FORM GEN. 160

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

0220-05805-0000

Date: January 28, 2021

To: The Municipal Facilities Committee

From: CAO Staff

Subject: **QUARTERLY STATUS UPDATE – CITYWIDE LEASING ACCOUNT**

RECOMMENDATION

Note and File this report.

SUMMARY

This report provides projections of potential impacts to the Citywide Leasing account, including interim funding transfers as intended to avoid any potential year-end impacts on the General Fund, with additional details on individual leasing items provided in the report Attachments.

The 2020-21 Citywide Leasing account is currently projected to close with a net zero total (Attachment A), with a current contingency level of $295,041 to address potential overages or unanticipated leasing needs for critical City functions, which is equivalent to 1.5 percent of the adopted 2020-21 citywide leasing budget. This is a reduced contingency level as $1.89 million in prior leasing reserves were utilized as part of current year budget balancing measures, which was authorized as part of the Second Financial Status Report (FSR) that was approved by Council on December 21, 2020 (C.F. 20-0600-S84).

This report also provides an overview of other relevant considerations impacting the Citywide Leasing account, including: 1) Recent Motions introduced by Council to reassess City workspace needs and reduce leasing liabilities; 2) Potential deficit reported by Department of General Services (GSD) for the Project Room Key (PRK) cash flow advances; 3) Requests from Council District Ten to establish two new Field Offices; 4) Department of Transportation (DOT) leases, pending transfer of tenant improvement (TI) funding through the Third Construction Projects Report (CPR); 5) Potential cost overages to be confirmed pending reconciliation of variable costs for the Garland building; 6) Anticipated increases for Port of Los Angeles (POLA) leases for Fire facilities; and, 7) Reassessment of the need and timing on the Finance Call Center lease.

FISCAL IMPACT

Based on known factors at this time, there is no additional General Fund impact projected in the current year to fund authorized leasing expenses and the cost of associated space modifications. There is sufficient capacity to address variable costs fluctuations for expenses such as common area maintenance (CAM) fees up to $295,041, which reflects the current level of reserves held within the leasing account for this purpose.

Our Office is unable to confirm at this time whether there is a potential impact for cash flow advanced from the leasing account to front-fund expenses for PRK. At this time, GSD has identified a potential impact of up to $6.96 million, with total reimbursements of $5.99 million currently pending Council consideration as part of the Second Homeless Housing, Assistance and Prevention (HHAP) Program report (C.F. 19-0914). An update will be provided in the next Quarterly Leasing report and through the Financial Status Report once current reconciliation activities are completed.

DISCUSSION

I. 2020-21 Citywide Leasing Account Projections (Attachments A and B)

The Department of General Services (GSD) received initial funding of $19.5 million through the 2020-21 City Budget, which combined with interim funding of $3.6 million results in a total adjusted budget of $23.1 million. Based on current known factors, there is a year-end, net zero balance projected for the 2020-21 Citywide leasing account, as summarized in the chart below:

2020-21 Budget	Interim Funding*	Projected Surpluses	2020-21 Budget Balancing	Projected Shortfalls & Reserves	Net Total
$ 19,516,436	$ 3,580,591	$ 3,349,311	$ (1,950,426)	$ (4,979,476)	$ 0
** Interim funding includes: 1) Carryover balance ($366,236; Item A1), 2) Prior $1 million transfer for Mateo leases (Item A4); and, 3) Anticipated transfer of $2.2 million through the forthcoming Third Construction Projects Report, which is subject to Council and Mayor approval (Item A2).*					

Furthermore, this report includes additional context beyond expense fluctuations within the Citywide Leasing account such as interim funding transfers through the Financial Status Report (FSR) and Construction Projects Report (CPR), and other significant issues identified by GSD. There are additional updates and reconciled information included in Attachment A that are not part of GSD’s December Leasing Account Update (Attachment B) as Attachment A includes subsequent updates made available after GSD provided their cost analysis in December.

