

FORM GEN. 160

**CITY OF LOS ANGELES**  
INTER-DEPARTMENTAL CORRESPONDENCE

0220-05939-0000

Date: February 24, 2022

To: The Municipal Facilities Committee

From: CAO Staff *Kay-Ha*

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

**SUMMARY**

The report provides a general overview of the 2021-22 Citywide Leasing program, relative to the projected year-end surplus, including proposed uses of these funds to offset unfunded, current-year liabilities and revert unused capital funds to their originating accounts. Approval of a related consideration is recommended to authorize the relocation of two Los Angeles Police Department (LAPD) units from the current location at the Garland Building, to be permanently housed within the Police Administration Building (PAB).

**RECOMMENDATION**

That the Municipal Facilities Committee approve the following recommendations, including any necessary actions to obtain Council authority to effectuate the associated accounting adjustments, as follows:

1. Approve the proposed use of \$3.46 million of the projected year-end surplus for the Leasing Program to address unfunded leasing costs that include: a) Reserve for Garland tenant improvements (818,000); b) Reserve for Department of Transportation Mateo tenant improvement cost Increase (\$1.06 million); and, c) Reserve for tenant improvement associated with unassigned space remaining at 1111 Mateo lease site (\$778,000);
2. Authorize the reversion of \$807,837 in interim appropriations from various Capital and Technology Improvement Expenditure Program (CTIEP) accounts, in order for these funds to be used to address critical capital needs for Municipal Facilities which are consistent with the original purpose authorized for these funds;
3. Authorize the proposed relocation of the Los Angeles Police Department units currently assigned to the Garland Building to be consolidated within the Police Administration Building, in order to vacate space that would be considered for reassignment to other building occupants as part of a forthcoming report to the Municipal Facilities Committee.

## DISCUSSION

### **2021-22 Citywide Leasing Program**

The Department of General Services (GSD) received funding of \$21.22 million through the 2021-22 Adopted Budget, which combined with interim funding of \$3.34 million results in a total adjusted budget of \$24.56 million. Based on current known factors as identified by GSD, there is a year-end net surplus of \$1.21 million projected for the 2021-22 Citywide Leasing Program, as summarized in the chart below, with additional details provided in the discussion that follows and in the accompanying attachments:

<b>2021-22 Adjusted Budget *</b>	<b>Projected Surpluses (A)</b>	<b>Projected Shortfalls (B)</b>	<b>Proposed Use of Surplus (C)</b>	<b>Projected Remaining Net Surplus</b>
\$24,563,216	\$2,362,067	\$(1,030,462)	\$(3,461,618)	\$1,212,022
* Interim funding of \$3.34 million includes: 1) Reappropriation from the 2020-21 Leasing account (\$2 million; Item A1); and, 2) Transfer through the 2021-22 Second Construction Projects (\$1.34 million; Item A4).				

A cost reconciliation for the final 2021-22 closeout balance will be provided in a subsequent Quarterly Leasing Report, following the completion of GSD's year-end reconciliation activities. Any potential surplus that may be identified from current year funding would be recommended for repurposing to address projected liabilities in the upcoming year.

#### **A. Projected Leasing Surpluses**

An aggregate surplus of \$2.36 million is projected within the 2021-22 Citywide Leasing Program, as summarized below:

1. Savings from closure of parking facility (\$42,384 for Item A2).
2. Savings from lease amendment associated with delays in tenant improvement (TI) completion (\$117,435 for Item A3).
3. Savings projected from pending POLA lease execution (\$1.36 million for Items A6-A8) - This liability was first reported to the Municipal Facilities Committee through the Quarterly Reports presented at the meeting held on September 24, 2020. The projected shortfall was based on GSD's assumptions for rental rate increases under negotiation with the Port of Los Angeles (POLA) for Fire Station Nos. 40, 49, and 112. At this time, the lease negotiation is still underway, subject to POLA Board review and approval. GSD reports that retroactive payments are not anticipated for the six years these leases have been in holdover status.

4. Miscellaneous net savings from several leases on variable leasing costs such as common area maintenance, utilities, and other costs that are not separately called out (\$89,322 for Items A4 & A5 and \$194,126 for Item A10).
5. LAPD parking lease that was not realized (\$558,000 for Item A13, refer to Section B. 4 below).

## **B. Projected Shortfalls**

An aggregate shortfall of \$1.03 million is projected within the 2021-22 Citywide Leasing Program, as summarized below:

1. Unfunded costs associated with tenant improvements (\$70,000 for Item A9 and \$116,515 for Item A15);
2. Unfunded costs for retroactive rental costs for courthouse leases (\$186,647 for Item A11);
3. Unfunded lease negotiation authorized by Council interim (\$84,000 for Item A12);
4. LAPD parking lease that was unfunded (\$558,000 for Item A13, refer to Section A. 5 above); and,
5. Unfunded costs for Garland space planning (\$14,500 for Item A16).

