

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

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292  
FAX (415) 252-0461

May 11, 2018

**TO:** Budget and Finance Sub-Committee

**FROM:** Budget and Legislative Analyst



**SUBJECT:** May 17, 2018 Budget and Finance Sub-Committee Meeting

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<p><b>Item 1</b> <b>File 18-0357</b></p>	<p><b>Department:</b> Adult Probation Department (ADP)</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution approves the lease between the City, as tenant, and Bridgeton 945 Bryant Fee LLC, as landlord, to relocate the Adult Probation Department from the Hall of Justice to 945 Bryant Street. The lease is for approximately 41,744 square feet of office space, and for 20 years from August 1, 2018 through July 31, 2038. The initial rent is \$64 per square foot per year, which was determined to be fair market value based on an appraisal and appraisal review.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• In January 2017, given the serious concerns about the safety and working conditions in the Hall of Justice, the City Administrator declared that City departments should be relocated as quickly as possible. Improvements to 945 Bryant Street will occur in three phases, with the completion of the first phase in mid-2019.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• Over the first ten years of the lease, the City would pay up to \$33,924,749 in estimated rent, operating expenses, and parking. Estimated tenant improvement and moving costs, which are part of the Justice Facilities Improvement Program, are \$2,700,000.</li> </ul> <p style="text-align: center;"><b>Policy Consideration</b></p> <ul style="list-style-type: none"> <li>• The Justice Facilities Improvement Program provides for capital improvements to leased space for relocation of the District Attorney’s Office, the Adult Probation Department, and the Police Department’s Evidence Storage Unit and Investigations Unit from the Hall of Justice. The Board of Supervisors previously appropriated \$15.9 million, and the Capital Planning Committee has recommended \$17.1 million in FY 2018-19 and FY 2019-20, totaling \$33 million. The Real Estate Division does not have a detailed plan for use of these funds. The Justice Facilities Improvement Program will be reviewed by the Budget and Legislative Analyst during the FY 2018-19 and FY 2019-20 budget review.</li> <li>• The Budget and Legislative Analyst recommends approval of the proposed lease because the terms of the lease conform to the Letter of Intent previously approved by the Board of Supervisors. Because the lease space is 58 percent more than the space currently occupied by the Adult Probation Department in the Hall of Justice, the Board of Supervisors amended the prior resolution approving the letter of intent to lease 945 Bryant Street to request the Real Estate Director, Capital Planning Director, and Controller to work together to relocate another department unit from the Hall of Justice to 945 Bryant Street.</li> </ul> <p style="text-align: center;"><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>• Continue to urge the Real Estate Division, Adult Probation Department, Sheriff’s Department, and Police Department to collocate Police Department and/or Sheriff’s Department units at 945 Bryant Street.</li> <li>• Approve the proposed resolution.</li> </ul>	

**MANDATE STATEMENT**

City Charter Section 9.118(b) requires that any contract or agreement having a term of ten or more years or requiring anticipated expenditures of \$10,000,000 or more is subject to approval by the Board of Supervisors.

City Administrative Code 23.27 states that for any lease with base rent of more than \$45 per square foot per year, the Real Estate Division Director shall obtain an appraisal for the market rent. If the lease's base rent is more than \$60 per square foot per year, the Real Estate Division Director shall also obtain an appraisal review. Both the appraisal and appraisal review's effective date must be within nine months of the lease's submittal to the Board of Supervisors.

**BACKGROUND**

The City's Hall of Justice, located at 850 Bryant Street, was constructed in 1958, and is seismically deficient. In January 2017, given the serious concerns about the safety and working conditions in the building, the City Administrator declared that the offices and jail located at the Hall of Justice be closed as quickly as possible. As a result, the Capital Plan was updated in 2017 to target an expedited exit in 2019 from the Hall of Justice for all staff and inmates. The building currently houses four remaining City departments,<sup>1</sup> and the last Department is expected to move out of the building in 2021.

