

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

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April 25, 2014


TO: Budget and Finance Sub-Committee
FROM: Budget and Legislative Analyst 
SUBJECT: April 30, 2014 Budget and Finance Sub-Committee Meeting

TABLE OF CONTENTS

Item	File		Page
1	14-0249	Real Property Lease Renewal – Ruth Mellinger – 70 Grove Street - \$37,208.33 Monthly	1
3	14-0233	Public Employment – Amendment to the Annual Salary Ordinance for Human Services Agency – FYs 2013-2014 and 2014-2015	7
4	14-0309	Real Property Lease Amendment – Autodesk, Inc.–Pier 9	15

<p>Item 1 File 14-0249</p>	<p>Department: Sheriff's Department (Sheriff)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would authorize the exercise of the first of two five-year options to extend the term of the original lease between the Sheriff's Department, as tenant, and Ruth Mellinger, as landlord, for 70 Oak Grove Street from June 2014 through May 2019. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Sheriff's Department uses the facilities at 70 Oak Grove St (1) for alternatives-to-incarceration programs, including the Sheriff's Work Alternative Program and electronic monitoring; and (2) for reentry programs for released offenders including the Five Keys Charter School, the No Violence Alliance and Post-Release Educational Programs. • The original ten-year lease for 10,000 square feet of building space at 70 Oak Grove Street included two options to extend the term of the lease by five years at the sole discretion of the City. • The Director of Real Estate is proposing to enter into a first amendment to the original lease which (1) extends the term of the lease by five years, (2) increases the rent as discussed below; (3) requires the Landlord to renovate two bathrooms, at no cost to the City, to bring the building at 70 Oak Grove St into compliance with the Americans with Disabilities Act (ADA); and (4) includes a termination clause that may be exercised at the discretion of the City. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • Under the proposed amendment, the annual rent per square foot would increase by \$25.64, or 135 percent, from the current rent per square foot of \$19.01 to the proposed rent per square foot of \$44.65, which is 95 percent of the fair market value, as required under the original lease. • The Sheriff's Department will pay \$2,189,250 in rent to the Landlord over the full five-year term of the proposed amendment. <p style="text-align: center;">Policy Consideration</p> <ul style="list-style-type: none"> • The Sheriff's Department and the Adult Probation Department provide similar programs to similar clients administered by the same private vendor at both 70 Oak Grove St and at the Community Assessment and Services Center. However, neither department considers it feasible to consolidate programs and services at one location. • Additionally, the Sheriff's Department, Adult Probation Department, Public Defender and District Attorney all provide programs and services to offenders on re-entry into the community, which may overlap and result in increased lease and other costs. <p style="text-align: center;">Recommendations</p> <ul style="list-style-type: none"> • Amend the proposed resolution to request the Controller to evaluate if reentry programs provided by the Sheriff's Department, the Adult Probation Department, the Public Defender and the District Attorney could be consolidated in order to reduce lease and other costs. • Approve the proposed resolution as amended. 	

MANDATE STATEMENT / BACKGROUND**Mandate Statement**

City Administrative Code 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

In March 2004, the Board of Supervisors approved a ten-year lease between the Sheriff's Department, as tenant, and Ruth Mellinger, as landlord, for the building located at 70 Oak Grove St. The provisions of the original lease are shown in Table 1 below.

Table 1: 70 Oak Grove Original Lease Provisions

Term	Ten years from June 2004 through May 2014
Options to extend the term	Two five-year options at the sole discretion of the City
Premises	10,000 square feet building space plus front and rear parking lots
Base rent	\$169,500 per year (\$16.95 per square foot) for the first five years
Rent increase	One-time increase in June 2009 based on the Consumer Price Index (CPI) but no less than 10 percent and no more than 30 percent of the base rent
One- time base rent payment	\$132,437 one-time payment in June 2004
Termination Clause	None

The Sheriff's Department uses the space located at 70 Oak Grove St for (1) alternatives-to-incarceration programs for low-risk offenders, and (2) education programs and services to ex-offenders. The programs offered at 70 Oak Grove St include:

- (1) The Five Keys Charter School, which offers education programs to incarcerated, paroled, and offenders on probation;
- (2) The No Violence Alliance, which focuses on reducing recidivism for violent ex-offenders upon re-entry;
- (3) Post-Release Educational Programs, which provides services to ex-offenders during re-entry;

- (4) The Sheriff's Work Alternative Program, which is an alternative-to-incarceration where offenders serve on work crews provided they meet certain release criteria; and
- (5) Electronic monitoring, which is an alternative-to-incarceration where offenders are monitored electronically to ensure they adhere to the terms of their release.

Alternatives-to-Incarceration

The Sheriff's Work Alternative Program (SWAP) and the Sheriff's Department's electronic monitoring program are alternatives-to-incarceration programs. These programs offer low-risk offenders who meet the eligibility criteria the opportunity to serve the duration of their sentence outside the county jail system.

