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

July 16, 2021

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: July 21, 2021 Budget and Finance Committee Meeting

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Item 1 **File 21-0741** *(Continued from July 14 meeting)*	**Department:** Treasurer-Tax Collector

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would waive new business registration, new licenses fees, and all permit fees for qualified businesses for a one-year period between November 2021 and October 2022.

Key Points

- Qualified businesses are defined as businesses that (a) obtain a new business registration certificate between November 2021 and October 2022, (b) have $2 million or less in gross receipts in San Francisco, and (c) have a registered business location that is ground floor. The proposed waivers would not apply to renewals of licenses or business registrations or fees collected by the City for other governments or if businesses have more than $10 million in gross receipts in any of the three following years. Formula retail businesses, which are defined as business that have eleven or more establishments with standardized features, do not count as qualified businesses.
- The Treasurer-Tax Collector plans to administer the proposed waiver program. The Department will create a database of qualifying new businesses that will enable other City departments that collect license and permit fees to validate eligibility for the proposed waivers.

Fiscal Impact

- The value of the fees waived by the proposed ordinance is estimated by the Controller and Treasurer-Tax Collector to be between $12 million and $17.4 million in FY 2021-22 and between $7.5 million and $12.5 million in FY 2022-23. The range of the estimate is a function of the number of assumed qualifying businesses, which is estimated to be between 968 and 1,613, based on 2019 business activity.
- The FY 2021-22 – FY 2022-23 Budget and Appropriation Ordinance pending at the Board of Supervisors (File 21-0643) includes a $12 million General Fund account for this program in FY 2021-22, which would cover the low-end estimated cost of the program in that year. The funding will be used to credit departments that waive the proposed fees.

Recommendation

Because funding for the program is included in the budget approved by the Budget & Appropriations Committee, we recommend approval of the proposed ordinance.

MANDATE STATEMENT

City Charter Section 2.105 states that all legislative acts shall be by ordinance, approved by a majority of the members of the Board of Supervisors.

BACKGROUND

A Budget & Legislative Analyst's March 2021 report estimated that San Francisco businesses had between $174.1 million $404.5 million in unpaid commercial rent during April 2020 to December 2020 related to COVID-19. The Controller's June 2021 Report on the Status of the Re-opening of the San Francisco Economy estimated that more than 45% of the small businesses remained closed. In response to the pandemic, the Board of Supervisors has approved legislation waiving or deferring payroll taxes, business registration, and license fees for certain existing businesses during FY 2019-20 through FY 2021-22 (Files 20-1260 and 20-1415). According to the proposed ordinance, waiving registration, permit, and license fees for new small businesses will support the City's equitable economic recovery from COVID.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would waive new business registration, new licenses fees, and all permit fees for qualified businesses for a one-year period between November 2021 and October 2022. Qualified businesses are defined as businesses that (a) obtain a new business registration certificate between November 2021 and October 2022, (b) have $2 million or less in gross receipts in San Francisco, and (c) have a registered business location that is ground floor. The proposed waivers would not apply to renewals of licenses or business registration or fees collected by the City for other governments or if businesses have more than $10 million in San Francisco gross receipts in any of the three following years. Formula retail businesses, which are defined in Section 303.1 of the Planning Code as business that have eleven or more establishments with standardized features, do not count as qualified businesses.

Implementation

According to Ms. Amanda Fried, Chief of Policy & Communications at Treasurer-Tax Collector, the Treasurer-Tax Collector plans to administer the proposed waiver program. The Department will create a database of qualifying new businesses that will enable other City departments that collect license and permit fees to validate eligibility for the proposed waivers. As noted below, a General Fund account has been established to credit departments for waived fees.

FISCAL IMPACT

Exhibit 1 below summarizes the fiscal impact of the proposed ordinance. As noted above, qualified businesses are defined as those having a new business registration issued between November 2021 and October 2022 so that the waived fees would occur in FY 2021-22 and in FY

2022-23. Exhibit 1 below shows the estimated value of business registration, license, and permit fees waived by the proposed ordinance in each department.