In November 2017, the Board of Supervisors approved a resolution (File 17-1111) to (a) authorize the Real Estate Division Director to negotiate a lease between the City as tenant and Bridgeton 945 Bryant Fee LLC (Bridgeton) as landlord for up to 41,744 square feet consisting of the entire three floors of 945 Bryant Street for the San Francisco Adult Probation Department; and (b) find that the anticipated lease in conformance with the City's General Plan and the eight priority policies of Planning Code Section 101.1. According to the resolution, the Real Estate Director was enabled to negotiate the lease and any modifications without materially increasing the obligations or liabilities of the City beyond those expressed in the Letter of Intent.

According to the Budget and Legislative Analyst's report to the October 26, 2017 Budget and Finance Committee, the space at 945 Bryant Street was approximately 58 percent more than the space currently occupied by the Adult Probation Department in the Hall of Justice. In order to efficiently use the space at 945 Bryant Street, the Board of Supervisors amended File 17-1111 to request the Real Estate Director, Capital Planning Director, and Controller to work together to determine the efficacy of relocating another department unit from the Hall of Justice to 945 Bryant Street.

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<sup>1</sup> The four Departments are the District Attorney's Office, Adult Probation, various offices of the Police Department, and the Sheriff's Department (County Jails #3 and #4).

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves the lease between the City as tenant and Bridgeton 945 Bryant Fee LLC, a limited liability corporation, as landlord, for approximately 41,744 square feet consisting of the entire three floors of 945 Bryant Street. The lease is for 20 years, from August 1, 2018 through July 31, 2038. The initial base rent is \$64 per square foot per year, or \$1,763,968 in the initial year with annual increases of three percent for the initial ten year term of the lease.

The terms of the proposed lease at 945 Bryant Street for Adult Probation space, which are consistent with the Letter of Intent previously approved by the Board of Supervisors, are summarized in Table 1 below.

**Table 1: Previously Approved Terms and Lease Terms**

Lease Terms	Current Lease Terms
Premises	3-story building at 945 Bryant Street
Square Footage	41,744 square feet
Term	20 years estimated to commence August 1, 2018 through July 31, 2038
Option to Renew	None
Tenant Improvements	Expected to be \$1,252,350
Base Rent	\$64 per square foot
Rent Increase	3.0 percent per year, with a fair market value reset after Year 10, followed by 3.0 percent per year
Utilities, Property Taxes, and Operating Costs	City will reimburse landlord for all operating costs, estimated to be \$8 per year
Parking	33 spaces in adjacent lot at rate of \$225 per space per month, increasing at 3.0 percent per year with a fair market value reset after Year 10

### General Plan Conformance

The proposed resolution finds the Lease is in conformance with the General Plan, and the eight priority policies of Planning Code, Section 101.1. The Planning Department, through the General Plan Referral letter dated October 20, 2017, verified that the City's Lease is consistent with the General Plan, and the eight priority policies under Planning Code, Section 101.1.

**FISCAL IMPACT****Ongoing Lease and Operating Expenses**

Over the first ten years of the proposed lease, the City would pay Bridgeton up to \$33,924,749 in estimated rent, operating expenses, and parking, as shown in Table 2 below.

**Table 2: Leasing Costs Payable by the City over 20-Year Lease\***

Year	Base Rent (per SF)	Square Feet	Total Rent Payments	OC (per SF)**	Total OC	Parking (33 spaces)	Total Leasing Costs
1	\$64.00	27,517	\$1,761,088	\$8.00	\$220,136	\$89,100	\$2,070,324
2	65.92	34,631	2,282,843	8.24	285,355	91,773	2,659,971
3	67.90	41,744	2,834,418	8.49	354,298	94,526	3,283,242
4	69.93	41,744	2,919,158	8.74	364,927	97,362	3,381,447
5	72.03	41,744	3,006,820	9.00	375,875	100,283	3,482,978
6	74.19	41,744	3,096,987	9.27	387,151	103,291	3,587,429
7	76.42	41,744	3,190,076	9.55	398,766	106,390	3,695,232
8	78.71	41,744	3,285,670	9.84	410,729	109,582	3,805,981
9	81.07	41,744	3,384,186	10.13	423,051	112,869	3,920,106
10	83.51	41,744	3,486,041	10.44	435,742	116,255	4,038,038
10-Year Subtotal			\$29,247,288	--	\$3,656,030	\$1,021,431	\$33,924,749

\* May not add due to rounding error.

