

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

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March 8, 2019

TO: Budget and Finance Sub-Committee

FROM: Budget and Legislative Analyst



SUBJECT: March 13, 2019 Budget and Finance Sub-Committee Meeting

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<p>Items 2 and 3 Files 19-0166 and 19-0167 <i>Continued from February 27, 2019</i> <i>Budget and Finance Committee</i></p>	<p>Department: Mayor’s Office of Housing and Community Development Real Estate Division</p>
<p>EXECUTIVE SUMMARY</p>	
<p>Legislative Objectives</p>	
<p>File 19-0166 is a resolution authorizing the Director of the City’s Real Estate Division to execute a commercial lease between City and La Cocina, Inc., for City-owned property located at 101 Hyde Street.</p>	
<p>File 19-0167 is a resolution authorizing the Mayor’s Office of Housing and Community Development to accept and expend a gift of \$1,000,000 from the San Francisco Foundation to the Neighborhood Development Special Revenue fund, and approves the City’s use of the funds for the interim activation of 101 Hyde Street.</p>	
<p>Key Points</p>	
<ul style="list-style-type: none"> • 101 Hyde Street is a City-owned parcel, conveyed to the City by the developer of market rate housing at 1066 Market Street in lieu of meeting the City’s Inclusionary Affordable Housing requirements (approved by the Board of Supervisor through Ordinance 126-16). The property is slated for affordable housing development, but until sufficient funding is identified to develop the property, the Board of Supervisors approved the property for interim use for community serving purposes. In addition to the property conveyance, the developer donated \$6 million, of which \$1 million was for interim community use and \$5 million was for affordable housing development. These funds are held in trust by the San Francisco Foundation. • The City selected the nonprofit organization, La Cocina, through a competitive solicitation to use the property for food oriented businesses. Under the proposed lease, La Cocina would make tenant improvements and operate a food hall, assisting low-income clients in launching self-sustaining businesses. • The tenant improvements are scheduled for completion in November 2019. Upon issuance of the temporary certificate of occupancy, La Cocina will pay annual rent of \$12,000 and percentage rent equal to 5 percent of net revenues. The lease will extend through December 2025. 	
<p>Fiscal Impact</p>	
<ul style="list-style-type: none"> • Tenant improvement costs are estimated to be \$4.6 million. Funding sources include \$1.4 million of City funds, including the \$1 million grant from the San Francisco Foundation and \$465,000 in previously appropriated funds; \$2.4 million secured by La Cocina through fundraising; and approximately \$780,000 to be obtained through additional fundraising or a bridge loan. 	
<p>Recommendation</p>	
<ul style="list-style-type: none"> • Approval of the proposed resolutions is a policy matter for the Board of Supervisors. 	

MANDATE STATEMENT

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

City Administrative Code Section 23.30 requires Board of Supervisors approval for lease of City-owned property that is not required for City purposes. An appraisal of the fair market rent for the lease is not required if the Director of the City's Real Estate Division determines that the fair market rent is less than \$45 per square foot..

BACKGROUND

101 Hyde Street is a one story building at the corner of Golden Gate Avenue and Hyde Street consisting of approximately 7,500 square feet of space formerly used as a U.S. Postal Service Office. In August 2016, the owner of the land dedicated the site to the City through the Mayor's Office of Housing and Community Development (MOHCD) for the purpose of developing affordable housing. The dedication was a result of Ordinance 126-16 which waived the Inclusionary Affordable Housing requirements set forth in Planning Code Section 415, exempting the market rate residential development at 1066 Market Street (affiliated with the Shorenstein Properties LLC) from such requirements in exchange for the dedication of real property.

DETAILS OF PROPOSED LEGISLATION

File 19-0166: The proposed resolution authorizes the Director of Real Estate to execute a commercial lease between City and La Cocina, Inc., for City-owned property located at 101 Hyde Street.

File 19-0167: The proposed resolution authorizes the Mayor's Office of Housing and Community Development to accept and expend a gift of \$1,000,000 from the San Francisco Foundation to the Neighborhood Development Special Revenue fund, and approves the City's use of the funds for the interim activation of 101 Hyde Street.