The offenders who are serving their sentence under the SWAP program report to 70 Oak Grove Street in the morning on the day of their service and are assigned to work crews at various locations throughout the City. The Sheriff's Department transports the offenders to and from the various work locations and provides supervision during service.

The Sheriff's Department's electronic monitoring program requires one deputy sheriff and two contract employees employed by Leaders in Community Alternatives, Inc. (LCA), to administer the monitoring system. Offenders referred to electronic monitoring rather than incarceration report to 70 Oak Grove Street for their initial orientation, at the end of their sentence and periodically throughout the sentence as required by the electronic monitoring program.

Five Keys Charter School

The Five Keys Charter School (Five Keys) provides access to education to offenders, currently incarcerated in the county jail system, and ex-offenders at either 70 Oak Grove Street or one of the various satellite offices located throughout the City. The Five Keys administrative offices currently are located at 70 Oak Grove Street.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the exercise of the first of two five-year options to extend the term of the original lease between the Sheriff's Department and the Landlord from May 31, 2014 through May 30, 2019.

The Director of Real Estate is proposing to enter into a first amendment to the original lease which (1) requires the Landlord to renovate two bathrooms, at no cost to the City, to bring the building at 70 Oak Grove Street into compliance with the Americans with Disabilities Act (ADA), and (2) includes a termination clause that may be exercised at the discretion of the City.

The provisions of the proposed first amendment, subject of the proposed resolution, are shown in Table 2 below.

Table 2: Provisions of the Proposed First Amendment

Term	Five years from June 1 2014 through May 30, 2019
Options to extend the term	One additional five-year option to extend under the terms of the original lease
Premises	10,000 square feet building space plus front and rear parking lots
Base rent	\$44.65 per square foot per year, totaling \$446,500 per year
Rent during improvements (six months)	\$36.00 per square foot per year, totaling approximately \$180,000 for six months
Improvements	\$300,000 (estimated) for Americans with Disabilities Act (ADA) improvements by the landlord and at no cost to the City
Termination Clause	210 days with written notice by the City
Termination Fee	Unamortized Landlord cost of ADA improvements

Under the terms of the original lease, the Landlord is required to repaint and recarpet the building at the time the City exercises its option to extend.

FISCAL IMPACT

Under the terms of the original lease, the base rent for the first five years of the lease was \$16.95 per square foot per year. In June 2009, the base rent was increased by 12 percent, based on the CPI, to \$19.01 per square foot per year, as shown in Table 3 below.

Table 3: Increase in Rent under Proposed First Amendment

	Annual Rent per Square Foot	Square Feet	Annual Rent	Total over Five Years
Initial Lease				
June 1, 2009 to May 30, 2014 (5 Years)	\$19.01	10,000	\$190,100	\$950,500
Proposed First Amendment				
ADA Construction May 31, 2014 to November 30, 2014 (6 months)	\$36.00	10,000	180,000	180,000
December 1, 2014 to May 30, 2019 (4 years, 6 months)	\$44.65	10,000	446,500	<u>2,009,250</u>
Total (May 31, 2014 to May 30, 2019 (5 years))				2,189,250
Increase				\$1,238,750
Percent Increase				130%

As shown in Table 3 above, the base rent per square foot per year under the proposed first amendment would increase by \$25.64, or 135 percent, from \$19.01 per square foot to \$44.65 per square foot. Under the provisions of the original lease, the base rental rate must be increased or decreased to an amount equal to 95 percent of fair market value, as agreed upon by the Real Estate Division and the Landlord, at the time the City exercises its option to extend the term of the lease. According to Mr. Charles Dunn, Real Estate Division Senior Real Property Officer, the rental rate of comparable buildings near 70 Oak Grove Street, at the time the lease renewal was negotiated, was \$47.00 per square foot.

Under the proposed first amendment, the Sheriff's Department will pay reduced rent beginning May 31, 2014 of \$3.00 per square foot per month (\$36.00 per square foot per year) during construction by the Landlord of restroom improvements to comply with ADA requirements. According to Mr. Dunn, construction is expected to take approximately six months, and will complete in November 2014, which would reduce the total rent paid by \$43,250 for a net rent amount of \$2,189,250 for the five-year term from June 1, 2014 through May 31, 2019.

The total estimated rent during the proposed five-year lease extension of \$2,189,250 is an increase of \$1,238,750 or 130 percent from total rent for the prior five years of \$950,500.

The proposed first amendment allows the City to terminate the lease at any time with a 210 day prior written notice. In the event that the City exercises the termination clause included in the subject amendment to the initial lease, the amended lease would require the City to reimburse the Landlord for any unamortized costs from the required ADA improvements, which are estimated to cost \$300,000.