Exhibit 1: Value of Fees Waived by Proposed Ordinance ($ million)

	FY 2021-22			FY 2022-23		
	Low	Mid	High	Low	Mid	High
Planning	3.61	4.21	5.26	2.25	3.01	3.76
Building Inspection	4.42	5.15	6.44	2.76	3.68	4.60
Public Health	1.50	1.75	2.19	0.94	1.25	1.56
Fire	0.48	0.56	0.71	0.30	0.40	0.50
Police	0.52	0.61	0.76	0.33	0.44	0.55
Entertainment	0.44	0.52	0.65	0.28	0.37	0.46
Public Works	0.55	0.64	0.80	0.34	0.46	0.57
Public Utilities	0.03	0.04	0.05	0.02	0.03	0.04
Treasurer	0.27	0.32	0.40	0.17	0.23	0.28
Subtotal, Fees Waived	**11.83**	**13.81**	**17.26**	**7.40**	**9.86**	**12.33**
Treasurer-Tax Collector Administrative Costs	0.17	0.17	0.17	0.12	0.12	0.12
Total Cost	**12.00**	**13.97**	**17.42**	**7.52**	**9.98**	**12.45**

Source: Controller and Treasurer-Tax Collector

As shown above, the value of the fees waived by the proposed ordinance is estimated by the Controller and Treasurer-Tax Collector to be between $12 million and $17.4 million in FY 2021-22 and between $7.5 million and $12.5 million in FY 2022-23. The range of the estimate is a function of the number of assumed qualifying businesses, which is estimated to be between 968 and 1,613, based on 2019 business activity.

The FY 2021-22 – FY 2022-23 Budget and Appropriation Ordinance pending at the Board of Supervisors (File 21-0643) includes a $12 million General Fund account for this program in FY 2021-22, which would cover the low-end estimated cost of the program in that year. The funding will be used to credit departments that waive the proposed fees. To the extent that actual waived revenues exceed this appropriation, revenue shortfalls may result, which may impact current and future fiscal year budgetary planning if other revenue forecasts do not perform above budgeted levels by a like amount. Because funding for the program is included in the budget approved by the Budget & Appropriations Committee, we recommend approval of the proposed ordinance.

RECOMMENDATION

Approve the proposed ordinance.

Item 2 **File 21-0749**	**Department:** Department of Public Works

EXECUTIVE SUMMARY

Legislative Objectives

- The Department of Public Works is requesting the Budget and Finance Committee of the Board of Supervisors to release $537,000 of the $840,000 placed on reserve by the Board of Supervisors during the FY 2020-21 budget review.

Key Points

- On September 22, 2020, the Budget and Appropriation Ordinance (File 20-0567) was amended to place $840,000 appropriated to the Department of Public Works for new trash can design and deployment on Board of Supervisors reserve in FY 2020-21 and FY 2021-22.
- The department will be working with an industrial designer to develop a trash can that is durable, tamper-resistant, easy to service and aesthetically pleasing. The final conceptual designs have been approved by Civic Design Review. If the funding is released, Public Works will complete detailed design schematics and manufacture 15 prototype cans for field testing. The department plans to eventually replace all 3,300 City trash receptables with the new design.

Fiscal Impact

- The $537,000 on Board of Supervisors reserve would be used to complete detailed design of the new public trash can options and move forward into the prototyping phase. Expenditures include design costs for the trash can and toter (a garbage cart with wheels), 15 prototype trash cans, 10 prototype toters, project management, off-the-shelf trashcan purchase, and a contingency.

Recommendation

- Approve the requested release of $537,000 of the $840,000.

MANDATE STATEMENT

City Administrative Code Section 3.3(j) states the Board of Supervisors may reserve proposed expenditures to be released at a later date subject to Board of Supervisors approval. The practice of the Board of Supervisors is for the Budget and Finance Committee to approve release of funds placed on reserve by the Committee, without further Board of Supervisors approval.