\$1,000,000 Gift (File 19-0167)

As noted above, the developer of the market rate housing at 1066 Market Street donated 101 Hyde Street to the City for affordable housing development in lieu of meeting the City's Inclusionary Affordable Housing requirements. In addition to the property donation, the developer donated \$6 million for the development of 101 Hyde Street; \$1 million was donated for temporary development of the site while the City raised additional funds for developing the site as permanent affordable housing, and \$5 million was donated for converting the space to affordable housing. The San Francisco Foundation agreed to be the temporary trustee of the funds until the site is ready for development.

The release of the \$1,000,000 gift would be used for temporary development of the site. According to the proposed resolution, the \$1,000,000 was given to the San Francisco Foundation for the purpose of (i) offsetting interim ownership costs incurred by the City for temporary use of the property; (ii) funding improvements to the property to support interim use; and (iii) funding miscellaneous expenses associated with interim use of the property until the property is developed as permanent affordable housing.

Commercial Lease (File 19-0166)

Original Lease

In 2016, the City's Real Estate Division in collaboration with the Office of Economic and Workforce Development (OEWD) and MOHCD solicited proposals for temporarily converting 101 Hyde Street to a community serving interim use through a competitive Request for Proposals (RFP) process. They received two proposals and selected La Cocina, Inc., a non-profit organization, as the proposer with the higher application and interview score. La Cocina specializes in assisting low-income clients in launching self-sustaining food oriented businesses. La Cocina proposed building a food hall with a commercial kitchen in the space which will include seven kiosks for full time vendors, and one kiosk for rotating pop-ups.

Between December 2016 and June 2018, a period of 18 months, the Real Estate Division and La Cocina worked to establish the terms of the commercial lease. The Real Estate Division entered into a lease with La Cocina in June 2018. The lease term was year-to-year for up to seven years. According to Mr. Josh Keene, Special Projects and Transactions Manager, the Real Estate Division consulted with the City Attorney's Office and did not consider the lease to be subject to Board of Supervisors approval for the initial one-year term under Administrative Code Section 23.31, which grants the Director of Real Estate the authority to enter into leases of one year or less for which the rent is less than \$15,000. Under the lease, upon issuance of a temporary certificate of occupancy, La Cocina will pay annual rent of \$12,000 and percentage rent of 5 percent of net income.

Proposed Lease

The proposed lease replaces the prior year-to-year lease and provides a mechanism for the City to release portions of the \$1 million gift, as well as additional City funds, to La Cocina. The lease term is for approximately six years and nine months from approximately March 1, 2019 through December 31, 2025. Upon issuance of a temporary certificate of occupancy, La Cocina would pay annual rent of \$12,000 and percentage rent equal to 5 percent of net income.

Tenant Improvements

The original lease and proposed lease are for the operation of a restaurant, bar, and/or food market hall. La Cocina is responsible to make tenant improvements at its sole cost, based on detailed architectural drawings included in the original lease. The City will reimburse La Cocina for tenant improvements up to \$1,465,000. Design development documents are completed and construction documents are 90 percent complete. Construction of tenant improvements is scheduled to begin in May 2019 and completion of tenant improvements is expected in November 2019.

FISCAL IMPACT

The project budget for tenant improvements to 101 Hyde Street is \$4,600,000 as shown below in Table 1.

Table 1: Preliminary project budget for development at 101 Hyde Street

Sources	
<i>City Funds</i>	
San Francisco Foundation Grant	\$940,000
FY 2017-18 and FY 2018-19 Budget	465,000
Subtotal City Funds^a	\$1,405,000
<i>La Cocina Funds</i>	
La Cocina Funds	\$1,662,478
US Department of Health and Human Services	750,000
Subtotal La Cocina^b	\$2,412,478
Subtotal City and La Cocina Funds	\$3,817,478
Bridge Loan or Other Fundraising ^c	782,522
Total Sources	\$4,600,000
Uses	
Design and Engineering Costs	\$83,625
Permits and Utilities	24,386
Construction Hard Costs	4,013,100
Furniture, Fixtures, and Equipment	152,000
Administration	70,000
Subtotal	\$4,343,111
Contingency (6%)	256,889
Total Uses	\$4,600,000

^a Of the \$1 million San Francisco Foundation grant, \$60,000 is allocated to Real Estate Division costs and \$940,000 is allocated to the 101 Hyde Street project. Total City contribution is \$1,465,000, including \$60,000 in Real Estate Division costs, \$940,000 in the San Francisco Foundation grant, and \$465,000 previously appropriated by the Board of Supervisors in the FY 2017-18 and FY 2018-19 budgets.

^b La Cocina has \$2,412,478 in funds previously received, approved, or pledged from foundations, corporations, individuals, and federal grants.