POLICY CONSIDERATION

Currently, the Adult Probation Department provides similar programs at the Community Assessment and Services Center (CASC) at 564 6th Street¹, which is a leased facility, as the programs provided by the Sheriff's Department at 70 Oak Grove Street. Both locations offer the Five Keys Charter School and other reentry programs for ex-offenders. Leaders in Community Alternatives (LCA) have a contract with the Adult Probation Department to manage the CASC at 564 6th St, and also have a contract with the Sheriff's Department to manage the electronic monitoring program at 70 Oak Grove St. Despite the similarity in programs and the population served, neither the Sheriff's Department nor the Adult Probation Department considered it feasible to consolidate programs and services at one location.

According to Mr. John Updike, Director of Real Estate, the Real Estate Division and staff from the Mayor's Budget Office evaluated possible alternative space to relocate the Sheriff's Department at a lower cost but was unable to identify cost-saving alternatives. According to Mr. Updike, the Real Estate Division and Department of Public Works is currently evaluating a facility master plan for the Sheriff's Department that will consider the space needs for the Sheriff's Department's programs. As noted above, under the proposed first amendment, the City would be able to terminate the lease with 210 days written notice if the facility master plan identifies alternative space.

The Sheriff's Department, Adult Probation Department, Public Defender and District Attorney all provide programs and services at different leased locations for offenders on re-entry into the community, which may overlap and result in increased lease and other costs. The Board of Supervisors should request the Controller to evaluate if reentry programs provided by these four departments could be consolidated in order to reduce lease and other costs.

RECOMMENDATIONS

1. Amend to the proposed resolution to request the Controller to evaluate if reentry programs provided by the Sheriff's Department, the Adult Probation Department, the Public Defender and the District Attorney could be consolidated in order to reduce lease and other costs.
2. Approve the proposed resolution as amended.

¹ 564 6th St consists of 18,400 square feet. The lease for 564 6th St is between the property owner and Leaders in Community Alternatives.

Item 3
File 14-0233
(Continued from April 23, 2014)

Departments:
 Human Services Agency (HSA)

EXECUTIVE SUMMARY

Legislative Objective

- **File 14-0233** is an ordinance amending the FY 2013-14 and FY 2014-15 Annual Salary Ordinance to reflect the addition of 68 new positions (16.85 full-time equivalent positions [FTEs] in FY 2013-14 and 67.40 FTEs in FY 2014-15) at the Human Services Agency.

Key Points

- The 68 requested new positions are needed support the increased work associated with new State and Federal revenues tied to changes in law and additional program mandates. The new positions will result in HSA providing new and enhanced services.
- The salary and benefit costs for the proposed 16.85 FTEs in FY 2013-14 would be funded by HSA existing salary savings in the HSA FY 2013-14 budget. According to HSA, ongoing State and Federal funding will support these positions in FY 2014-15 and future years. The 68 requested positions will bring HSA's total number of authorized positions to 2,126 from 2,058, representing an increase of 3.3%.

Recommendations

- Amend the proposed salary ordinance to adjust the hire date for all requested positions from April 1, 2014 to June 1, 2014, reducing the total number of FTEs in FY 2013-14 by 11.46 FTEs from 16.85 FTEs to 5.39 FTEs, as reflected in Table 4 below and in the Attachment to this report.
- Amend the proposed salary ordinance (a) to reduce the total number of annualized HSA positions by 15 from 68 to 53, and (b) to reduce the total number of FTEs in FY 2013-14 by an additional 1.2 FTEs from 5.39 FTEs to 4.19 FTEs, as reflected in Table 4 below and in the Attachment to this report, for a total FTE reduction of 12.66 FTEs from 16.85 FTEs to 4.19 FTEs.
- Approve the proposed ordinance as amended.

MANDATE STATEMENT**Mandate Statement**

Administrative Code Section 10.04 specifies that a salary ordinance identifying the number and rates of compensation for positions created is subject to approval by the Board of Supervisors.

DETAILS OF PROPOSED LEGISLATION

File 14-0233 is an ordinance amending the FY 2013-14 and FY 2014-15 Annual Salary Ordinance to reflect the addition of 68 new positions (16.85 full-time equivalent positions [FTEs] in FY 2013-14 and 67.40 FTEs in FY 2014-15) at the Human Services Agency. According to HSA, these positions are needed to implement the work associated with the increased state and federal revenues described in a previous Budget and Legislative Analyst report (File 14-0234) from April 23, 2014. The new positions will provide new and enhanced services in accordance with recent State and Federal changes in law and new program mandates. A brief summary of the requested positions by program is shown in Table 1 below.