BACKGROUND

On September 22, 2020, the Budget and Appropriation Ordinance (File 20-0567) was amended to place $840,000 appropriated to the Department of Public Works for new trash can design and deployment on Board of Supervisors reserve in FY 2020-21 and FY 2021-22.

DETAILS OF PROPOSED LEGISLATION

The Department of Public Works is requesting the Budget and Finance Committee of the Board of Supervisors to release $537,000 of the $840,000 placed on reserve by the Board of Supervisors during the FY 2020-21 budget review.

According to Mr. Jeremy Spitz, Special Assistant for Policy and Government Affairs at Department of Public Works, the requested release of $537,000 on Board of Supervisors reserve would be used to complete detailed design of the new public trash can options and move forward into the prototyping phase. Mr. Spitz states that the department will be working with an industrial designer[1] to develop a trash can that is durable, tamper-resistant, easy to service and aesthetically pleasing. The final conceptual designs have been approved by Civic Design Review.[2] If the funding is released, Public Works will complete detailed design schematics and

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[1] According to Mr. Spitz, the department has chosen APROE (Advanced Prototype Engineering LLC) as the industrial designer, a San Francisco-based company that provides design and prototype services for industrial and commercial products. Public Works requested quotes from five companies (Forms and Surfaces, APROE, Victor Stanley, Reification, and Standard Metal Products) who can produce prototypes. Of these five companies, only Forms and Surfaces and APROE provided a cost proposal. Mr. Spitz states that APROE's cost and service were determined to be most cost effective and appropriate for the trashcan pilot. DPW received approval from the Office of Contract Administration to waive competitive solicitation requirements for the pilot project per Section 21.5(e) of the Administrative Code. Mr. Spitz states that the department has not entered into a contract yet with APROE since the release of funds has not been secured.

[2] Civic Design Review is a Charter-mandated responsibility of the Arts Commission per Charter Section 5.103. The Civic Design Review Committee is comprised of five Commissioners appointed by the Mayor, including two architects, a landscape architect and two other design professionals and/or lay persons. The Commissioners conduct a multi-phase review of all civic buildings, viaducts, elevated ways, gates, fences, street furniture, lamps or other structures on City and County land. The Committee also reviews historic plaques, arches, bridges, approaches and other structures extending over or onto any street, highway, park or other public place belonging to the City. According to Mr. Spitz, the Civic Design Review for Phase 1 and Phase 2 for the trash can was approved on September 21, 2020.

manufacture 15 prototype cans for field testing. According to Mr. Spitz, the department plans to eventually replace all 3,300 City trash receptables with the new design.

FISCAL IMPACT

Table 1 below summarizes the breakdown of the Department of Public Works' requested release of $537,000 placed on Board of Supervisors reserve for new trash can design and deployment. According to Mr. Spitz, the source of funds is revenue from refuse rates.[3]

[3] Under the 1932 Refuse Collection and Disposal Initiative Ordinance, the City approves and sets residential refuse (garbage) rates. Funds for the requested reserve are located in Fund 14000 Impound Account, which is funded by revenue from the refuse rates. The account includes funding for City departments that support refuse-related programs that benefit ratepayers. The refuse rates, collected by Recology and approved by the City per the 1932 Ordinance, include funding for several City initiatives. According to Mr. Spitz, Recology collects the revenue from the rates and deposits a certain amount into various City accounts, including the Impound Account. Mr. Spitz states that expenditure of monies from the Impound Account for City costs is subject to the City's annual budgeting process and management review.

Table 1: Summary of Department of Public Works' New Trash Can Design and Deployment Costs

Costs	Amount
Design	
Trash Can	$67,500[4]
Toter[5]	$10,000[6]
Prototype[7]	
15 Trash Cans ($20,000 per prototype)	$300,000
10 Toters ($2,000 per prototype)	$20,000
Project Management[8]	$40,000
Off-the-Shelf Trashcan Purchase (Proposition Q)[9]	$10,000
Contingency (20 percent)[10]	$89,500
Total	**$537,000**

Source: Department of Public Works

According to Mr. Spitz, the department anticipates requesting release of reserves for the remainder of the funds ($303,000) after the pilot is complete and a decision is made regarding the preferred trash can. The specific timeline is to be determined.