\*\* Operating Costs

**Phased Rent Commencement**

The 41,744 square feet of leased space at 945 Bryant Street would accommodate the 135 full-time equivalent (FTE) Adult Probation staff currently located at the Hall of Justice. The lease allows for a three phased move into the premises. Therefore, as shown in Table 2 above, the rentable space is, on average, 27,517 for FY 2018-19 and 34,631 for FY 2019-20. The final phase, Phase III, has an expected lease commencement date of April 30, 2019.

**Fair Market Rent**

In October 2017, the Real Estate Division hired Colliers International to appraise the building, in accordance with City Administrative Code 23.27. Colliers International determined the fair market rent of 945 Bryant Street to be \$66 per square foot. An appraisal review, conducted by Cushman and Wakefield Western, Inc., confirmed this number.

**Parking**

Under the lease, the City will rent 33 parking spaces at \$225 per space per month, with annual rent adjustment of three percent per year. According to Mr. John Updike, Director at the Real Estate Division, the Division was unable to negotiate for fewer spaces. As the current Adult Probation's fleet size is 18, the City plans to relocate other lesser-used fleet vehicles on leased

space around the Hall of Justice to any remaining spaces on the premises. The parking spaces are not currently able to charge electric vehicles.

### **Tenant Improvement and Other Expenses**

In addition to ongoing lease and operating expenses, there are one-time expenses to facilitate the lease at 945 Bryant Street, including an estimated \$1.3 million in tenant improvements to the facility, \$800,000 in information technology, and \$600,000 in moving costs, totaling \$2.7 million. These costs are part of the Justice Facilities Improvement Program, discussed below. The Real Estate Division is unable to provide a detailed budget for these costs.

## **POLICY CONSIDERATION**

### **Extra Capacity**

As mentioned previously, the lease allows for a three-phased move in to the premises. Phase I and II comprise 27,762 square feet of the total 41,744 square feet of leased space at 945 Bryant Street, which is comparable to the space currently occupied by the Adult Probation Department in the Hall of Justice. Mr. Updike believes that designs for Phase I and II will be completed by August 2018, with construction commencing shortly after. The 135 Adult Probation Department staff will move into 945 Bryant Street in early to mid-2019.

Phase III, consisting of 13,983 square feet of space, is expected to open in 2020. The Controller's Performance Unit is currently evaluating the sufficiency of the additional 13,983 square feet of space to relocate the Sheriff's Department's Warrants Unit and Prisoner Legal Services Unit<sup>2</sup>, and/or Police Department Identification Unit from the Hall of Justice to 945 Bryant Street, as recommended by the previous Budget and Legislative Analyst report.

### **Capital Budget**

The Justice Facilities Improvement Program provides for capital improvements to leased space to expedite the relocation of the District Attorney's Office, the Adult Probation Department, and the Police Department's Evidence Storage Unit and Investigations Unit from the Hall of Justice. The leased space includes 954 Bryant Street (File 18-0357), 777 Bryant Street (File 18-0358), 350 Rhode Island Street (previously approved by the Board of Supervisors), and a location to be determined for the Police Department's Police Investigations Unit.

The Board of Supervisors previously appropriated \$15.9 million<sup>3</sup>, and the Capital Planning Committee has proposed an additional \$17.1 million to be allocated to the Justice Facilities Improvement Program in FY 2018-19 and FY 2019-20, totaling \$33 million. The Real Estate Division does not have a detailed plan for use of these funds. The additional \$17.1 million proposed by the Capital Planning Committee is subject to Board of Supervisors approval and will be reviewed by the Budget and Legislative Analyst during the FY 2018-19 and FY 2019-20 budget review.