A. <u>Projected Leasing Surpluses</u>

An aggregate surplus of $3.3 million is projected within the 2020-21 Citywide Leasing account, which includes a $1.6 million rental credit for the Garland building contributing approximately forty-eight percent, as summarized below and detailed in the Attachment:

1. Savings projected pending lease execution ($1,427,230; Items A3, A5 and A10);
2. Garland tenant improvements for General Funded operations converted into rental credit as per lease terms ($1.6 million; Item A6);
3. Savings from closure of parking facility ($80,000; Item A8);
4. Savings from lease amendment associated with delays in TI completion ($75,555; Item A9);
5. Savings incurred for new Crenshaw Field Office based on final projected expenses totaling less than the funding budgeted for this purpose ($135,950; Item A13); and,

6. Miscellaneous net savings from several leases on variable leasing costs such as common area maintenance, parking and utilities that are not separately called out ($30,576; Item A16).

B. 2020-21 Budget Balancing

As part of the City's budget balancing and layoff avoidance measures approved by Council as part of the Second Financial Status Report (C.F. 20-0600-S84), total transfers of $1.95 million of prior reserves ($1.89 million) and additional savings identified ($59,000) within the Citywide Leasing account were used to offset budgetary reductions within GSD's operational budget. This transfer total is comprised of the following:

1. POLA Leases ($1.3 million; Items A6/A7): Reserve to address cost escalation for expired leases in holdover status at least for 5 years, roughly equivalent to a three-percent annual escalation;

2. Special Fund Savings ($59,000; Item A10): Surplus of Special Funds generated by savings as a result of a delayed lease execution for an Information Technology Agency (ITA) Telecommunications site; and,

3. General Lease Contingency ($591,426; Item A18): Funds held in reserve to address annual fluctuations in variable expenses such as common area maintenance (CAM) charges.

C. Projected Shortfalls and Adjusted Reserves

1. Net shortfall for unfunded costs associated with three leases for the DOT yards and shops functions; also refer to Section I.D. (Items A2-A5) for the funding plan below to fully offset these costs.

2. Unfunded costs for increases in rent, parking, utility and custodial costs associated with new lease terms executed for 1575 Westwood Boulevard ($46,902; Item A11);

3. Unfunded costs for additional property taxes assessed for 620 Commercial Street ($4,425; Item A12)

4. Preliminary estimate for tenant improvement, communication and moving costs for the 5990 Sepulveda Boulevard lease, to be updated in a subsequent Quarterly Status report ($130,000; Item A14);

5. Unfunded costs for increased rental rates and custodial costs for various courthouse leases under negotiations, to be scheduled for the February MFC meeting ($259,359; Item A17); and,

6. After accounting for all projected liabilities at this time, there is a remaining balance of $295,041 that is being set aside as an adjusted contingency reserve to offset overruns and unanticipated costs within the 2020-21 Citywide Leasing account (Item A18). This amount is equivalent to 1.5 percent of the approved 2020-21 budget and will serve as a safeguard against unfunded General Fund liabilities.

Adjustments and proposed uses for this contingency reserve will be addressed through future status update reports. Once all current-year leasing account liabilities have been addressed, any remaining contingency within the 2020-21 leasing account would be reverted to the General Fund at year-end, or alternatively used to address other operational shortfalls as part of a future Financial Status Report.

D. <u>Other Notable Issues</u>

In addition to the issues presented in the preceding sections, other notable considerations impacting the 2020-21 Citywide Leasing account are summarized below:

- Motions have recently been introduced (C.F. 20-1568 and C.F. 20-1587) and approved (C.F. 20-0584) by the Council to examine the ongoing need for leased space and/or telecommuting and staggering work schedule possibilities for potential cost savings. Our Office has asked GSD to provide an assessment of leases that expire in the current and upcoming year to identify potential savings from the Citywide Leasing Account, in the following areas:

  - Leases that have expired and/or set to expire in the current and upcoming year with various lease status (holdover, executed, non-negotiable holdover in Asset Management System);
  - Leases that have early termination clauses;
  - Leases that may be renegotiated for lower rates or evaluated for termination, consolidation within department and/or co-location with other departments; and,
  - Leases that are subject to potential additional cost recovery from departments.