## **C. Proposed Use of Surplus Balance and Reserves**

The projected year-end surplus for the 2021-22 Leasing Program based on current factors totals \$4.67 million, due largely to lease cancellations and interim transfers of funding offsets. Of this amount, \$3.46 million is recommended to address other unfunded leasing liabilities or to revert transfers of capital funds to their originating accounts to address current funding priorities for the respective capital programs.

The remaining balance of \$1.21 for the adjusted year-end surplus would be retained until GSD completes year-end reconciliation activities. Any unused portion would then be available for reversion, or could potentially be used to offset any unfunded liabilities for new leases approved by MFC and Council prior to the close of the current fiscal year.

An overview of the proposed dedicated uses of the projected year-end surplus is provided below, with additional details provided in the report attachments:

1. Funding reversion of \$807,837 to the original funding transferred from CTIEP accounts (\$557,837 for B2 and \$250,000 for Item B3).
2. Garland Building Tenant Improvements (\$818,000 Item B4, ROM Estimate) - Funding reserve for unfunded tenant improvements needed at Garland Building to accommodate the two new departments (CIFD and YDD) and Housing's AChP. The rough order of magnitude of \$818,000 reflects a rate of cost of \$87/sf based on tenant improvement

costs for Figueroa Plaza and tenant improvements for an assumed five percent redevelopment of approximately 7,830 of the total 156,594 usable square footage (usf) under review for Garland restacking, with approximately 20 percent contingency (\$136,790).

A full discussion of relevant considerations for Garland restacking options and associated costs will be addressed in a subsequent quarterly space optimization report once all additional due diligence, including cost estimates and timeline, is complete (Item B4).

3. Funding reserve for additional tenant improvements for Phase II of Mateo site (\$1.06 million for Items B5 and B6).
4. Funding reserve for additional improvements to occupy unassigned space remaining at 1111 Mateo lease site (\$778,000 for Item B7).

#### **D. Relocation of LAPD Functions within PAB**

Pursuant to MFC's conceptual approval at its meeting held on December 16, 2021, to relocate LAPD functions from the Garland Building to PAB, GSD has completed its due diligence to review the proposed tenant improvements which have also since been approved by LAPD management. GSD has determined that the proposed tenant improvements to develop three office spaces adhere to current City workplace space standards. Based on a rough order of magnitude, tenant improvements at PAB are estimated at a total cost of \$335,000 that includes a contingency factor, moving expenses and associated data and communication costs.

Approval to proceed with this relocation is needed to confirm the total space available at the Garland Building for restacking. This will enable GSD to return to the Municipal Facilities Committee with options for accommodating the space needed for CIFD, YDD and ACHP at Garland Building.

There is sufficient capacity within the current year Space Optimization Program budget to address the projected cost of tenant improvements associated with the LAPD relocation, and these funds will be provided through the next Construction Projects Report, subject to MFC approval of the report Recommendation No. 3.

#### **FISCAL IMPACT**

There is no additional General Fund impact projected in the current year for the Citywide Leasing Program.

*BCH:KH:05220088*

Attachments:

- A. 2021-22 Detail of Leasing Account Projection
- B. Anticipated Use of Surplus Capacity within Citywide Leasing Program

2021-22 Detail of Leasing Account Projection

Item No.	Department Occupant(s)*	Lease Property	Interim Funding (Carryover and Transfers)	Projected Surpluses	Projected Shortfalls	Comment
A1	N/A		\$ 2,000,000			Reappropriation from FY 2020-21 Leasing 100/40/006030.
A2	General Services Department (GSD)	14401 Friar Street		\$ 42,384		Savings attributable to closure of the parking facility for City employees
A3	Department of Transportation (DOT)	100 Main Street		\$ 117,435		Savings incurred as rental savings from DOT's Automated Traffic Surveillance and Control (ATSAC) due to delays in the tenant improvements.
A4	Finance	1200 7th Street		\$ 89,322		Savings from Common Area Maintenance (CAM) and Property Taxes (PTAX).
A5	Police	1200 7th Street				
A6	Fire	330 Ferry Street - Firestation #40 (POLA)		\$ 1,360,000		Net savings attributable to delays in lease negotiation with the Port of Los Angeles (POLA) for Fire Station Nos. 40, 49, 112.
A7	Fire	400 Yacht Street - Firestation #49 (POLA)				
A8	Fire	550 Sampson Way - Firestation #112 (POLA)				
A9	Council District 8	5462 Crenshaw Boulevard			\$ (70,000)	Deficit reflects unfunded glasswork.
A10	Various Leases	(Multiple)		\$ 194,126		Net savings reported by GSD for multiple leases due to normal fluctuations in utilities, HVAC, Common Area Maintenance (CAM) costs.
A11	Police & City Attorney	Courthouse Leases			\$ (186,647)	Deficit reflects payments for retroactive rental costs.
A12	Council District 10	3699 Crenshaw Boulevard			\$ (84,000)	Deficit reflects unfunded lease negotiation for the Council District 10 field office.
A13	Police	1251 N. Spring Street		\$ 558,800	\$ (558,800)	Net zero change attributed to unfunded LAPD parking lease negotiation initially approved by Council, subsequently withdrawn by the landlord.
A14	N/A	(Multiple)	\$ 1,342,035			Interim funding of \$1.34 million from reappropriation of prior year unspent leasing encumbrances available as savings (\$534,198) and repurposing of other CTIEP project accounts (\$557,837 and \$250,000) through the 2021-22 Second CPR, Item R (C.F. 21-1028-S1) to address a projected shortfall known at the time for the Citywide Leasing Program.
A15	Council District 1	1901 6th Street			\$ (116,515)	Deficit reflects the unfunded tenant improvement costs for the lease.
A16	Various	N/A - Garland Restacking Space Planning			\$ (14,500)	Deficit reflects unfunded space planning for Garland restacking.
<b>Subtotal:</b>			<b>\$ 3,342,035</b>	<b>\$ 2,362,067</b>	<b>\$ (1,030,462)</b>	
<b>Projected Surplus:</b>					<b>\$ 4,673,640</b>	Projected surplus based information known at this time.