Table 1: Overview of Positions in HSA Salary Ordinance Amendment

Program	FY 13-14 Total Requested FTE	FY 14-15 Total Requested FTE	Number of Requested Positions
In-Home Supportive Services Admin	2.75	11	11
California Work Opportunity and Responsibility to Kids (CalWORKS)	5.6	22.4	23
CalFresh	2.25	9	9
Family and Children's Services	3.5	14	14
Service Integration	2.75	11	11
TOTAL	16.85	67.4	68

Additional HSA Positions

HSA is requesting to amend the Annual Salary Ordinance to add 68 new positions across five different HSA programs, to support the increased work associated with new state and federal revenues tied to changes in law and additional program mandates. Table 2 below details the 68 total positions being added by program, for a total of 16.85 FTE for FY 2013-14.

Table 2: Requested HSA Positions for FY 2013-14

Program	FY 2013-14 FTE	Annualized No. of Positions
<u>In-Home Supportive Services</u>		
2320 - Registered Nurse	0.25	1
2904 - Human Services Technician	0.50	2
2910 - Social Worker	1.75	7
2914 - Social Work Supervisor	0.25	1
SUBTOTAL	2.75	11
<u>CalWORKS</u>		
1241 - Personnel Analyst	0.25	1
1244 - Senior Personnel Analyst	0.25	1
1404 - Clerk	0.25	1
1823 - Senior Administrative Analyst	0.50	2
2230 - Physician Specialist	0.10	1
2574 - Clinical Psychologist	0.25	1
2903 - Eligibility Worker	0.50	2
2913 - Program Specialist	0.25	1
2915 - Program Specialist Supervisor	0.25	1
2916 - Social Work Specialist	2.25	9
2919 - Child Care Specialist	0.25	1
9702 - Employment & Training Specialist	0.50	2
SUBTOTAL	5.60	23
<u>CalFresh</u>		
2903 - Eligibility Worker	2.00	8
2907 - Eligibility Worker Supervisor	0.25	1
SUBTOTAL	2.25	9
<u>Family and Children's Services</u>		
1404 - Clerk	1.50	6
1408 - Principal Clerk	0.25	1
1822 - Administrative Analyst	0.25	1
1840 - Junior Management Assistant	0.25	1
2916 - Social Work Specialist	0.75	3
2917 - Program Support Analyst	0.25	1
2944 - Protective Services Supervisor	0.25	1
SUBTOTAL	3.50	14
<u>Service Integration</u>		
0923 - Manager II	0.25	1
1820 - Junior Administrative Analyst	0.50	2
2913 - Program Specialist	1.75	7
2917 - Program Support Analyst	0.25	1
SUBTOTAL	2.75	11
TOTAL	16.85	68

According to Mr. Derek Chu, Budget Director for HSA, the salary and benefit costs for the proposed 16.85 FTEs in FY 2013-14 would be funded by HSA existing salary savings in the HSA FY 2013-14 budget. According to Mr. Chu, HSA's projected year-end salary and fringe benefit surplus, based on actual expenditures through the pay period ending February 14, 2014, is \$10.8 million. Mr. Chu states that ongoing State and Federal funding will support these positions in FY 2014-15 and future years, including salaries, benefits, lease costs for additional office space, and additional ancillary expenditures.

HSA had previously assumed a position approval date of April 1, 2014 to determine an FTE per employee of 0.25 for FY 2013-14. Currently 49 of the 68 requested positions' work duties are being performed by temporary employees funded by temporary salaries or salary savings in HSA's FY 2013-14 budget; HSA has stated they already have a list of potential employees to hire on a permanent basis for 53 of the 68 requested positions.

HSA has 2,058 authorized FTEs in the FY 2013-14 Annual Salary Ordinance.¹ The 68 requested positions will bring HSA's total number of authorized positions to 2,126, representing an increase of 3.3%. The percentage increases are larger when detailed by the programs specifically being increased under this subject request, as shown in Table 3 below.

Table 3: Requested New Positions by Hiring Program

Program	Authorized Positions	Requested New Positions	Total Positions	% Increase
IHSS	157	11	168	7.00%
CalWORKS	171	19	190	11.10%
CalFresh	189	9	198	4.80%
Family & Children's Services	334	14	348	4.20%
Other (Administrative Support)	384	14*	398	3.70%
Other (Childcare - CalWORKS)	13	1	14	7.70%
Total	1,248	68	1,316	5.40%

* This includes 11 positions in the Service Integration Group and 3 in CalWORKS

Budget and Legislative Analyst Recommended Reductions

The Budget and Legislative Analyst has reviewed the requested staff positions and recommends a reduction of 15 annualized positions, from 68 to 53, and a reduction of 12.66 FTEs in FY 2013-14 from 16.85 to 4.19 FTEs, as shown in Table 4 below. The Attachment to this report provides a position-by-position description of the recommended reductions. The Budget and Legislative Analyst's recommendations to reduce the remaining 53 positions (4.19 FTE in FY 2013-14) provide for a position hire date of June 1, 2014 instead of the requested April 1, 2014 hire date, based on when the remaining 53 positions can actually be filled in FY 2013-14. This adjustment (reflecting approximately 0.08 FTE per position vs. the originally requested 0.25 FTE per position) is reflected below in Table 4 and in the Attachment to this report.