  At this time, GSD is in the process of reviewing its Receivable Leasing portfolio to prioritize potential leases that may generate additional revenues. GSD has advised that it currently does not have the necessary data to evaluate departments' updated space needs and to reduce or consolidate leases. GSD also reports that there is not sufficient capacity to complete this analysis at this time due to the Separation Incentive Program (SIP) impacts and diversion of existing staffing resources to other Homelessness and/or COVID-19 related programs, such as PRK, Project Home Key (PHK) and Disaster Service Worker.

  In order to fully evaluate the feasibility of realizing cost savings through lease terminations or other reductions in leased space, certain policy guidance and needs assessment would be required in the following areas:

  - Continued availability of telecommuting, staggered work schedules or offering "hybrid" options to reduce the overall need for physical office space;
  - Identification of impacted operations and updates to prior Department workspace surveys; and,
  - Development of restacking plans and identification of sufficient resources to implement relocations and associated work space modifications.

- Potential GSD Cash Flow Exposure – GSD has indicated concern for potential exposure if timely reimbursements are not received for monies advanced from the leasing account to front-fund expenses associated with PRK projects (C.F. 20-1318). GSD has recently reported an unconfirmed, projected deficit of $6.96 million for the PRK program. GSD also indicates there may be additional unfunded costs above this level, such as final remediation costs, cost variances based on hotel room sizes, damage claims, or extended quarantine requirements.

  As part of the Second Homeless Housing, Assistance and Prevention (HHAP) Program report (C.F. 19-0914), funding of $5.99 million is being recommended for transfer to the leasing account to fund PRK expenditures incurred through March 26, 2021, subject to Council and Mayor approval. A reconciliation of incurred expenses and cumulative reimbursements is currently underway to review the reported deficit projection. Any unresolved concerns would be reported as part of the next Quarterly Status Update report and through the Financial Status Report.

- Council District Ten: Field Office Leasing Requests – The new Council Office has made a formal request dated January 4, 2021, to establish leases for two Field Offices, to be located in Koreatown and along the Crenshaw Corridor. Based on recent lease negotiations and associated tenant improvements (TI), the rough order of magnitude of potential leasing and one-time tenant improvement costs is estimated as up to $920,000. This is currently an unfunded cost and increased funding as part of the 2021-22 Citywide Leasing account would be needed. Further any potential lease(s) would be subject to MFC and Council approval.

- DOT Leases (1111/1201 Mateo Street; 888 Vermont Avenue: Items A2-A5) – GSD previously reported estimated costs of $2,214,355 in associated tenant improvements costs required for the DOT occupation of this site. This amount is tentatively recommended for approval as part of the Third Construction Projects Report.

  GSD has indicated there are potential savings, however, the final estimates are not yet available. At the same time, GSD has been asked to work with the property owner to develop a Phase III estimate for Tenant Improvement costs that would be required to achieve full occupancy of the facility, with LAPD vehicle operations under consideration.

  A final update on any potential savings for the DOT component, along with the cost estimate for the proposed Phase III LAPD occupancy will be provided in a subsequent report once available. A report back on potential cost recovery of DOT Special Fund monies is tentatively scheduled for February 2021. Any potential savings for DOT associated costs would be applied towards the Phase III TI costs.

- Garland Building (Item A6) – GSD is indicating there may be a potential impact for overages in variable expenses for this facility following the annual reconciliation of CAM expenses, parking rate escalations, and other variable expenses. The rental credit for this facility has been utilized as part of current-year budget balancing in the Second FSR (C.F. 20-0600-S84) for layoff avoidance. Absent other funding offsets, any overages in excess of the current adjusted leasing account contingency reserve of $295,041 could result in a General Fund liability.