RECOMMENDATION

Approve the requested release of $537,000 of the $840,000.

[4] Budget is not to exceed 450 hours at $150/hour.
[5] A toter is a garbage cart with wheels.
[6] Budget is not to exceed 67 hours at $150/hour.
[7] Prototype costs are based on estimates provided by APROE. APROE estimated between $10,000 - $20,000 per trashcan based on current concept designs, and the budget is based on the higher range. Mr. Spitz states that more accurate costs for the prototypes will be provided at the conclusion of the design refinement phase and the goal is to bring the unit cost closer to the lower range.
[8] A DPW cost. Budget is not to exceed 4 hours per week for 16 weeks at an hourly rate of $230/hour. Additional approximately $26,000 is included in costs to balance current project management expenditures.
[9] In 1993, a charter amendment (Proposition Q) was passed that changed the City's purchasing procedures to allow, with the Purchaser's approval, departments to buy supplies and equipment on their own if the purchase was less than $5,000 (now $10,000). According to Ms. Lisa Zhuo, DPW Project Manager, this purchase is to be used to evaluate the adaptability of the off-the-shelf cans to the City's unique environment, which includes weather and social behavior; the department is also proposing to incorporate a new sensor to the trash cans to alert pick-ups. Ms. Zhuo states that by evaluating off-the-shelf cans alongside custom trash cans, the department is also able to identify successful features or deficiencies in each of the cans and make improvements.
[10] The contingency is a reserve set aside for unexpected fees or unknown costs at the time of budgeting. (i.e., scope changes, add services, etc). According to Mr. Spitz, the percentage is typical for a design project.

Item 12 **File 21-0775**	**Department:** Department of Public Health (DPH), Real Estate Division (RED)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a lease at 1360 Mission Street between the Department of Public Health (DPH) as tenant and SFSPE TG, LLC, SFSPE T1, LLC, SFSPE MH, LLC, and SFSPE OBI LLC (SFSPE) as landlord, for a term of four years from approximately September 2021 through August 2025, with two one-year options to extend through August 2027, and initial annual base rent of $644,404, with three percent annual increases.

Key Points

- DPH, which rents space on the 4th floor of 1360 Mission Street, is interested in renting space on the 1st and 2nd floors that had previously been rented by the Human Services Agency (HSA). The Real Estate Division (RED) has negotiated a lease for DPH with the landlord.
- DPH would use the 1st floor for COVID-19 related staffing. The 2nd floor would be used by approximately 73 Behavioral Health Services staff, including teams from the Office of Coordinated Care, Street and Justice Services, and Utilization Management.
- An appraisal was not required for the lease, but the rental rate was determined by reviewing other recent commercial leases within a one-mile radius. The landlord is also providing eight months' rent abatement. The lease includes two one-year options to extend, but the options may be rescinded by the landlord.

Fiscal Impact

- Over the initial four-year term of the lease, DPH would pay $2,266,343 in rent. If the two one-year options to extend are exercised, DPH would pay at least $1,472,323 in additional rent, for total rent of $3,738,667 over the full six-year term. DPH would reimburse the landlord for up to $200,000 in leasehold improvements, for a total cost over six years of approximately $3,938,667.
- For the 1st floor premises, DPH would seek rent reimbursement from the Federal Emergency Management Agency (FEMA) for the 1st floor. If FEMA funding is no longer available, rent would be funded by the City's General Fund. DPH would use Proposition C funds for the 2nd floor.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

Administrative Code Section 23.27 states that the Board of Supervisors shall approve all Leases on behalf of the City as tenant by resolution for which the term is longer than a year and costs over $15,000 per month.