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<sup>2</sup> Prisoner Legal Services provides legal information and advocacy for San Francisco County Jail prisoners, including assistance on criminal law, criminal procedure, conditions of confinement, custody, and release matters. Prisoner Legal Services is part of the Sheriff's Department.

<sup>3</sup> \$65,000 has been allocated for setting up fiber connectivity at 350 Rhode Island Street.

The Budget and Legislative Analyst recommends approval of the proposed lease for 945 Bryant Street because the terms of the lease conform to the Letter of Intent previously approved by the Board of Supervisors. Because the proposed space at 945 Bryant Street exceeds the Adult Probation Department's space needs and in order to contain the growth in lease costs, the Board of Supervisors should continue to urge the Real Estate Division, Adult Probation Department, Sheriff's Department, and Police Department to collocate Police Department and/or Sheriff's Department units at 945 Bryant Street.

## **RECOMMENDATIONS**

1. Urge the Real Estate Division, Adult Probation Department, Sheriff's Department, and Police Department to collocate Police Department and/or Sheriff's Department units at 945 Bryant Street.
2. Approve the proposed resolution.

<b>Item 2</b> <b>File 18-0358</b>	<b>Department:</b> [Select Board, Commission, or Department]
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution approves the lease between the City as tenant and LCL Global - 777 Brannan Street, LLC (LCL Global), as landlord, to relocate Police Department staff and evidence storage from the Hall of Justice. The leased space is approximately 27,154 square feet, and the lease term is for ten years from July 1, 2018 through June 30, 2028 with two five-year options to extend through June 30, 2038. The initial base rent is \$37 per square foot per year.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• In January 2017, given the serious concerns about the safety and working conditions in the Hall of Justice, the City Administrator declared that the offices and jail be relocated as quickly as possible. The proposed lease would begin in August 2018; design and construction of the space for use as evidence storage will take until approximately March 2019. The Board of Supervisors previously authorized the Real Estate Division to negotiate the lease.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The City's lease and operating expenses in the initial 10-year term would total \$15,875,799. Tenant improvement costs are expected to be \$4,000,000 and telecommunications costs, including an inventory management system, are expected to be \$2,000,000. The Real Estate Division does not have detailed expenditure information for tenant improvements and telecommunications, which are part to the Justice Facilities Improvement Program.</li> </ul> <p style="text-align: center;"><b>Policy Consideration</b></p> <ul style="list-style-type: none"> <li>• The Justice Facilities Improvement Program provides for capital improvements to leased space to expedite the relocation of the District Attorney's Office, the Adult Probation Department, and the Police Department's Evidence Storage Unit and Investigations Unit from the Hall of Justice. The Board of Supervisors previously appropriated \$15.9 million, and the Capital Planning Committee has recommended an additional \$17.1 million in FY 2018-19 and FY 2019-20, totaling \$33 million. The Real Estate Division does not have a detailed plan for use of these funds. The Justice Facilities Improvement Program will be reviewed by the Budget and Legislative Analyst during the FY 2018-19 and FY 2019-20 budget review.</li> <li>• The Budget and Legislative Analyst recommends approval of the proposed lease because the terms of the lease conform to the Letter of Intent previously approved by the Board of Supervisors.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	



## MANDATE STATEMENT

City Charter Section 9.118(b) requires that any contract or agreement having a term of ten or more years or requiring anticipated expenditures of \$10,000,000 or more is subject to approval by the Board of Supervisors.

## BACKGROUND

The City's Hall of Justice, located at 850 Bryant Street, was constructed in 1958, and is seismically deficient. In January of 2017, given the serious concerns about the safety and working conditions in the building, the City Administrator declared that the offices and jail located at the Hall of Justice be closed as quickly as possible. As a result, the Capital Plan was updated in 2017 to target an expedited exit in 2019 from the Hall of Justice for all staff and inmates. The building currently houses four remaining City departments,<sup>1</sup> and the last Department is expected to move out of the building in 2021.