¹ HSA has 1,869.32 budgeted FTEs in the FY 2013-14 budget, net of required salary savings.

Table 4: Salary Ordinance Recommended Reductions by the Budget and Legislative Analyst

Program	Requested FY 2013-'14 Total FTE	FY 2013-14 Total FTE Adjusted for June 1 Hire Date	Budget & Legislative Analyst Recommended FY 2013-14 Total FTE	Budget & Legislative Analyst Recommended FY 2013-14 FTE Reduction	Requested Number of Positions	Budget & Legislative Analyst Recommended Positions	Budget & Legislative Analyst Recommended Position Reduction
In-Home Supportive Services	2.75	0.88	0.64	2.11	11	8	3
CALWORKS	5.6	1.79	1.31	4.29	23	17	6
CALFRESH	2.25	0.72	0.72	1.53	9	9	0
Family and Children's Services	3.5	1.12	0.88	2.62	14	11	3
Service Integration	2.75	0.88	0.64	2.11	11	8	3
TOTAL	16.85	5.39	4.19	12.66	68	53	15

As shown in Table 4 above, the Budget and Legislative Analyst also notes that adjusting just for the hire date (excluding any recommended position reductions) for the requested 68 positions from April 1, 2014 to June 1, 2014 would result in a total FTE count of 5.39 FTEs for FY 2013-14, or 11.46 FTEs less than the requested 16.85 FTEs. This adjustment is also reflected in Table 4 above and in the Attachment to this report.

RECOMMENDATIONS

1. Amend the proposed salary ordinance to adjust the hire date for all requested positions from April 1, 2014 to June 1, 2014, reducing the total number of FTEs in FY 2013-14 by 11.46 FTEs from 16.85 FTEs to 5.39 FTEs, as reflected in Table 4 above and in the Attachment to this report.
2. Amend the proposed salary ordinance (a) to reduce the total number of annualized HSA positions by 15 from 68 to 53, and (b) to reduce the total number of FTEs in FY 2013-14 by an additional 1.2 FTEs from 5.39 FTEs to 4.19 FTEs, as reflected in Table 4 above and in the Attachment to this report, for a total FTE reduction of 12.66 FTEs (11.46 FTEs in Recommendation Number 1 above and 1.2 FTEs in this Recommendation Number 2) from 16.85 FTEs to 4.19 FTEs.
3. Approve the proposed ordinance as amended.

HSA Response to Budget and Legislative Analyst Recommendation

HSA has stated they agree with the Budget and Legislative Analyst's recommendations.

File 14-0233 ATTACHMENT: Budget and Legislative Analyst Recommended Position Reductions and Deletions

Program	Requested FY 2013-'14 FTE	FY 2013-'14 FTE Adjusted for June 1 Hire Date	Budget & Legislative Analyst Recommended FY 2013-14 FTE	Budget & Legislative Analyst Recommended Reduction FY 2013-14 FTE	Number of Positions	Budget & Legislative Analyst Recommended Positions	Budget & Legislative Analyst Recommended Position Reduction
<u>In-Home Supportive Services</u>							
2230 - Registered Nurse	0.25	0.08	0.08	0.17	1	1	0
2904 - Human Services Technician	0.5	0.16	0.08	0.42	2	1	1
2910 - Social Worker	1.75	0.56	0.4	1.35	7	5	2
2914 - Social Work Supervisor	0.25	0.08	0.08	0.17	1	1	0
SUBTOTAL	2.75	0.88	0.64	2.11	11	8	3
<u>CALWORKS</u>							
1241 - Personnel Analyst	0.25	0.08	0.08	0.17	1	1	0
1244 - Senior Personnel Analyst	0.25	0.08	0	0.25	1	0	1
1404 - Clerk	0.25	0.08	0.08	0.17	1	1	0
1823 - Senior Administrative Analyst	0.5	0.16	0.08	0.42	2	1	1
2230 - Physician Specialist	0.1	0.03	0.03	0.07	1	1	0
2574 - Clinical Psychologist	0.25	0.08	0.08	0.17	1	1	0
2903 - Eligibility Worker	0.5	0.16	0.08	0.42	2	1	1