- POLA Leases for Fire Facilities (Item A7) – The prior Quarterly Status Update report included a $1.3 million reserve (utilizing a portion of the Garland rental credit) was reported to address anticipated rental increases for three POLA leases that have remained on holdover since 2016. This reserve was intended to address any potential retro-active payments. However, MFC staff engaged POLA in preliminary discussions to agree in concept that the new rental rates would not include a retroactive payment, but would instead include any adjustments as part of a new rate to become effective in the upcoming fiscal year. Based on this conceptual agreement, the prior reserve held for the POLA leases was released to address current-year budget balancing and layoff avoidance approved as part of the 2nd FSR. GSD is continuing lease negotiations with POLA. Any interim updates will be provided through subsequent Quarterly Status Update reports.

- Finance Call Center Replacement Lease (Item A15) – Following owner cancellation of the prior lease negotiated for the Call Center operation in 2019-20, the Department is currently reassessing the need and timing of a potential replacement lease. A subsequent update will be provided in future reports. We do not anticipate this will impact the current-year leasing account.

BCH:KH:05210080

Attachments:
- A: 2020-21 Detail of Leasing Account Projections
- B: 2020-21 GSD December Leasing Account Update

2020-21 Detail of Leasing Account Projections

2nd Q Report No.	Department Occupant(s)	Lease Property	Interim Funding (Carryover & Anticipated Transfers)	Projected Surpluses	2020-21 Budget Balancing	Projected Shortfalls & Reserves	MFC Report Comment
A1	N/A	FY 2019-20 Carryover Funding from Lease Savings	$ 366,236	$ -	$ -	$ -	Interim funding reflects FY 2019-20 carryover funding from lease net savings as reported in the last Quarterly report. Note: GSD's reported balance (Attachment B) differs by $144,176 which just reflects a different itemization for addressing the leasing costs associated with the 5990 Sepulveda lease ($130,000 for Item No. A14) and $14,176 based the reduced year end balance. GSD reports that the revised carry over year end balance in the Leasing account is reduced by $14,176 to 352,060 (instead of $366,236 that was reported in the last Quarterly report).
A2	Transportation	DOT Leasing Offset (pending future CPR transfers)	$ 2,214,355	$ -	$ -	$ -	Interim funding of $2.2 million, sufficient to address the projected funding shortfall associated with the three Department of Transportation (DOT) leases (Item Nos. A3, A4 and A5 below) included in the last Quarterly report, will be transferred to the General Services Department (GSD) leasing account through the forthcoming 2020-21 Third Construction Projects Report (CPR), subject to Council and Mayor approval. Subsequent updates on the final tenant improvement (TI) budget and potential DOT cost recovery, subject to several levels of approval, will be provided in future Quarterly status reports. Note: GSD's December Leasing Account Update (Attachment B) does not include this anticipated interim transfer amount. As a general rule, GSD's update report only reflects funding that is actually in the account, not pending transfers.