^c The funding gap of \$782,522 is expected to come from additional fundraising by La Cocina, or if necessary, from a bridge loan to La Cocina from Dignity Health.

RECOMMENDATION

Approval of the proposed resolutions is a policy matter for the Board of Supervisors.

<p>Item 4 File 19-0168</p>	<p>Department: General Services Agency - Department of Public Works (DPW)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p>	
<ul style="list-style-type: none"> • The proposed resolution would retroactively authorize the Department of Public Works (Public Works) to accept and expend a grant from the San Francisco Bay Area Rapid Transit District (BART) in the amount of \$225,000 for the Pit Stop Public Toilet Program, with an equal match of \$225,000 provided by Public Works. The grant is effective from July 1, 2018 through June 30, 2019. 	
<p style="text-align: center;">Key Points</p>	
<ul style="list-style-type: none"> • Public Works’ Pit Stop program provides public restrooms, maintained and cleaned by paid attendants. Since beginning as a pilot program in 2014, Public Works’ Pit Stop program has expanded to 25 locations in 12 neighborhoods around the City. • Several BART stations lack public restrooms and have received complaints for human waste and poor cleanliness. In February 2016, Public Works entered into a grant agreement with BART to provide Pit Stop locations near the Civic Center and 16th Street Mission stations, with each entity providing \$200,000 to fund the program. In April 2018, Public Works and BART agreed to the First Amendment to the grant agreement, with each entity providing \$50,000 to fund the 16th Street Mission location for FY 2017-18. • Public Works and BART have agreed to the Second Amendment to the grant agreement to provide Pit Stop locations near 16th Street Mission, 24th Street Mission, and Powell stations for FY 2018-19. Public Works has fully funded the three locations between July 2018 and March 2019. Under the proposed amendment to the agreement between Public Works and BART, BART will reimburse Public Works for BART’s share of Pit Stop expenditures between July 2018 and March 2019. 	
<p style="text-align: center;">Fiscal Impact</p>	
<ul style="list-style-type: none"> • The grant authorized by the proposed resolution would provide Public Works with \$225,000 from BART to operate three Pit Stop locations. Public Works would provide an equal match of \$225,000, for a total program budget of \$450,000. Sufficient funding is available in Public Works’ FY 2018-19 budget. 	
<p style="text-align: center;">Recommendation</p>	
<ul style="list-style-type: none"> • Approve the proposed resolution. 	

MANDATE STATEMENT

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

BACKGROUND

In July 2014, the Department of Public Works (Public Works) began the Pit Stop program to provide public toilets in three locations in the Tenderloin as a six month pilot. Over the next four years, the Pit Stop program expanded to 25 locations in 12 neighborhoods around the City. Pit Stop provides public toilets cleaned and maintained by paid attendants, as well as needle receptacles and dog waste stations. The restrooms are a mix of semi-permanent JC Decaux public toilet facilities and portable toilets rented by Public Works. Pit Stop provides clean and safe restroom facilities, as well as improvements to street cleanliness and reductions in complaints about human waste in public spaces around the facilities. Hunters Point Family, a nonprofit organization, provides staffing to the Pit Stop locations as a workforce development opportunity to low-income residents.

The 16th Street Mission, 24th Street Mission, Civic Center, and Powell Bay Area Rapid Transit (BART) stations lack public restrooms and have received complaints for human waste and poor cleanliness. On February 17, 2016, Public Works entered into a grant agreement with BART to operate Pit Stop locations near the 16th Street Mission and Civic Center BART stations. Under the original agreement, BART provided a \$200,000 grant, with Public Works providing a \$200,000 match. On April 1, 2018, Public Works and BART agreed on the first amendment to the grant agreement, with each entity funding \$50,000 to operate the 16th Street Mission location (located at 16th and Capp Streets) for FY 2017-18. On September 30, 2018, Public Works agreed on the Second Amendment to the grant agreement to operate Pit Stop locations around the 16th Street Mission (16th and Capp Streets), 24th Street Mission, and Powell stations.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize Public Works to retroactively accept and expend a grant from BART in the amount of \$225,000 to operate three Pit Stop locations, for the period of July 1, 2018 through June 30, 2019. The grant requires an equal match of \$225,000 provided by Public Works. According to Mr. Aaron Wu, Public Works Administrative Analyst, Public Works is requesting retroactive approval because of delays in finalizing the agreement with BART.