Program	Requested FY 2013-'14 FTE	FY 2013-'14 FTE Adjusted for June 1 Hire Date	Budget & Legislative Analyst Recommended FY 2013-14 FTE	Budget & Legislative Analyst Recommended Reduction FY 2013-14 FTE	Number of Positions	Budget & Legislative Analyst Recommended Positions	Budget & Legislative Analyst Recommended Position Reduction
2913 - Program Specialist	0.25	0.08	0.08	0.17	1	1	0
2915 - Program Specialist Supervisor	0.25	0.08	0.08	0.17	1	1	0
2916 - Social Work Specialist	2.25	0.72	0.56	1.69	9	7	2
2919 - Childcare Specialist	0.25	0.08	0.08	0.17	1	1	0
9702 - Employment & Training Specialist	0.5	0.16	0.08	0.42	2	1	1
SUBTOTAL	5.6	1.79	1.31	4.29	23	17	6
<u>CALFRESH</u>							
2903 - Eligibility Worker	2	0.64	0.64	1.36	8	8	0
2907 - Eligibility Worker Supervisor	0.25	0.08	0.08	0.17	1	1	0
SUBTOTAL	2.25	0.72	0.72	1.53	9	9	0
<u>Family and Children's Services</u>							
1404 – Clerk	1.5	0.48	0.32	1.18	6	4	2
1408 - Principal Clerk	0.25	0.08	0.08	0.17	1	1	0
1822 - Administrative Analyst	0.25	0.08	0	0.25	1	0	1
1840 - Junior Management Assistant	0.25	0.08	0.08	0.17	1	1	0
2916 - Social Work Specialist	0.75	0.24	0.24	0.51	3	3	0

Program	Requested FY 2013-'14 FTE	FY 2013-'14 FTE Adjusted for June 1 Hire Date	Budget & Legislative Analyst Recommended FY 2013-14 FTE	Budget & Legislative Analyst Recommended Reduction FY 2013-14 FTE	Number of Positions	Budget & Legislative Analyst Recommended Positions	Budget & Legislative Analyst Recommended Position Reduction
2917 - Program Support Analyst	0.25	0.08	0.08	0.17	1	1	0
2944 - Protective Services Supervisor	0.25	0.08	0.08	0.17	1	1	0
SUBTOTAL	3.5	1.12	0.88	2.62	14	11	3
<u>Service Integration</u>							
0923 - Manager II	0.25	0.08	0.08	0.17	1	1	0
1820 - Junior Administrative Analyst	0.5	0.16	0.16	0.34	2	2	0
2913 - Program Specialist	1.75	0.56	0.32	1.43	7	4	3
2917 - Program Support Analyst	0.25	0.08	0.08	0.17	1	1	0
SUBTOTAL	2.75	0.88	0.64	2.11	11	8	3
TOTAL	16.85	5.39	4.19	12.66	68	53	15

Item 4 File 14-0309	Department: Port Commission (Port)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would approve a third amendment to the lease agreement between the Port and Autodesk, Inc. (Autodesk) for 3,400 additional square feet of space at Pier 9 to be used as office space and for research and development. The proposed third amendment is for a term of approximately 103 months, through January 22, 2023. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • In September 2012, the Port approved a 66-month lease, from October 2012 through March 2018, with Autodesk for approximately 8,391 square feet of office space and unimproved shed space located at Pier 9. • In January 2013, the Board of Supervisors approved an amendment to the original lease that: (1) extended the term of the lease by 54 months, from 66 months to 120 months; (2) increased the leased space by 18,799 square feet, from 8,391 to 27,190 square feet; (3) required Autodesk to improve the newly leased space; and (4) provided a rent credit for construction of the building shell and building systems. • The proposed resolution would approve and authorize an amendment to the original lease between the Port and Autodesk to increase the leased premises by 3,400 to be used as laboratory space for research and design in the field of robotics. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • Under the proposed amendment, Autodesk will pay \$1.35 per square foot of rented space per month. The proposed resolution includes a six-month abatement period during which time Autodesk would be improving the leased space and would not be required to pay rent to the Port. • Under the proposed amendment, Autodesk would be required to improve the space at an estimated cost of \$2,040,500 including major core and building shell improvements of \$987,500 and \$1,053,000 of other improvements required under the proposed amendment. Autodesk will be eligible for a rental credit of up to \$400,000 for costs incurred related to the major core and building shell, which is actually improving Port property. • After adjusting for the rental credit, the estimated net rent paid by Autodesk to the Port for the full term of the lease, under the proposed amendment, would be \$109,898. <p style="text-align: center;">Recommendations</p> <ul style="list-style-type: none"> • Amend the proposed resolution to state that the Board of Supervisors finds that competitive bidding for the 3,400 unimproved shed space under the proposed third amendment is impractical. • Amend the proposed resolution to state that the termination date of the proposed amendment is January 15, 2023. • Approve the amended resolution. 	