BACKGROUND

For four years, the Human Services Agency (HSA) rented approximately 16,958 square feet on the 1st and 2nd floors of 1360 Mission Street. HSA's lease ended on September 21, 2020, and the space remains vacant. The Department of Public Health (DPH), which rents space on the 4th floor of the building, is interested in the premises previously rented by HSA to use for both COVID-19 and behavioral health staff. The Real Estate Division (RED) has negotiated a lease on behalf of DPH with the landlord, SFSPE TG, LLC, SFSPE T1 LLC, SFSPE MH, LLC, and SFSPE OBI LLC (collectively SFSPE).

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a lease between DPH as tenant and SFSPE as landlord for a term of four years, from approximately September 2021 through August 2025, with initial annual rent of $644,024, with three percent annual increases, and two one-year options to extend, which the landlord may rescind.[1]

DPH would use the 1st floor of the premises for COVID-19 related staffing. The 2nd floor would be used by approximately 73 Behavioral Health Services staff, including teams from the Office of Coordinated Care, Street and Justice Services, and Utilization Management. These teams would be responsible for managing and monitoring access, flow, and service utilization throughout the behavioral health system; providing streamlined access to behavioral health services; supporting homeless people with connecting to care and providing direct community-based behavioral health services; providing care coordination services; and providing behavioral health managed care functions.

The initial annual base rent of $38 per square foot is approximately 23 percent less than the annual base rent of $49.17 paid by HSA at the end of its lease. In addition to the rent reduction, SFSPE has agreed to waive eight months of rent. The proposed annual rent of $38 per square foot is less than the threshold of $45 per square foot requiring an appraisal. According to Mr. Joshua Keene, RED Special Projects and Transactions Manager, the rent was determined by reviewing other recent commercial leases within a one-mile radius. The annual base rent of $38 per square foot, with eight months' rent abatement, was determined to be favorable for the City. If the one-year options to extend are exercised, base rent during the extension period would be the greater of three percent greater than the previous year's rent or 95 percent of the Prevailing Market Rate.

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[1] Under the proposed lease, the City may exercise each option to extend by providing at least 180 days' notice before the lease is due to expire. After receiving the notice to extend, the landlord may rescind the option within 30 days.

The key terms of the proposed lease are shown in Table 1 below:

Table 1: Key Terms of Proposed Lease

Premises	Approximately 16,958 square feet on the 1st and 2nd floors
Term	4 years
Options to Extend	Two 1-year options to extend, may be rescinded by landlord
Annual Base Rent	$644,404 ($38 per square foot)
Rent Adjustment	3% annual increase
Rent During Extension Period	Equal to the greater of 103% of previous year's base rent or 95% of the Prevailing Market Rate
Rent Abatement	8 months
Leasehold Improvements	Completed by landlord and reimbursed by City, not to exceed $200,000
Utilities	Paid by landlord
Janitorial Services	Paid by landlord

Source: Proposed Lease

FISCAL IMPACT

Under the proposed lease, DPH would pay initial annual rent of $644,404, or $38 per square foot, with three percent annual increases. DPH would also receive eight months' rent abatement, for a value of $429,736. Over the initial four-year term of the lease, DPH would pay $2,266,343 in rent. If the two one-year options to extend are exercised, DPH would pay at least $1,472,323 in additional rent, for total rent of $3,738,667 over the full six-year term.[2] Rent paid by DPH is shown in Table 2 below.

[2] During the extension term, DPH would pay the greater of 103 percent of the previous year's base rent or 95 percent of the Prevailing Market Rate. Table 2 shows the rent payments using 103 percent of the previous year's base rent, as the future Prevailing Market Rate is currently unknown.