A3	Transportation	1111 Mateo Street	$ -	$ 691,558	$ -	$ (1,810,833)	Rental payments are fully funded in the leasing account. The projected surplus reflects: Six months of anticipated savings for rental payments (based on anticipated effective date 120 days following lease execution) and a tenant improvement (TI) credit equivalent to $172,888 (credit rescinded if City does not exceed $500,000 expenditure for TIs). Phases I and II: There is currently a shortfall of $1.81 million for the estimated costs of Phase I & II tenant improvements, communication services, moving costs, furniture and security deposit as reported to the Municipal Facilities Committee (MFC) and Council (C.F. 19-1359) and cost of the security line. Phase III: Between 15,000 to 25,000 square feet of unassigned space is currently under evaluation for use by displaced LAPD yards and shops functions for new and salvaged vehicle operations. There are potential savings and/or potential special fund cost recovery, subject to several levels of approval, that will be addressed through a separate report in the upcoming months, which will be subject to consideration by the MFC and final Council approval. Any additional modifications needed to accommodate these functions such as modifications or repairs to the interior ventilation system are currently unfunded but could potentially be addressed within the total project budget if Special Fund cost recovery is ultimately secured. Subsequent updates on final cost estimate will be provided in future Quarterly status reports. Note: Although GSD has reported a lower Phase I and II TI estimate of $1.7 million in its December update (Attachment B), the total cost has not yet been finalized. At this time, we are reflecting the previous TI estimate of $1.8 million as a placeholder while GSD is working to determine the associated costs which are not currently reflected as part of the current cost projections. Interim funding capacity is being reserved as a placeholder to address Phase III occupancy costs that will be recommended through future Construction Projects Reports once GSD estimates are available (refer to Item No. A2 above).
A4	Transportation	1201 Mateo Street	$ 1,000,000	$ -	$ -	$ (1,465,048)	The total unfunded tenant improvement cost estimate is $1,465,048. A partial offset of $1 million was transferred to GSD via CPRs (C.F. Nos. 19-0926-S3; 19-0926-S4; 20-1021) and encumbered and carried over into the current year leasing account for use towards the unfunded tenant improvements. At this time, the projected costs for tenant improvements, communication services, moving costs, and furniture is $1.47 million, which does not include security costs. Subsequent updates on final cost estimate including security costs will be provided in future Quarterly status reports. Note: Although GSD has reported an updated estimate of $1,465,230 in its December update (Attachment B), the total cost has not yet been finalized. At this time, we are reflecting the previous TI estimate of $1,465,048 as a placeholder while GSD is working to obtain the final estimate.
A5	Transportation	888 S. Vermont Avenue	$ -	$ 675,672	$ -	$ (967,868)	Rental payments are fully funded in the leasing account, with a monthly savings of $112,612 incurred until the lease is executed. (the chart reflects five months of savings and an additional month of rent abatement following lease execution). As part of the lease terms, there is a $1.9 million tenant improvement credit. GSD has advised that the estimate for tenant improvements has not yet been finalized. The current projected deficit reflects unfunded moving expenses and the security deposit. In the event that the final estimate exceeds the credit allowance, staff will review options to prioritize within the available funding or will provide recommendations in a future quarterly report to apply contingency funding available within the leasing account (refer to Item No. A18 below) or any other available offsets, as needed to avoid incurring a projected year-end deficit for the 2020-21 citywide leasing account. Subsequent updates on final cost estimate including communications, moving costs, and furniture will be provided in future Quarterly status reports.