MANDATE STATEMENT / BACKGROUND**Mandate Statement**

City Charter Section 9.118(c) states that any lease that has a term of ten years or more, including options to extend, or has revenues to the City of \$1,000,000 or more or any amendment to such a lease is subject to Board of Supervisors approval.

Background

Autodesk, Inc. (Autodesk) is a publicly-traded, American multinational corporation that designs modeling software (e.g. Autocad) that is used for a variety of purposes and in a variety of fields. Autodesk currently leases 27,190 square feet of office and unimproved shed space from the Port under a ten-year lease from January 16, 2013 through January 15, 2023. Autodesk is looking to increase its leased space at the Port location to provide for a laboratory for research and development in the field of robotics.

In September 2012, the Port Commission (Port) approved a 66-month lease with Autodesk, for 8,391 square feet of office space and unimproved shed space. That lease was not subject to Board of Supervisors approval since that lease was for a term of less than ten years with an anticipated revenue amount that was less than \$1,000,000.

In January 2013, the Board of Supervisors approved an amendment to the original lease that: (1) extended the term from 66-months to ten years from January 16, 2013 through January 15, 2023, (2) increased the leased premises by 18,799 square feet from 8,391 square feet to a total of 27,190 square feet, (3) required Autodesk to invest a minimum of \$7,000,000 in facility improvements, and (4) provided a \$2,861,311 rent credit to offset costs that Autodesk would incur as a result of improving Port property.

In February 2014, the Port notified the City Planning Department and Board of Supervisors that the proposed expansion of lease space, subject of the proposed resolution, was exempt from the California Environmental Quality Act.¹

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the third amendment to the original lease between the Port and Autodesk to: (1) increase the leased premises by 3,400 square feet, from 27,190 square feet to 30,590 square feet, of unimproved shed space that is currently used as parking, for a term of approximately 105 months, from May 2014 through January 2023; (2) require Autodesk to improve the space, which Autodesk estimates will cost \$2,040,500, including \$987,500 for major core and building shell construction and \$1,053,000 for other tenant improvements; and (3) approve \$400,000 in rental credits to offset costs incurred by Autodesk for constructing the building shell.

¹ The Port submitted the subject leased premises expansion to the Planning Department and the Board of Supervisors listing a 3,545 square feet of space. According to Mr. Jeffrey Bauer, Port Leasing Manager, the 3,545 figure submitted for exemption was reduced to 3,400 square feet as the Port and Autodesk refined plans.

The proposed third amendment to the lease also includes specific tenant improvements that Autodesk must make at its sole cost that include:

- A common corridor to allow exit from the shed space as approved by the Fire Marshall
- Relocation of certain cyclone fencing
- Reinforce the flooring to support the any increased weight

Inconsistent Lease Terms

The original lease as amended by the Board of Supervisors is for a ten-year term that was effective from January 16, 2013 through January 15, 2023. The proposed third amendment provides for a lease termination date of January 22, 2023, which is seven days longer than the currently-approved term.

Additionally, the proposed resolution and the proposed amendment state that the effective term of the proposed amendment would be 111 months from the date the Board of Supervisors approves the proposed resolution. This means that if the Board of Supervisors approves the proposed resolution on April 30, 2014, then the amendment would be in effect for 111 months, or through approximately July 2023.

The Budget and Legislative Analyst's Office recommends amending the proposed resolution to clarify that the expiration date of the third amendment is January 15, 2023, resulting in an approximately 105-month term from May 2014 to January 2023.

FISCAL IMPACT

Rental Rates

The proposed resolution would allow Autodesk to increase its leased premises by 3,400 square feet from 27,190 square feet to 30,590 square feet, effective upon approval by the Board of Supervisors and through January 15, 2023, an approximately 105-month period. Under the terms of the proposed third amendment, Autodesk would pay no rent to the Port for the first six months of the lease while Autodesk improves the space. After the six-month rental abatement period, the total rent amount payable by Autodesk to the Port over the full 105-month term of the amendment is \$509,898 as shown in Table 1 below.

Table 1: Estimated Rent Paid by Autodesk to the Port

Term	Rent per Square Foot per Month	Square Feet	Monthly Rent	Annual Total
Months 0-6	\$0	3,400	\$0	\$0
Months 7-12	1.35	3,400	4,590	27,540
Months 13-24	1.39	3,400	4,726	56,712
Months 25-36	1.43	3,400	4,862	58,344
Months 37-48	1.47	3,400	4,998	59,976
Months 49-60	1.51	3,400	5,134	61,608
Months 61-72	1.55	3,400	5,270	63,240
Months 73-84	1.59	3,400	5,406	64,872
Months 85-96	1.63	3,400	5,542	66,504
Months 97-105 (<i>nine months</i>)	1.67	3,400	5,678	51,102
Total				\$509,898

According to Mr. Jeffrey Bauer, Port Leasing Manager, the initial rental rate of \$1.35 per square foot is eight percent higher than the Port's approved FY 2013-14 parameter rental rate for unimproved shed space of \$1.25 per square foot.² Additionally, the rental rates increase by approximately three percent annually, which is consistent with the terms and provisions of the original lease and approved amendments.