The grant allows Public Works to operate the following Pit Stop locations:

- (i) Powell BART Station, operated daily from 7 am – 8 pm, from July 2018 through June 2019;
- (ii) 24th Street Mission BART Station, operated daily from 7 am – 8 pm, from October 2018 through June 2019; and

- (iii) 16th Street Mission Bart Station (16th and Capp Streets), operated Monday through Friday from 11 am through 6 pm, from July 2018 through June 2019.

Under the existing agreement between Public Works and BART, the Pit Stop at the 16th Street BART Station location was first funded in 2016. The Pit Stops at the 24th Street BART Station and Powell BART Station are new locations in FY 2018-19. Each Pit Stop is located on City property at street level, not inside the underground BART stations.

According to Mr. Devin Macaulay, Public Works Budget Manager, Public Works has fully funded the three locations between July 2018 and March 2019. Under the proposed amendment to the agreement between Public Works and BART, BART will reimburse Public Works for BART's share of Pit Stop expenditures between July 2018 and March 2019. Public Works and BART intend to continue the partnership and are currently negotiating a grant agreement for FY 2019-20.

FISCAL IMPACT

The grant authorized by the proposed resolution would provide Public Works with \$225,000 to operate three Pit Stop locations. It would also require an equal match of \$225,000 provided by Public Works, for a full program budget of \$450,000. The grant budget is shown in Table 1 below.

Table 1: BART Pit Stop Grant Budget

Sources	Amount
BART Grant	\$225,000
Public Works (General Fund)	225,000
Total Sources	\$450,000

Uses	Amount
Powell Station	\$173,913
24 th Street Mission Station	130,435
16 th Street Mission Station	86,955
<i>Pit Stop Monitoring Subtotal</i>	<i>\$391,303</i>
Indirect Costs (15%) – Rent, Utilities, Etc.	58,697
Total Uses	\$450,000

According to Mr. Macaulay, the funding from BART cannot be received until the grant agreement is approved by the Board of Supervisors. Sufficient funding is available in the Public Works FY 2018-19 budget.

RECOMMENDATION

Approve the proposed resolution.

Item 5 File 19-0220	Department: General Services Agency - Department of Public Works (DPW)
EXECUTIVE SUMMARY	
<p>Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would authorize the Department of Public Works (Public Works) to accept and expend a California State Senate Bill 1 (SB1) grant in the amount of \$1,750,000 for the Alemany Boulevard Pavement Renovation project, with an equal match of \$1,750,000 provided by Public Works. <p>Key Points</p> <ul style="list-style-type: none"> • The California Road Repair and Accountability Act of 2017, also known as SB1, provides over \$50 billion over 10 years in statewide transportation funding from gasoline tax and vehicle license fee increases. The San Francisco County Transportation Authority (SFCTA) is eligible to receive SB1 Formulaic Program funds because voters approved Proposition K (half cent sales tax) in 2003 and Proposition AA (vehicle registration fee) in 2010. • In December 2017, the SFCTA Board identified three projects to receive SB1 formulaic funding, including the Alemany Boulevard Pavement Renovation project. In January 2018, the California Transportation Commission (CTC) allocated \$2,083,000 of SB1 funding to the Alemany project. In October 2018, CTC reallocated \$333,000 from the Alemany project to the Sunset and Parkside Street Renovation project due to reduced costs, leaving \$1,750,000 for the Alemany project. • The Alemany project consists of resurfacing approximately 1.3 miles of Alemany Boulevard, between Congdon Street and Geneva Avenue, including repairs to the road base, paving work, curb ramp construction, and sidewalk and curb repairs. The paving project would also be coordinated with sewer replacement and traffic signal work. <p>Fiscal Impact</p> <ul style="list-style-type: none"> • The grant authorized by the proposed resolution would provide \$1,750,000 in SB1 funding for the Alemany project, with Public Works providing an equal match of \$1,750,000, for a total project budget of \$3,500,000. The Public Works portion would be funded by Proposition K sales tax revenue. Sufficient funding is available in the Public Works FY 2018-19 budget. <p>Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. 	

MANDATE STATEMENT

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

BACKGROUND

The California Road Repair and Accountability Act of 2017, also known as Senate Bill 1 (SB1), provides over \$50 billion over 10 years in statewide transportation funding from gasoline tax and vehicle license fee increases. The package includes funding for state highways, bridges, local roads, multi-modal improvements, and transit operations.