2nd Q Report No.	Department Occupant(s)	Lease Property	Interim Funding (Carryover & Anticipated Transfers)	Projected Surpluses	2020-21 Budget Balancing	Projected Shortfalls & Reserves	MFC Report Comment
A6	Finance & Police	Garland Building 1200 W. 7th Street	$ -	$ 1,600,000	**$ (1,300,000)**	$ -	There is the Garland rental credit of up to $1.6 million for tenant improvement allowance converted to rent credits, effective September 2020 as per the terms of the lease. Of these, over 80 percent, equivalent to $1.3 million was initially held in reserve in the last quarterly report to address anticipated rental increases for POLA leases but these are not expected to conclude this fiscal year (see Item No. A7 below). As such, the $1.3 million is included as part of the three percent Department reduction exercise in the 2020-21 Second Financial Status Report (FSR: C.F. 20-0600-S84). This surplus may still be impacted by subsequent annual reconciliation of CAM and other associated expenses. Subsequent updates on parking rate escalation will be provided in future Quarterly status reports. If GSD is unable to resolve this issue with the lessor, GSD will bring this back to MFC. Note: GSD's December Leasing Account Update (Attachment B) does not reflect the $1.3 million used to offset the three percent reduction as part of the 2nd FSR budget balancing as it was only proposed at the time and will be reflected in the next report.
A7	Fire	Three POLA leases: Ferry Street (FS #40); Yacht Street (FS #49); Sampson Way (FS #112)	$ -	**$ -**	**$ -**	$ -	New leasing rates for these three leases are pending renegotiation as part of a Master Agreement between the Harbor Department (POLA) and the City of Los Angeles. New appraisals for the properties were completed by GSD in September 2020 and in active negotiation with all relevant departments. In the last quarterly report, a significant portion of the Garland rental credit ($1.3 million) was initially retained to address anticipated rental increases for three POLA leases that have remained on holdover since 2016, which may also include retroactive rental adjustments. However, these leases are not expected to conclude this fiscal year. At this time, GSD is working with POLA to set a rate that would be effective in July 2021. The $1.3 million reserved for these leases is used to offset the GSD's Three percent reduction in the Second FSR (C.F. 20-0600-S84) for budget balancing (See Item No. A6). GSD reports that negotiations involve resolving the maintenance issues that were never included in the original agreements. This requires a site visit at each facility with POLA and GSD maintenance teams which is not feasible during the current stay-at-home order. An update on the anticipated timeline for negotiation and execution of the Master Lease Agreement will be provided in subsequent Quarterly status reports. Note: GSD's December Leasing Account Update (Attachment B) does not reflect the $1.3 million used to offset the three percent reduction as part of the 2nd FSR budget balancing as it was only proposed at the time and will be reflected in the next report. Instead it reflects the $1.3 million held in reserve (as 4yr instead of 5 yrs) for the POLA leases.
A8	General Services	14401 Friar Street	$ -	$ 80,000	$ -	$ -	Savings attributable to 5 month closure of the parking facility for City employees ($16,000 per month from July through November 2020). Subsequent updates on parking savings will be provided in future Quarterly status reports.
A9	Transportation	100 S. Main Street	$ -	$ 75,555	$ -	$ -	Savings incurred as rental savings from a lease amendment adding DOT's Automated Traffic Surveillance and Control (ATSAC) due to delays in the TI project. TIs are anticipated to be completed by the end of March 2020.
A10	Information and Technology	1365 Vista (Verdugo Peak)	$ -	$ 60,000	$ (59,000)	$ -	Savings attributable to pending lease execution as of December 2020. Of these, $59,000 in special funds for this leasing item is used to offset the GSD's Three percent reduction in the Second FSR (C.F. 20-0600-S84) for budget balancing. An update on the anticipated timeline for negotiation and execution of the lease will be provided in subsequent Quarterly status reports. Note: GSD's December Leasing Account Update (Attachment B) does not reflect the special fund surplus used to offset the three percent reduction as part of the 2nd FSR budget balancing as it was only proposed at the time and will be reflected in the next report.
A11	Transportation	1575 Westwood Boulevard	$ -	$ -	$ -	$ (46,902)	Deficit reflects additional costs associated with the new lease (retroactive rental increase $8,226 from April to June 2020; new rental rate increase $9,876; additional parking $7,200; utility and custodial $21,600). The new lease terms were approved by MFC in August and subsequently approved by Council in September 2020 (C.F. 14-0718).
A12	Police	620 Commercial Street	$ -	$ -	$ -	$ (4,425)	Deficit for this LAPD Evidence Warehouse site reflects additional property taxes assessed in GSD's December MFC report. This item was waived by MFC and approved by Council in January 2021 (C.F. 13-0945). GSD reports that the Property Taxes were assessed higher than anticipated, resulting in a projected deficit. Note: The deficit is not called out separately in GSD's December Leasing Account Update (Attachment B). GSD indicates that the deficit is included in the Various Surplus calculation (Item No. A16). As this deficit is called out separately, A16 includes additional $4,425 to the $26,151 net savings identified in GSD's attachment.
A13	Council District Eight (CD 8)	(New CD 8 Field Office) 5462 Crenshaw Boulevard (Formerly 5401 Crenshaw)	$ -	$ 135,950	$ -	$ -	At its meeting held on August 27, 2020, the MFC approved execution of a new Field Office lease which would replace a former Crenshaw Office that was vacated following redistricting. The new lease will utilize funding that was continued for another Crenshaw lease location that was cancelled in 2019-20. The landlord will provide a tenant improvement allowance of up to approximately $60 PSF or up to $324,000. There is an anticipated surplus as shown in the chart, after factoring for ongoing costs including rental and janitorial ($143,600) and other associated costs ($261,550). The MFC report for the new lease was approved by Council in October (C.F. 20-1122). The potential savings identified at this time would be used to offset other unanticipated costs including utility and will be updated in subsequent Quarterly status reports along with other potential monthly rental savings that may be incurred depending on timing of lease execution and completion of tenant improvements.