In November 2017, the Board of Supervisors approved a resolution authorizing the Director of Property to negotiate a lease with LCL Global for 27,154 square feet of space located at 777 Brannan Street on behalf of the San Francisco Police Department's Property Control unit to be used for evidence storage. According to the resolution, the Director of Property was enabled to negotiate the lease and any modifications without materially increasing the obligations or liabilities of the City beyond those expressed in the Letter of Intent.

### Zoning Text Amendment for Self-Storage

777 Brannan Street is zoned for Service Arts and Light Industrial (SALI) use. The current grandfathered use of 777 Brannan Street is self-storage, which is not permitted in SALI zones. In January 2018, the Planning Commission approved the Zoning Text Amendment to allow the long-term grandfathering of self-storage use on the property in order to facilitate reversion to self-storage after the City ends its tenancy of the building. The ordinance (File 18-0086) is currently pending before the Land Use and Transportation Committee.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the lease between the City as tenant and LCL Global - 777 Brannan Street, LLC, a limited liability corporation (LCL Global), as landlord for approximately 27,154 square feet consisting of the entire three floors of 777 Brannan Street, for the Police Department to use as evidence storage and office space for 30 Department employees. The lease is for ten years, from July 1, 2018 through June 30, 2028, with two five-year options for renewal through June 30, 2038. The initial base rent is \$37 per square foot per year, or \$1,004,698 in the initial year with annual increases of three percent.

The terms of the lease, which are not substantially different than the approved letter of intent, are summarized in Table 1 below.

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<sup>1</sup> The four Departments are the District Attorney's Office, Adult Probation, various offices of the Police Department, and the Sheriff's Department (County Jails #3 and #4).

**Table 1: Summary of Proposed Lease Terms**

<b>Lease Terms</b>	<b>Current Lease Terms</b>
Premises	3-story building at 777 Brannan Street
Square Footage	27,154 square feet
Term	10 years from July 2018 through June 2028
Option to Renew	Two five-year renewal options, discretion of City
Tenant Improvements	Landlord will pay for new fire sprinkler service and new exit staircase; City will for all other improvements
Base Rent	\$37 per square foot per year (\$1,004,698 first year)
Rent Increase	3.0 percent per year
Option Rent	Set at 95 percent of market but no less than 103 percent of base rent in year 10
Utilities, Property Taxes, and Operating Costs	City will pay an estimated \$14 per square foot for insurance, utilities, property taxes, repairs and maintenance, property management fees, security, and other operating costs
Parking	Loading Dock

### **General Plan Conformance**

The proposed resolution finds the Lease is in conformance with the General Plan, and the eight priority policies of Planning Code, Section 101.1. The Planning Department, through the General Plan Referral letter dated October 18, 2017, verified that the City's Lease is consistent with the General Plan, and the eight priority policies under Planning Code, Section 101.1.

### **Right to Purchase**

In the signed Letter of Intent, the landlord would consider a right to purchase by the tenant. Under the lease, the landlord must inform the City 30 days prior to public advertising of the property and allow the City to offer to purchase the property. However, the landlord is not compelled to accept the offer. The notice of intent to sell requirement is specific to the City and may not be exercised by any sublessee.

### **Rent Commencement Date**

According to the proposed lease, the estimated rent commencement date is August 1, 2018. According to Mr. John Updike, Director of the Real Estate Division, the City anticipates design of the property to accommodate the Police Department's evidence storage facility to take until December 2018, and construction to begin in January 2019. The scope of the project is not yet fully developed, and the construction may take anywhere between three to nine months. Therefore, the space will not be ready for occupancy before March 2019 and may not be ready until September 2019, or approximately 13 months after the rent commencement date. Until

the building is ready for occupancy, the 30 Police Department employees and evidence storage room will remain in the basement level of the Hall of Justice.

## **FISCAL IMPACT**

### **Ongoing Lease and Operating Expenses**

Over the term of the 10-year lease, the City would pay LCL Global rent of \$11,517,737. According to Mr. Updike, annual operating costs, including a property management fee set at 3 percent of base rent and property taxes, are estimated to be \$14 per square foot, or \$380,156 in the first year. Assuming that operating costs would increase at the same rate as the base rent (3 percent per year), over the term of the 10-year lease, operating costs are estimated to total \$4,358,063. The 10-year lease and operating expenses would total \$15,875,799.