Annual SB1 funding of \$100 million is allocated through a Formulaic Program to local or regional transportation agencies that sought and received voter approval of local transportation sales taxes, tolls, or fees. As San Francisco voters had approved Proposition K (half-cent local transportation sales tax) in 2003 and Proposition AA (additional \$10 vehicle registration fee) in 2010, the San Francisco County Transportation Authority (SFCTA) is eligible to receive SB1 Formulaic Program funding.

In December 2017, the SFCTA Board identified projects for the next three fiscal years to receive SB1 formulaic funding:

1. FY 2017-18: Parkmerced/Twin Peaks/Glen Park Residential Pavement Renovation;
2. FY 2018-19: Alemany Boulevard Pavement Renovation; and
3. FY 2019-20: Various Locations Pavement Renovation No. 42.

In January 2018, the California Transportation Commission (CTC) allocated \$2,083,000 in SB1 formulaic funding to the Alemany project. In October 2018, the CTC reallocated \$333,000 of funding from the Alemany project to the Sunset and Parkside Streets Pavement Renovation due to lower project costs. The remaining \$1,750,000 for the Alemany project requires an equal City match.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the Department of Public Works (Public Works) to accept and expend a State SB1 grant in the amount of \$1,750,000 for the Alemany Boulevard pavement renovation project, with Public Works providing an equal match of \$1,750,000. The project consists of resurfacing approximately 1.3 miles of Alemany Boulevard, between Congdon Street and Seneca Avenue, including repairs to the road base, paving work, curb ramp construction, and sidewalk and curb repairs. To reduce costs and disruptions, the paving project would be coordinated with sewer replacement and traffic signals work, funded respectively by the San Francisco Public Utilities Commission (SFPUC) and San Francisco Municipal Transportation Agency (SFMTA).

As of December 2016, the Pavement Condition Index (PCI)¹ for this stretch of Alemany Boulevard is approximately 55, which is considered “at-risk.” Completion of the project would boost the segment’s PCI to 100, and decrease the lifetime maintenance and repair costs of Alemany Boulevard.

FISCAL IMPACT

The grant authorized by the proposed resolution would provide \$1,750,000 in SB1 funds for the Alemany paving project. Public Works would provide an equal match of \$1,750,000, for a total budget of \$3,500,000. The project budget is shown in Table 1 below:

Table 1: Alemany Boulevard Paving Project Budget

Item Description	Estimated Quantity	Unit	Average Per Unit	Total Cost
Traffic Routing Work	-	-	-	\$385,000
Planning	582,000	SF	\$0.75	436,500
Hot Mix Asphalt	7,000	Tons	125.00	875,000
Concrete Base	30,000	Square Feet	13.00	390,000
Concrete Sidewalk	7,000	Square Feet	10.00	70,000
Combined Concrete Curb and Concrete Gutter	1,400	Linear Feet	60.00	84,000
Concrete Curb Ramp with Detectable Tiles	60	Each	3,025.00	181,500
Adjust City-Owned Manhole Frame and Casting to Grade	110	Each	400.00	44,000
Adjust City-Owned Hydrant and Water Main Valve Box Casting to Grade	60	Each	500.00	30,000
City-Owned Pull Boxes (New or Replacement)	20	Each	550.00	11,000
Temporary White/Yellow Striping	123,000	Linear Feet	2.00	246,000
Mobilization, Demobilization, Allowances, and Other	-	-	-	140,000
<i>Construction Subtotal</i>				<i>\$2,893,000</i>
Construction Contingency (10%)				\$289,000
Construction Management (11%)				318,000
Total				\$3,500,000

According to Ms. Elizabeth Ramos, Public Works Office of Finance and Administration, Public Works would spend the SB1 funds proportionately and concurrently with City funds throughout the construction process. The equal match of \$1,750,000 provided by Public Works would be funded by Proposition K sales tax revenue. Sufficient funding is available in the Public Works FY 2018-19 capital budget. According to Ms. Ramos, funding has also been identified in the SFPUC and SFMTA budgets for the coordinated sewer and traffic signal work. The contract award process is underway and includes the SFPUC and SFMTA project scopes as well.

RECOMMENDATION

Approve the proposed resolution.

¹ Pavement Condition Index (PCI) is a widely used engineering measurement calculated by visual evaluations of streets. PCI is scored in a range of 0-100, with scores of 85-100 rated as “excellent,” 70-84 as “good,” 50-69 as “at-risk,” 25-49 as “poor,” and 0-24 as “very poor.”