**Anticipated Use of Surplus Capacity within Citywide Leasing Program**

<b>Item No.</b>	<b>Item Description</b>	<b>Projected Amount</b>	<b>Comments</b>
B1	Projected Surplus	\$ 4,673,640	Anticipated balance projected for the current year Citywide Leasing Program based on known factors at this time.
B2	CTIEP Funding reversion	\$ (557,837)	Original CTIEP funding transferred from the Contaminated Soil Removal/Mitigation program, along with a contribution of residual funding for completed projects, to offset citywide leasing shortfalls projected at the onset of the fiscal year.
B3	CTIEP Funding reversion	\$ (250,000)	Original CTIEP funding transferred from the LAFD annual capital repair program to offset unfunded costs anticipated for three Fire Station leases with the Harbor Department.
B4	Reserve for Garland Tenant Improvements	\$ (818,000)	<p>Funding reserve to address projected cost of tenant improvements at Garland in order to accommodate the two new City Departments (Community Investment for Families and Youth Development) and Housing Department's Accessible Housing Program, along with other related improvements needed to implement restacking at this facility.</p> <p>The total usable square footage (usf) that is being reviewed as part of the Garland restacking is 156,594 for spaces occupied by four departments (83,832 assigned to Housing and CIFD; 37,463 assigned to Economic and Workforce Development; and, 35,299 assigned to Los Angeles Police Department, subject to consolidation within PAB).</p> <p>The rough order of magnitude of \$818,000 reflects a rate of cost of \$87/sf based on tenant improvement costs for Figueroa Plaza and tenant improvements for an assumed 5 percent redevelopment of approximately 7,830 sf of the total usf (156,594 usf) under review for Garland restacking, with approximately 20 percent contingency (\$136,790).</p> <p>A refined cost estimate will be reported through a future status update report, based on MFC approval of a final restacking plan to be addressed through a forthcoming report.</p>
B5	Reserve - DOT TI increase (1111 Mateo)	\$ (523,595)	<p>Funding reserve for unfunded tenant improvement cost for Phase II Mateo site (canopy installations).</p> <p>Actual authority to utilize these funds would be subject to MFC approval of the final revised scope and budget estimate, to be addressed through a future report.</p>
B6	Reserve - DOT TI increase (1201 Mateo)	\$ (534,186)	<p>Funding reserve for unfunded tenant improvement cost for Phase II Mateo site (ADA improvements).</p> <p>Actual authority to utilize these funds would be subject to MFC approval of the final revised scope and budget estimate, to be addressed through a future report.</p>
B7	Reserve - Additional Improvements to Occupy Unassigned Mateo Lease Space	\$ (778,000)	<p>Funding reserve for unfunded tenant improvement associated with unassigned space remaining at the 1111 Mateo lease site (Phase III).</p> <p>The use of space under consideration would be for file storage since there is no parking capacity remaining at the site to accommodate other uses.</p> <p>The current rough order of magnitude is based on an allowance of \$578,000 for installation of dividing wall, along with an additional \$200,000 to address code requirements and other needed improvements to occupy the unassigned lease spaces</p>
<b>Total Adjustments</b>		<b>\$ (3,461,618)</b>	
<b>Remaining Net Surplus</b>		<b>\$ 1,212,022</b>	<p>The remaining surplus of \$1.21 million reflects approximately six percent for the overall, current-year Leasing program. These monies would need to be retained until GSD completes final year-end reconciliation during the First Quarter of 2022-23.</p> <p>Potential uses include offsets for: 1) Unanticipated expenses in the current fiscal year, including overages for ongoing variable costs such as assignable utility and CAM expenses and assignable share of property taxes; and, 2) Unfunded costs for new leases and associated tenant improvements, approved prior to the close of the current fiscal year, subject to MFC and Council approval.</p>