In addition, the City will also incur a cost to move San Francisco Police Department's Property Control unit, previously estimated it to cost \$400,000.

### **Tenant Improvement Expenses**

The proposed lease provides tenant improvements to be constructed by LCL Global subject to approval by the City. The City will reimburse LCL Global for tenant improvement costs, including a 5 percent fee for LCL Global to manage the construction of the improvements. If the City, rather than LCL Global, constructs the tenant improvements, LCL Global still is paid a 3 percent management fee by the City. According to Mr. Updike, this fee is common in all real estate leases.

Real Estate Division, Police, and the Department of Public Works are working on the scope of tenant improvements for the property. Although the lease is expected to begin on July 1, 2018, the design for construction is expected to last until December 2018, with construction starting January 1, 2019. Tenant improvements will include enhancing security of the building, building out offices, seismic upgrades, and heating, ventilation and air conditioning for evidence storage. In addition, Mr. Updike states that there are plans to add lockers and showers for the 30 full time employees who work in the storage unit. According to Mr. Updike, the current budget is approximately \$4,000,000. The Real Estate Division does not yet have a budget for the \$4,000,000 in improvements.

### **Telecommunications**

Under the proposed lease, the City would be responsible for the installation of telecommunications and other equipment at the City's sole cost. This includes telecommunications, data and computer cabling for City's occupancy, which has been estimated to cost \$1,600,000 in FY 2018-19 and \$1,000,000 in FY 2019-20. This cost includes an inventory management system.

The moving costs, tenant improvements and telecommunications will be funded by the FY 2017-18 and FY 2018-19 Justice Facilities Improvement Program, discussed in the Policy Consideration section below.

**POLICY CONSIDERATION****Capital Budget**

The Justice Facilities Improvement Program provides for capital improvements to leased space to expedite the relocation of the District Attorney's Office, the Adult Probation Department, and the Police Department's Evidence Storage Unit and Investigations Unit from the Hall of Justice. The leased space includes 954 Bryant Street (File 18-0357), 777 Bryant Street (File 18-0358), 350 Rhode Island Street (previously approved by the Board of Supervisors), and a location to be determined for the Police Department's Police Investigations Unit.

The Board of Supervisors previously appropriated \$15.9 million<sup>2</sup>, and the Capital Planning Committee has proposed an additional \$17.1 million to be allocated to the Justice Facilities Improvement Program in FY 2018-19 and FY 2019-20, totaling \$33 million. The Real Estate Division does not have a detailed plan for use of these funds. The additional \$17.1 million proposed by the Capital Planning Committee is subject to Board of Supervisors approval and will be reviewed by the Budget and Legislative Analyst during the FY 2018-19 and FY 2019-20 budget review.

The Budget and Legislative Analyst recommends approval of the proposed lease for 777 Brannan Street because the terms of the lease conform to the Letter of Intent previously approved by the Board of Supervisors.

**RECOMMENDATION**

Approve the proposed resolution.

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<sup>2</sup> \$65,000 has been allocated for setting up fiber connectivity at 350 Rhode Island Street.