Tenant Improvements and Rental Credit

As shown in Table 2 below, under the terms of the proposed third amendment to the original lease, Autodesk is required to improve the subject 3,400 square feet by an estimated \$2,040,500 including major core improvements and the building shell, which is to be offset with rental credits of up to \$400,000.

² Port real estate staff conducts an annual market survey to analyze current market rents in order to establish parameter rents for Port properties and which are approved by the Port Commission and applied to new and renewing tenancies through the Port's Monthly Rental Rate Schedule.

Table 2: Estimated Costs of Tenant Improvements

Uses	Major Core and Building Shell	Tenant Improvements	Total
Demolition	\$5,500	\$15,000	\$20,500
Site Work	12,000	-	12,000
Substructure	150,000	-	150,000
Superstructure	350,000	-	350,000
Exterior Skin	222,000	-	222,000
Roofing	50,000	-	50,000
Interior Construction	60,000	550,000	610,000
Special Construction	-	25,000	25,000
Plumbing / Process Piping	25,000	45,000	70,000
Fire Protection	6,000	22,000	28,000
Mechanical	20,000	125,000	145,000
Electrical	22,000	190,000	212,000
Jobsite Management	52,000	65,000	117,000
Project Requirement	13,000	16,000	29,000
Total Uses	\$987,500	\$1,053,000	\$2,040,500

As shown in Table 2 above, the major core and building shell costs account for \$987,500, or approximately 48 percent of the total tenant improvement costs. The proposed lease amendment also includes \$400,000 in rental credits that can be used by Autodesk to offset the costs of construction related to the building shell.

According to Mr. Bauer, the up to \$400,000 in rental credits will reduce the monthly rent amount by approximately \$3,914 per month beginning in either seven months or the date when the Port certifies completion of the improvements, whichever comes later. After adjusting for the monthly rental credit, the Port anticipates net revenues of approximately \$109,898 for the 3,400 square feet included in the proposed lease amendment as shown in Table 3 below.

Table 3: Anticipated Rent Payable by Autodesk to the Port Net of Estimated Rental Credits

Term	Monthly Rent	Monthly Rent Credit	Net Monthly Rent	Net Annual Rent
Months 0-6	\$0	\$0	\$0	\$0
Months 7-12	4,590	(3,914)	676	4,057
Months 13-24	4,726	(3,914)	812	9,745
Months 25-36	4,862	(3,914)	948	11,377
Months 37-48	4,998	(3,914)	1,084	13,009
Months 49-60	5,134	(3,914)	1,220	14,641
Months 61-72	5,270	(3,914)	1,356	16,273
Months 73-84	5,406	(3,914)	1,492	17,905
Months 85-96	5,542	(3,914)	1,628	19,537
Months 97-102 (<i>approx. 6 months</i>)	5,678	(3,914)	1,764	8,821
Total				\$109,898

Lost Parking

The Port currently uses the unimproved shed space for parking, which generates revenues to the Port. Under the terms of the proposed lease amendment, Autodesk will be required to repay the Port for any lost parking revenues. Mr. Bauer estimates this amount to be approximately \$75,000 per year.

POLICY CONSIDERATION

City Administrative Code Section 2.6-1 states that leases of City-owned property must be awarded through a competitive process unless the Board of Supervisors finds that the bidding procedures for the leases are impractical or impossible. However, the Port awarded the original lease to Autodesk on a sole source basis without submitting legislation to the Board of Supervisors to exempt the lease from the requirements of the Administrative Code.

According to Mr. Bauer, the Port typically does not award leases on a competitive basis for office, warehouse, shed or unimproved land because of the small size and the associated costs needed for such a process. Instead, the Port Commission approves parameter rental rates for these leases each year, based on the Port's analysis of comparable rent charged in the private sector. Further, according to Mr. Bauer, the Port awarded the original lease to Autodesk on a sole source basis because the Port determined that a competitive process would have been impractical due to the functionally obsolete office space and unimproved shed space.

In order to comply with Administrative Code Section 2.6-1, the proposed resolution should be amended to state that the Board of Supervisors finds that competitive bidding for the 3,400 square feet of unimproved shed space under the proposed third amendment to the subject lease is impractical.

RECOMMENDATIONS

1. Amend the proposed resolution to state that the Board of Supervisors finds that a competitive process for the 3,400 square feet of unimproved shed space under the proposed third amendment of the subject lease is impractical.
2. Amend the proposed resolution to state that the termination date of the proposed amendment is January 15, 2023.
3. Approve the proposed resolution as amended.