Table 2: Rent Paid by DPH under Proposed Lease

Year	Annual Rent per Square Foot	Annual Rent
1	$38.00	$214,801[3]
2	39.14	663,736
3	40.31	683,648
4	41.52	704,158
Initial Term Subtotal		*$2,266,343*
5	$42.77	$725,282
6	44.05	747,047
Option Term Subtotal		*$1,472,323*
Total		**$3,738,667**

In addition to the rent, DPH would reimburse the landlord for up to $200,000 in leasehold improvements,[4] for a total cost over six years of approximately $3,938,667. According to Mr. Keene, there are no other anticipated operating costs. For the 1st floor premises, DPH would seek rent reimbursement from the Federal Emergency Management Agency (FEMA) for the 1st floor. At the time of this writing, FEMA funding is anticipated to end September 30, 2021. If FEMA funding is no longer available, rent would be funded by the City's General Fund. DPH would use Proposition C funds for the 2nd floor.

POLICY CONSIDERATION

DPH intends to use the 1st floor of the premises for COVID-19 related staff. However, the DPH FY 2021-23 two-year budget eliminates most COVID-19 temporary positions within six months and all positions within one year. According DPH staff, DPH is intending to use the 1st floor of the 1360 Mission Street building for its approximately 60 public health workforce within the Population Health Division (PHD), primarily new hires to address the new normal of living with and managing COVID-19 as an ongoing endemic disease. This incoming workforce is assigned to support the COVID Task Force and are funded through five (5) grants from the Centers for Disease Control and Prevention (CDC) and California Department of Public Health (CDPH). The funding terms of the grants vary from two to five years with the aim of building long-term workforce capacity to prevent, investigate and mitigate infectious and communicable diseases.

DPH estimates that approximately 73 Behavioral Health Services staff will be located in the 2nd floor premises. According to DHP staff, the 73 staff DPH is proposing to move to 1360 Mission represent a consolidation of new hires and staff relocations to maximize program and service effectiveness. This includes new Office of Coordinated Care hires, existing Street & Justice Services staff who do not have a permanent space, and existing staff relocating to support Office Coordinated Care services and operations.

[3] The rent paid in Year 1 includes eight months' rent abatement, for a total rent reduction of $429,736.
[4] The leasehold improvements include upgrades to the heating, ventilation, and air conditioning (HVAC) system, information technology (IT) infrastructure, security system, electrical work, and office space reconfigurations.

RECOMMENDATION

Approve the proposed resolution.

Item 14 File 21-0738	Department: Department of Public Health (DPH), Real Estate Division (RED)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve an extension of the lease at 555-575 Polk Street between Mattison Family Trust as landlord and the City as tenant, extending the lease by five years from August 2021 through July 2026, at a base annual rent of $500,364, with no annual increases.

Key Points

- In 2012, the Board of Supervisors approved a lease for the first floor of 555-575 Polk Street, for a term of nine years and five months, with a five-year option to extend, as well as an option to expand to the second floor, which was exercised in 2013. The Department of Public Health (DPH) operates the Community Justice Center (CJC) on the second floor, providing court authorized alternatives to incarceration, in partnership with the Superior Court of San Francisco. The first floor is subleased to the State Administrative Office of the Courts (AOC).
- The proposed resolution would execute the five-year option to extend the lease through July 2026. The annual rent of $500,364 would not change over the five-year term, and AOC would continue to sublease the first floor premises. An appraisal was not required for the lease, but the rental rate was confirmed by analyzing existing leases in the surrounding market, including newly negotiated City leases.

Fiscal Impact

- The total rent and operating expenses paid over five years is approximately $3,287,731, including $2,501,820 in rent and $785,911 in operating expenses.
- Approximately 61.4 percent of the rent, or $1,535,820, would be paid by the AOC, and approximately 38.6 percent, or $966,000, would be paid by DPH. The operating costs would be split evenly between the AOC and DPH, with each paying approximately $392,955. In total, AOC would pay approximately $1,928,775 and DPH would pay approximately $1,358,955 over five years.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Administrative Code 23.27 states that any lease with a term of one year or longer or with rent of $15,000 or more per month and where the City is the tenant is subject to Board of Supervisors approval.