Item 7 File 19-0139	Department: Department of Human Resources (DHR)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed legislation would approve Amendment No. 1 to the lease between the Department of Human Resources, as tenant, and Prologis, LP, as landlord, for 11,000 square feet of space at 1740 Cesar Chavez Street. Amendment No. 1 extends the lease by five years to March 2024, and adds a second five-year extension option to March 2029. The first year rent under Amendment No. 1 would increase to \$38.16 per square foot. The landlord would provide a leasehold improvement allowance of \$55,000 to be provided by Landlord. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • Since 2008, the Department of Human Resources has occupied space at 1740 Cesar Chavez Street to conduct civil service examinations. The site can accommodate approximately 300 test takers as well as large rating panels, and is the central civil service examination facility. • In 2013, the Board of Supervisors approved a five year lease between the City, as tenant, and Potrero Investor, I, LLC and Potrero Investor II, LLC, as landlords, from April 1, 2014 through March 31, 2019 (File 13-0711). The approved lease had one (1) five year option to extend through March 31, 2024. Potrero Investor, I, LLC and Potrero Investor II, LLC subsequently conveyed the property and assigned the lease to Prologis, LP. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The first year rent of \$38.16 per square foot (effective April 1, 2019) is less than the rent determination based on comparable rents analyzed by Kidder Mathews, LLC. The City also pays all costs associated with utilities and services, estimated at \$24,552 in the first year. The landlord will pay \$55,000 for leasehold improvements that occur anytime through March 31, 2020. • Over the five-year term of the lease, the total rent to be paid by the Department of Human Resources is \$2,228,563, based on annual increases of three percent, and the total cost for utilities and services is estimated at \$130,350. • The total cost would be paid from the City's General Fund, subject to Board of Supervisors appropriation approval in the Department of Human Resources annual budget. The Department of Human Resources has currently spent \$216,679 on the lease from July 2018 through February 2019 of the total \$319,944 budgeted in FY 2018-19. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution 	

MANDATE STATEMENT

City Charter Section 9.118(c) states that any modification, amendment or termination of a lease that had an initial term of ten years or more, including options to extend, is subject to Board of Supervisors approval.

BACKGROUND

Since 2008, the Department of Human Resources has occupied space at 1740 Cesar Chavez Street to conduct civil service examinations. The site can accommodate approximately 300 test takers as well as large rating panels, and is the central civil service examination facility. The main room is used approximately 200 days per year, and the computer lab and interview rooms are used approximately between 70-150 days per year.

In 2013, the Board of Supervisors approved a five year lease between the City, as tenant, and Potrero Investor, I, LLC and Potrero Investor II, LLC, as landlords, from April 1, 2014 through March 31, 2019 (File 13-0711). Potrero Investor, I, LLC and Potrero Investor II, LLC subsequently conveyed the property and assigned the lease to Prologis, LP.

The approved lease had one (1) five year option to extend through March 31, 2024. In September 2018, the City sent the current landlord notice to exercise the option to extend the lease. According to the existing lease, the rent on exercise of the extension option will increase to 95 percent of fair market rent.

DETAILS OF PROPOSED LEGISLATION

The proposed legislation would approve Amendment No. 1 to the lease between the Department of Human Resources, as tenant, and Prologis, LP, as landlord, for 11,000 square feet of space at 1740 Cesar Chavez Street. Amendment No. 1 extends the lease by five years to March 2024, and adds a second five-year extension option to March 2029. The first year rent under Amendment No. 1 would increase to \$38.16 per square foot. The landlord would provide a leasehold improvement allowance of \$55,000 to be provided by Landlord.

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

Table 1. Summary of Proposed Lease Details

	Proposed Lease Terms
Lease Period	April 1, 2019 – March 31, 2024
Size of property	11,000 square feet
Base rent paid by tenant	\$419,760 per year (approximately \$38.16 per square foot)
Annual rent adjustments to base rent	3%
Options to extend the lease	One (1) five year option to extend through March 31, 2029
Rent on exercise of option	95% of fair market rent
Tenant Improvement Allowance	\$55,000 provided by landlord for discretionary improvements
Utilities and services	City pays for custodial services, property taxes, and insurance, approximately \$2,046 per month (\$24,552 per year)

FISCAL IMPACT

The first year rent of \$38.16 per square foot (effective April 1, 2019) is less than the rent determination based on comparable rents analyzed by Kidder Mathews, LLC.¹

The City also pays all costs associated with utilities and services, estimated at \$24,552 in the first year.

