 2: Ten-Year Library Lease and Operating Expenses

<u>Year</u>	<u>Lease Costs</u>	<u>Operating</u>	<u>Total Costs</u>
2017	\$942,747	\$30,216	\$972,963
2018	971,029	31,122	1,002,151
2019	1,000,160	32,056	1,032,216
2020	1,030,165	33,018	1,063,183
2021	1,061,070	34,009	1,095,079
2022	1,092,902	35,029	1,127,931
2023	1,125,689	36,080	1,161,769
2024	1,159,460	37,162	1,196,622
2025	1,194,244	38,277	1,232,521
2026	1,230,071	39,425	1,269,496
Total	\$10,807,537	\$346,394	\$11,153,931

Under the proposed sublease, the Friends & Foundation would sublet 2,833 square feet of space or 11.7 percent of the total 24,173 square feet of lease space. Friends & Foundation would pay rent and operating expenses to the Library equal to their 11.7 percent share of the lease space. First year rent paid by Friends & Foundation to the Library is \$110,487. The rent and operating expenses paid by the Friends & Foundation to the Library would increase at the same 3 percent incurred by the Library.

In addition, the Library will realize offsetting savings of \$15,000 per year by eliminating the Pier 19 ½ lease where two Library bookmobiles are currently parked.

The Library's FY 2016-17 and FY 2017-18 budget includes funding for rent and custodial and security services that would be provided by existing Library staff, who already provide custodial and security services in Brooks Hall. The Library will absorb any utility costs within its existing budget.

Tenant Improvements

Under the proposed lease, the landlord will perform tenant improvements, which have estimated one-time costs of \$997,700, and include:

- Heating and ventilation improvements;
- Electrical upgrades;
- Security coordinated with Main Library system;
- Seismic upgrades and shelving bracing; and
- Leadership in Energy and Environmental Design (LEED) upgrades.

The landlord will provide \$241,730 toward these tenant improvements for a \$755,970 net cost to the City, as shown in Table 3 below. Tenant improvement costs to the City equal \$31.27 per square foot based on 24,173 square feet of building space.

Table 3: Budget for Tenant Improvements

Category	Amount
Project Costs	
Construction Costs	\$732,000
Planning, Design, Permitting and Other Soft costs	<u>175,000</u>
Subtotal Project Costs	\$907,000
Contingency (10% of project costs)	<u>90,700</u>
Total Cost of Tenant Improvements	\$997,700
Landlord Credit	<u>(241,730)</u>
Net Cost to City	\$755,970

Release of Reserve

The Public Library's FY 2016-17 budget, pending before the Board of Supervisors, includes \$1,772,592 for the new lease, which the Budget and Finance Committee recommended be placed on reserve. If the Board of Supervisors approves the Public Library budget at the July 26, 2016 meeting, the Budget and Finance Committee can release \$1,227,344 of the \$1,772,592 recommended for Budget and Finance Committee reserve. The balance of \$545,250 can be returned to the Library fund balance.

Table 4: Requested Release of Reserve

Category	Amount
Funds on Reserve	\$1,772,592
City portion of tenant improvements	755,970
Rent of approximately \$78,562 per month x 6 months	<u>471,374</u>
Subtotal City Tenant Improvement and Lease Costs	\$1,227,344
Remaining Funds on Reserve	\$545,250

POLICY CONSIDERATION

The proposed lease would result in net new costs to the Library for rent and associated operating expenses of \$843,935 in the first year, totaling \$9,696,724 over ten years, as shown in Table 5 below. Total net new costs to the Library over ten years, including rent, operating expenses, and tenant improvements are \$10,452,694.

Table 5: Increased Costs to Library

	Year One	Ten-Year Total
Rent and operating expenses (Table 2)	\$972,963	\$11,153,930
Pier 19 ½ rent savings	(15,000)	(150,000)
Friends & Foundation rent and operating expenses ^a	<u>(114,028)</u>	<u>(1,307,206)</u>
Subtotal	\$843,935	\$9,696,724
Tenant improvements (Table 3)	<u>755,970</u>	<u>755,970</u>
Total	\$1,599,905	\$10,452,694

^a Assumes Friends & Foundation pay approximately 11.7 percent of annual rent and operating expenses

According to the Library, as noted above, the proposed new lease would allow the Library to consolidate the City Archives, Community Redistribution Program, Mobile Outreach Services, and the Friends & Foundation neighborhood book donation drop-off and bookstore into one location.

The Library currently has use of Books Hall for the City Archives and Community Redistribution Program at no cost to the Library, and use of Pier 19 ½ for Mobile Outreach Services at a cost of \$15,000 per year. According to the Director of the City's Real Estate Division, the Real Estate Division does not have a specific plan at this time for reuse of the Brooks Hall space to be vacated by the Library. The reuse of the Brooks Hall space will be part of the Real Estate Division's Civic Center Plan, which is expected to be completed in 2017.

Approval of the proposed resolution (File 16-0798) and release of \$1,227,344 on Budget and Finance Committee reserve (File 16-0833) are a policy matter for the Board of Supervisors because the proposed new lease results in new costs to the Library of \$10,452,694 over ten years.

RECOMMENDATIONS

1. Approval of the proposed resolution and requested release of \$1,227,344 on Budget and Finance Committee reserve is a policy matter for the Board of Supervisors.
2. If the Board of Supervisors approves the release of \$1,227,344 on Budget and Finance Committee reserve, the balance of \$545,250 should be returned to the Library fund balance.