BACKGROUND

The City originally leased 555-575 Polk Street in 1991 for use by the San Francisco Superior Court. In 2002, the State passed the Trial Court Facilities Act, which required California cities and counties to transfer court facilities to the Administrative Office of the Courts (now, Judicial Council of California). The Act and subsequent agreements required counties to continue to pay for operations of court facilities based on historic operating costs, and the City continued to lease 555-575 Polk Street on behalf of the San Francisco Superior Court.

In February 2012, the Board of Supervisors approved a lease between the City and Mattison Family Trust for the ground floor of 555-575 Polk Street. According to the lease, the space was to be used for operation of courtrooms, public programs and related office uses by City, the Judicial Council of California, Administrative Office of the Courts ("AOC"), or the San Francisco Superior Court. The lease was for a term of nine years and five months from March 2012 through July 2021, with a five-year option to extend through July 2026, and annual base rent of $307,164 (File 12-0039). The City entered into a sublease with the Administrative Office of the Courts (AOC) for AOC's use of the ground floor.

The Board of Supervisors also approved a lease expansion option to rent the second floor of the building through July 2021 at an annual base rent of $193,200 (File 12-0040), which was exercised in March 2013, for use by the Department of Public Health (DPH). DPH operates the Community Justice Center (CJC) on the second floor, providing court authorized alternatives to incarceration, in partnership with the Superior Court of San Francisco. The CJC includes both a courtroom and social services center. Social services include drug treatment, mental health programs, support groups, counseling, career development, and job training. The AOC and Superior Court are co-occupants of the ground floor premises. The lease expires July 31, 2021.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve an extension of the 555-575 Polk Street lease between the City as tenant and Mattison Family Trust as landlord, extending the lease by five years through July 2026. Annual base rent of $500,364 is unchanged from the rent set in the original lease in 2012. Other terms of the lease would not change. The City would continue to sublease the ground floor premises to AOC, and the sublease would co-terminate with the term of the lease.

The original lease stated that if the option to extend is exercised, the rent for the extension term would be set at 95 percent of prevailing market rent for comparable properties in the Civic Center/Van Ness corridor. The proposed annual rent of $27.80 per square foot is below the threshold of $45 per square foot requiring an appraisal. According to Mr. Joshua Keene, Real

Estate Division (RED) Special Projects and Transactions Manager, the rental rate was confirmed by analyzing existing leases in the surrounding market, including newly negotiated City leases. The annual base rent of $27.80 per square foot is below fair market rate, and the lack of annual escalation makes the lease more favorable to the City.

Under the lease, the City directly pays for utilities, refuse removal, and security costs. The City also reimburses the landlord for janitorial, pest control, heating, ventilation, and air conditioning (HVAC), property management services, property taxes, and insurance costs. Mr. Keene estimates that annual operating expenses for the premises are approximately $142,230, which is projected to increase five percent annually.

FISCAL IMPACT

Under the proposed lease extension, the City would continue to pay annual rent of $500,364, with no annual adjustments. Over the five-year extension term, the City would pay total rent of $2,501,820. The City also pays approximately $142,230 annually in utilities and operating costs, which is projected to increase five percent annually. The total rent and operating expenses paid over five years is approximately $3,287,731, as shown in Table 1 below.

Table 1: Rent and Operating Costs under Proposed Lease Extension

Year	Rent	Operating Costs	Total Cost
1	$500,364	142,230	642,594
2	500,364	149,342	649,706
3	500,364	156,809	657,173
4	500,364	164,649	665,013
5	500,364	172,881	673,245
Total	**$2,501,820**	**785,911**	**3,287,731**

Approximately 61.4 percent of the rent, or $1,535,820, would be paid by the AOC, and approximately 38.6 percent, or $966,000, would be paid by DPH. The operating costs would be split evenly between the AOC and DPH, with each paying approximately $393,955. In total, AOC would pay approximately $1,928,775 and DPH would pay approximately $1,358,955 over five years.

RECOMMENDATION

Approve the proposed resolution.