As shown in Table 2 below, over the five-year term of the lease, the total rent to be paid by the Department of Human Resources is \$2,228,563, based on annual increases of three percent, and the total cost for utilities and services is estimated at \$130,350.

Table 2: Total Costs by Year under Proposed Lease

	Rent	Utilities and Services*	Total
April 2019 - March 2020	\$419,760	\$24,552	\$444,312
April 2020 - March 2021	432,353	25,289	457,641
April 2021 - March 2022	445,323	26,047	471,371
April 2022 - March 2023	458,683	26,829	485,512
April 2023 - March 2024	472,444	27,633	500,077
Total	\$2,228,563	\$130,350	\$2,358,913

*Assumes annual increase of three percent

As noted above, the landlord will pay \$55,000 for leasehold improvements that occur anytime through March 31, 2020. The Department of Human Resources has not yet decided how it will use these funds, but they may be used for paint or carpets.

The total cost would be paid from the City’s General Fund, subject to Board of Supervisors appropriation approval in the Department of Human Resources annual budget. The Department of Human Resources has currently spent \$216,679 on the lease from July 2018 through February 2019 of the total \$319,944 budgeted in FY 2018-19.

RECOMMENDATION

Approve the proposed resolution

¹ As of October 2018, comparable fair market rent for property in the Dogpatch ranged from \$51 to \$74 per square foot per year. Per City Administrative Code Section 23.27, a formal appraisal is not required if the rent per square foot per year is less than \$45.

Item 8 File 19-0193	Department: Public Utilities Commission (PUC)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would approve (1) termination of the existing lease between SFPUC, as landlord, and Orchard Supply Company, LLC, as tenant as of April 30, 2019; (2) the terms and conditions of the termination agreement; and (3) amendments or modifications to the termination agreement by the SFPUC General Manager. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • In 1984, the Grace Retail Corporation (now Orchard Supply Company, LLC) entered into a ground lease with the City and County of San Francisco for a 206,932 square foot property owned by the San Francisco Public Utilities Commission (SFPUC) in the City of Millbrae. The term of the lease was for thirty years with two (2) ten-year options to extend the lease to April 2034. The Orchard Supply Company, LLC (Orchard Supply Company) exercised the first ten-year option to extend the lease to April 2024. The square footage of the ground lease was reduced by 13,623 in 2016 in order for SFPUC to use the land for the Regional Groundwater Storage and Recovery Project. • On August 22, 2018, Lowe’s Home Centers, LLC, the parent of Orchard Supply Company, announced that it would close all 99 Orchard Supply Company stores in California. In early November 2018, the SFPUC received a verbal offer to the SFPUC to terminate the lease. • The SFPUC plans to use the early termination of the lease to (1) use existing warehouse on the premises as additional utility plumbers’ storage and workshop space and (2) rent the additional structures to a new tenant. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • Under the existing lease, the annual rent paid by Orchard Supply to SFPUC is \$1,117,432 for the four year period from May 2014 to April 2019, which would increase by the Consumer Price Index (CPI) to \$1,304,915 beginning on May 1, 2019. • Based on annual rent of \$1,304,915 for the remaining five-year term of the existing lease from May 1, 2019 through April 30, 2024, the SFPUC will lose \$6,524,577. • The SFPUC estimates the loss in rent will be offset by two (2) new five-year leases at current fair market value. • Under the existing lease, the SFPUC did not receive any rent from the subtenant, Kentucky Fried Chicken. The SFPUC is currently negotiating a 12-month extension of the existing Kentucky Fried Chicken restaurant lease for a minimum of \$124,200 per year. Staff estimate it will take one year to issue a request for proposals and secure a new tenant. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. 	

MANDATE STATEMENT

City Charter Section 9.118(c) states that any modification, amendment or termination of a lease that had an initial term of ten years or more, including options to extend, or that had anticipated revenues of \$1 million or more is subject to Board of Supervisors approval.

BACKGROUND

In 1984, the Grace Retail Corporation (now Orchard Supply Company, LLC) entered into a lease with the City and County of San Francisco for a 206,932 square foot property owned by the San Francisco Public Utilities Commission (SFPUC) in the City of Millbrae in San Mateo County. The term of the lease was for thirty years with two (2) ten-year options to extend the lease to April 2034. The Orchard Supply Company, LLC (Orchard Supply Company) exercised the first ten-year option to extend the lease to April 2024.