2nd Q Report No.	Department Occupant(s)	Lease Property	Interim Funding (Carryover & Anticipated Transfers)	Projected Surpluses	2020-21 Budget Balancing	Projected Shortfalls & Reserves	MFC Report Comment
A14	Transportation	5990 Sepulveda Boulevard	$ -	$ -	$ -	$ (130,000)	Deficit reflects the estimated tenant improvement costs of $130,000 for furniture, communications, and moving, which will be updated in subsequent Quarterly status reports. Note: The deficit is not called out separately in GSD's December Leasing Account Update (Attachment B) because GSD addressed the deficit using the 2019-20 carryover amount.
A15	Finance	(to be determined)	$ -	$ -	$ -	$ -	The Office of Finance has asked for additional time to reassess this need and potential timing for a replacement lease, if needed. An update will be provided through a future quarterly report. However, we do not anticipate a current-year impact to the leasing account for this item. Note: This item is not included in GSD's December Leasing Account Update (Attachment B) as this project has been on hold for some time awaiting direction.
A16	Various Leases	(multiple)	$ -	$ 30,576	$ -	$ -	Net savings reported by GSD for multiple leases due to normal fluctuations in utilities, HVAC, parking, and Common Area Maintenance (CAM) costs. Note: An additional $4,425 in surplus is added to this line item as GSD indicates the $4,425 deficit from 620 Commercial Street (Item No. A12) is included in the Various Lease Surplus total of $26,151, which is reported in GSD's December Leasing Account Update (Attachment B).
A17	City Attorney	Various Couthouse Leases				$ (259,359)	10 Courthouse leases are being negotiated and a report is expected to go to MFC in February. The leases will include increased rental rates and custodial costs retroactive to July 2020. These leases are funded a combined total of $666,008 this FY. The proposed new expense is $925,367 resulting in a shortfall of $259,359. Note: This item is a new item that was not included in GSD's December Leasing Account Update (Attachment B) as negotiations are still underway, however, a tentative agreement has been reached after the December report was finalized.
A18	2020-21 Leasing Account Contingency		$ -	$ -	$ (591,426)	$ (295,041)	In the First Quarterly report, we reflected a contingency reserve balance of $673,284. Of these, $591,426 is used to offset the GSD's Three percent reduction exercise included in the Second Financial Status Report (C.F. 20-0600-S84). The new contingency reserve amount of $295,041 (approximately 1.5 percent of budgeted leasing costs) reflects projected surpluses but there are also potential deficits that are expected on some leasing items (such as Item Nos. A12 - LAPD Warehouse and A17 - Various Courthouse leases). Adjustments and proposed uses for this contingency reserve will be addressed through future status update reports. Once all current-year leasing account liabilities have been addressed, any remaining contingency within the 2020-21 leasing account would be reverted to the General Fund at year-end, or alternatively used to address other operational shortfalls as part of a future Financial Status Report. Note: This item is not included in GSD's December Leasing Account Update (Attachment B) as it is not a regular component of GSD's report.
		Subtotals:	**$ 3,580,591**	**$ 3,349,311**	**$ (1,950,426)**	**$ (4,979,476)**	
		Net Total:	**$ -**				