<b>Item 3</b> <b>File 18-0377</b>	<b>Department:</b> [Select Board, Commission, or Department]
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution approves a new lease between the Department of Public Health, as tenant, and Raul and Denise Arriaza, as landlord, for approximately 12,690 square feet at 1305 and 1309 Evans Street with thirteen parking stalls. The lease will be for a five year term commencing upon approval by the Board of Supervisors, from approximately June 1, 2018 through May 31, 2023, with one option to extend for five years through May 31, 2028. The annual rent is \$456,840 with no increase during the initial lease term, and includes utilities and services.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The Department of Public Health operates administrative and clinical counseling offices including services for children, youth, and families at 1305 and 1309 Evans Street in San Francisco. The Department had a prior lease for the property from 2002 to 2007; in the 11 years since the expiration of the lease the Department has occupied the site on a month-to-month lease.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• Based on the fixed \$36 per square foot per year, or \$456,840 per year for the initial five-year term, the proposed lease would cost a total of \$2,284,200 over the initial five-year term of the lease.</li> </ul> <p style="text-align: center;"><b>Policy Consideration</b></p> <ul style="list-style-type: none"> <li>• The rent paid by the Department of Public Health under the month-to-month lease increased by 50 percent, from \$220,806 to \$335,016, on expiration of the original lease in 2007. The rent under the proposed new lease increases by an additional 36 percent from \$335,016 to \$456,840. While the Department has provided an explanation for not entering into a longer-term lease at an earlier date, the Department would likely have paid lower rent by entering into a longer term lease when the original lease expired in 2007 rather than paying the 150 percent rent increase under the month-to-month lease.</li> <li>• The Real Estate Division began reviewing month-to-month leases where the Department of Public Health was the tenant beginning in 2014. Real Estate and the Department of Public Health have focused mostly on leases in the Civic Center area. According to the Real Estate Division, of the Department of Public Health's 21 leases, three are currently month-to-month leases: 1305 and 1309 Evans Street, and two clinics. Most other clinic leases are short term.</li> </ul> <p style="text-align: center;"><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>• Request the Director of Health to present the Department of Public Health's leasing, space, and property use plan (including plans for short term leases) as part of their budget presentation to the Budget and Finance Committee in June 2018.</li> <li>• Approve the proposed resolution.</li> </ul>	

**MANDATE STATEMENT**

Charter Section 9.118(b) requires Board of Supervisors approval for contracts and other agreements (including lease agreements) entered into by the City, having a term of more than 10 years or expenditures of \$10 million or more; and for amendments to such contracts of \$500,000 or more.

**BACKGROUND**

The Department of Public Health operates administrative and clinical counseling offices including services for children, youth, and families at 1305 and 1309 Evans Street in San Francisco. The three programs are Lifting and Empowering Generations of Adults, Children and Youth (LEGACY), Family Mosaic Program, and Education Related Mental Health Services (ERMS). LEGACY assists families in navigating agencies and services. The Family Mosaic Program provides mental health treatment, intensive case management and other service interventions for children with serious emotional problems who are at risk of out-of-home placement or who have already been removed and placed out of their homes. Finally, ERMS supports state legislation to work with San Francisco Unified School District students who have demonstrated behavioral health issues. While LEGACY and the Family Mosaic Program are administered by a combination of Department of Public Health and non-profit providers, ERMS is administered by just the Department of Public Health.

In 2002, the Board of Supervisors approved a five year lease between the Department of Public Health, as tenant, and the property owners at that time<sup>1</sup> for approximately 12,690 square feet of space at 1305 and 1309 Evans Street for a base rent of \$220,806 per year. The lease expired on June 30, 2007. The lease has been in month-to-month status since that time (see Policy Consideration section below).

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution approves a new lease between the Department of Public Health, as tenant, and Raul and Denise Arriaza, as landlord, for approximately 12,690 square feet at 1305 and 1309 Evans Street with thirteen parking stalls. The lease will be for a five year term commencing upon approval by the Board of Supervisors, from approximately June 1, 2018 through May 31, 2023, with one option to extend for five years through May 31, 2028. The annual rent is \$456,840 with no increase during the initial lease term, and includes utilities and services.

Table 1 below summarizes the terms and conditions of the proposed lease extension.

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<sup>1</sup> The prior owners were John M. Holland, Guy R. Holland, and Barbara J. Holland, as joint tenants.