In 2016, the Board of Supervisors approved an amendment to the lease between SFPUC and Orchard Supply Company to reduce the size of leased premises for needed space for the SFPUC's Regional Groundwater Storage and Recovery Project. The amendment permanently reduced the total square footage by 13,623 square feet from 206,932 square feet to 193,309 after construction was completed. In return, the SFPUC paid the Orchard Supply Company \$460,673 to compensate for the lease reduction.

On August 22, 2018, Lowe's Home Centers, LLC (Lowe's), the parent of Orchard Supply Company, announced that it would close all 99 Orchard Supply Company stores in California by the end of 2018. Lowe's appointed a Chicago brokerage firm, Hilco, to handle the liquidation and closing of the stores. In early November 2018, Hilco made a verbal offer to the SFPUC to terminate the lease, followed by delivery of a draft termination agreement on November 7, 2018 for the SFPUC's consideration.

On January 22, 2019, the SFPUC approved a resolution authorizing the General Manager to execute the proposed Lease Termination Agreement.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve:

- Termination of the existing lease between SFPUC, as landlord, and Orchard Supply Company, LLC, as tenant as of April 30, 2019;
- The terms and conditions of the termination agreement; and
- Amendments or modifications to the termination agreement by the SFPUC General Manager, that are in the best interest of the City and do not materially increase the obligations or liabilities of the City and are in compliance will applicable laws.

Details of the Proposed Lease Termination

The termination agreement provides for the early termination of the lease as of April 30, 2019, and relieves Orchard Supply Company of its obligation to pay rent beyond the termination date. Orchard Supply Company will surrender possession of the premises in a broom-clean condition, and repair any material damage caused by its removal of inventory, fixtures and equipment.

Alternative Uses for Space

The SFPUC plans to use the early termination of the lease to (1) use existing warehouse on the premises as additional utility plumbers' storage and workshop space, and (2) rent the additional structures to a new tenant.

Of the 193,309 square feet of space currently under the lease, SFPUC plans to use 6,800 square feet for new storage for the Millbrae Yard. The Orchard Supply Company previously built a warehouse at the leased premises, which will come under the ownership of SFPUC upon termination of the lease. According to Mr. Anthony Bardo, Assistant Real Estate Director at the SFPUC, the utility plumbers' materials are currently stored in a structurally unsafe building.

The remaining 186,509 square feet includes two structures that the SFPUC plans to rent to outside tenants. One structure consists of a single-story, 50,000 square foot building constructed around 1985 that was previously occupied by the Orchard Supply Company. The second structure consists of a single-story, 4,900 square foot building currently occupied by Kentucky Fried Chicken, which has a sublease agreement with the Orchard Supply Company. The SFPUC is developing a request for proposals for short-term leases of the former Orchard Supply Company store and the Kentucky Fried Chicken restaurant and has ordered a fair market rent appraisal for the two facilities.

In addition, the termination of the lease will allow SFPUC to address pedestrian safety issues occurring on an easement included in the current lease.

FISCAL IMPACT

Under the existing lease, the annual rent paid by Orchard Supply to SFPUC is \$1,117,432 for the four year period from May 2014 to April 2019, which would increase by the Consumer Price Index (CPI) to \$1,304,915 beginning on May 1, 2019. The proposed termination agreement terminates the existing lease as of April 30, 2019. Based on annual rent of \$1,304,915 for the remaining five-year term of the existing lease from May 1, 2019 through April 30, 2024, the SFPUC will lose \$6,524,577.

According to Mr. Bardo, the loss in rent will be offset by two (2) new five-year leases at current fair market value. The SFPUC estimates that a new fair market rent for the land and improvements would exceed the rent in the current ground lease.

Under the existing lease, the SFPUC did not receive any rent from the subtenant, Kentucky Fried Chicken. The SFPUC is currently negotiating a 12-month extension of the existing Kentucky Fried Chicken restaurant lease for 9 percent of sales with a minimum base rent of \$10,350 per month, or a minimum of \$124,200 per year. According to Mr. Bardo, the 12-month

extension was granted as staff estimate it will take one year to issue a request for proposals and secure a new tenant. The draft of the request for proposals is currently being finalized.

RECOMMENDATION

Approve the proposed resolution.