2ND QUARTER OPTIMIZATION
LEASING ACCOUNT UPDATE
FISCAL YEAR 2020-21

Attachment B

Leasing Account Summary		
Approved FY 21 6030 Budget		$19,516,436
FY 20 Carryover	Citywide Leasing account closed out the year with a $222,060 net total, which has been carried over into the current year leasing account.	$222,060
Adjusted Budget		**$19,738,496**
Projected Lease Expense		**$20,693,635**
Total Projected Surplus/Deficit (1)		**($955,139)**
GF Surplus/(Deficit)		**($955,139)**
SF Surplus/Deficit		**--**
SF Held for Reversion		**$0**

Detail

LEASE ADDRESS	COMMENT	6030 BUDGET	REVISED EXPENSE	SURPLUS/ (DEFICIT)
1200 W 7th	Savings are primarily due to the conversion of a $1.6 million Tenant Improvement Allowance (TIA) conversion to rent abatement. As provided in the lease, any unused TIA automatically will be applied toward base rent beginning September 2020. The TIA will cover base rent through mid-May 2021.	$3,448,034	$1,848,034	$1,600,000
5462 Crenshaw	At its meeting held on August 27, 2020, the Municipal Facilities Committee approved execution of a new Field Office lease to replace a former Crenshaw Office. The new lease will utilize the $541,100 that was continued for another Crenshaw lease location that was cancelled in 2019-20. Cost for rent, utilities and tenant improvements are estimated to be $405,150 resulting in anticipated savings of $135,950.	$541,100	$405,150	$135,950
14401 Friar St Lots 601 & 620	Savings at Lots 601 and 620 due to 5 month closure of the parking facility for City employees ($16,000 per month from July through November 2020).	$192,000	$112,000	$80,000
100 Main	Rent savings from a lease amendment adding DOT's ATSAC unit due to delays in the TI project. TI's are anticipated to be completed by the end of March 2020.	$3,001,211	$2,925,656	$75,555
Various	Net sum of savings/increases from several leases due to normal fluctuations in utilities, HVAC, parking, and Common Area Maintenance (CAM) costs.	$3,942,243	$3,916,092	$26,151
1575 Westwood	Deficit reflects additional costs associated with the new lease (retroactive rental increase $18,000 from April to June 2020; additional parking $7,200; utility and custodial -$22,000). The new lease terms were approved by MFC on August 28, 2020, with Council action currently pending (C.F. 14-0718).	$80,443	$127,345	($46,902)
POLA Fire Stations 40, 49, 112	New leasing rates for these three leases are pending renegotiation as part of a Master Agreement between the Harbor Department (POLA) and the City of Los Angeles. These leases are currently on holdover. The deficit reflects anticipated retroactive rental adjustments (three percent rental escalations over four years is approximately $1.3 million). The CAO has proposed using rental credit at 1200 W 7th as reported above to offset this cost.	$0	$1,300,000	($1,300,000)
1111 Mateo	The leasing account is funded $1,042,532 for the full year of payments. However, rent is not due to begin until January 2021 saving $518,672. Additionally, there was a negotiated TI credit equivalent to $172,886 resulting in a total current year savings of $691,559. At this time, the current estimated cost of TI's is $1.69 million including tenant improvements, communication services, moving costs, furniture and security deposit.	$1,042,532	$2,033,059	($990,527)
1201 Mateo	The total unfunded tenant improvement cost estimate is $1,465,230 for tenant improvements, communication services, moving costs, and furniture. A partial offset of $1 million was transferred to GSD resulting in a net shortfall of $465,230.	$755,647	$1,220,877	($465,230)
888 Vermont	The leasing account was funded $1,484,217 for this new lease. However, the lease has not yet been executed resulting in rental savings of $563,060 from July through November 2020. There will be an additional savings of $112,612 in rent abatement after the lease is executed. The projected deficit reflects net funding balance after accounting for moving expenses and communication expenses.	$1,484,217	$1,776,413	($292,196)
			Total Net Changes	**($1,177,199)**
			Projected Lease Expense	**$20,693,635**

(1) This does not reflect any anticipated transfers to be recommended by the CAO or the 2020-21 3% reduction exercise.

Department of General Services
Real Estate Services Division