**Table 1: Terms and Conditions of Proposed Lease**

	<b>New Lease Terms</b>
<b>Lease Period</b>	Estimated June 1, 2018 through May 31, 2023
<b>Size of property</b>	12,690 square feet
<b>Base rent paid by tenant</b>	\$456,840 per year (\$36 per square foot)
<b>Annual rent adjustments to base rent</b>	None
<b>Options to extend the lease</b>	One (1) 5-year option to extend
<b>Rent increase on extension</b>	95% of prevailing market rate
<b>Tenant Improvement Allowance</b>	Paint, carpet, window coverings and miscellaneous renovations at Landlord sole cost
<b>Utilities and services</b>	Landlord is responsible for utilities and janitorial services

Source: Real Estate Division

The landlord will also provide leasehold improvements at no cost to the City within 90 days of the lease commencement date. These improvements include (1) interior paint, (2) carpet tiles, (3) replacing window coverings, and (4) replacing water stained ceiling tiles.

## **FISCAL IMPACT**

Based on the fixed \$36 per square foot per year, or \$456,840 per year for the initial five-year term, the proposed lease would cost a total of \$2,284,200 over the initial five-year term of the lease.

As shown in Table 1 above, the proposed lease includes one five-year option to extend after 2023, at 95 percent of the then prevailing fair market rent, but no less than \$456,840 annual rent paid during the initial five year lease, subject to approval by the Board of Supervisors.

According to Ms. Claudine Venegas, Senior Real Property Officer of the Real Estate Division, the proposed annual rent rate of \$36 per square foot fixed rate is equal to the City lease of 1315 and 1319 Evans Street, which was recently approved by the Board of Supervisors (File 17-0694). The buildings all occupy the same complex.

According to Mr. David Borgognoni, Manager of the Operations Team for the Department of Public Health, the rent for 1305-1309 Evans Street is included in the Department of Public Health's proposed budget for FY 2018-19 and FY 2019-20.

## **POLICY CONSIDERATION**

The original lease between the Department of Public Health and the prior property owners expired on June 30, 2007. In the nearly 11 years since the expiration of the original lease, the Department of Public Health has occupied the space under Section 23.13 of the original lease, which allowed the City to hold over possession of the premises on a month-to-month basis. The rent, according to the terms of the original lease, is approximately 150 percent of the monthly rent in effect during the last month of the term of the lease, or \$335,016.

According to Mr. Borgognoni, after the lease expired, the Department of Public Health was initially unsuccessful at moving the clinic to another location. During the 2008-09 recession, the Department of Public Health did not attempt to engage in a long-term lease given the uncertainty in funding. From 2010 to 2015, a period of 5 years, the Department of Public Health evaluated advantages of leasing all or some of the space at Evans Street. Since 2015, the Department of Public Health has worked with the Real Estate Division and the landlords to secure a lease.

### **Cost to the City for Leasing Month-to-Month Rather than Entering into Longer Term Lease**

The rent paid by the Department of Public Health under the month-to-month agreement increased by 50 percent, from \$220,806 to \$335,016 on expiration of the original lease in 2007. The rent under the proposed new lease - into which the Department is entering during a period of high rents in San Francisco - increases by an additional 36 percent from \$335,016 to \$456,840. While the Department has provided an explanation for not entering into a longer-term lease at an earlier date, the Department would likely have paid lower rent by entering into a longer term lease when the original lease expired in 2007 rather than paying the 150 percent rent increase under the month-to-month lease.

According to Ms. Claudia Gorham, Assistant Director of the Real Estate Division, the Real Estate Division began reviewing month-to-month leases where the Department of Public Health was the tenant beginning in 2014. Real Estate and the Department of Public Health have focused mostly on leases in the Civic Center area. According to Ms. Gorham, of the Department's 21 leases, three are currently month-to-month leases: 1305 and 1309 Evans Street, and two clinics. Most other clinic leases are short term.

Because of the Department of Public Health's large number of leased properties, including short term leases, the Board of Supervisors should request the Director of Health to present the Department's leasing, space, and property use plan (including plans for short term leases) as part of their budget presentation to the Budget and Finance Committee in June 2018.

## **RECOMMENDATIONS**

1. Request the Director of Health to present the Department of Public Health's leasing, space, and property use plan (including plans for short term leases) as part of their budget presentation to the Budget and Finance Committee in June 2018.
2. Approve the proposed resolution.