Agenda Item No. 3

FORM GEN. 160

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

0220-05849-0000

Date: June 24, 2021

To: The Municipal Facilities Committee

From: CAO Staff

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

SUMMARY

The report provides a general overview of the Citywide Leasing program, relative to the:

1. Projected year-end balance for 2020-21;
2. Unfunded leasing liabilities that are anticipated in the upcoming year along with potential sources of supplemental funding; and,
3. An update on the establishment the Citywide Leasing Program as a non-Departmental budget, separate from the General Services Department's (GSD) operational budget.

As presented in the Discussion Section of this report, a net-zero, year-end balance is projected for the 2020-21 leasing portfolio (Section I). However, for the upcoming year, there is a potential shortfall of up to $1.47 million, based on total funding of $21.22 million that is authorized through the Adopted Budget (Section II.A.).

As part of this report, a total of $1.34 million in supplemental funding sources has been identified as potential offsets, which would further reduce the projected leasing liabilities to $124,628 (Section II.B.). The restructuring of the Citywide leasing account will become effective on July 1, 2021, without any impact to current functions performed by GSD in the administration of the Citywide Leasing portfolio (Section II.C.). Further, the structural adjustment is also intended to avoid any potential adverse impact of unfunded liabilities on GSD's operating budget.

RECOMMENDATION

That the Municipal Facilities Committee recommend the proposed use of supplemental funding to offset projected year-end shortfalls within the 2021-22 Citywide Leasing Program, including any necessary actions to obtain Council authority to effectuate the associated accounting adjustments to transfer funding to the new Non-Departmental Citywide Leasing Fund, as follows:

1. Unspent Citywide Leasing Encumbrances ($534,198) – use of prior-year encumbrances for funding budgeted for the Citywide Leasing program, which is currently recommended for reappropriation within the General Services Department (GSD) Fund 100, operational budget;

2. LAPD Phase III Tenant Improvement at 1111 Mateo ($557,837) – use of Capital and Technology Improvement Expenditure Program (CTIEP) funding set aside to address tenant improvements at the 1111 Mateo lease site to accommodate fleet functions operated by the Los Angeles Police Department (LAPD), to be utilized towards first-year leasing expenses to address broader fleet needs throughout the Civic Center;

3. LAFD Capital Program ($250,000) – reserve up to $250,000 in General Fund monies budgeted within the Capital and Technology Improvement Expenditure Program (CTIEP) for the Los Angeles Fire Department (LAFD) annual capital repair program, as a partial offset of the $1.3 million in anticipated rental rate increases for three fire station facilities leased from the Port of Los Angeles (POLA), and direct staff to provide regular updates on the status of lease negotiations, projected unfunded General Fund liability and any associated impacts to LAFD capital repair needs, through future Quarterly Leasing Reports for the upcoming year, with the funding to be retained in a separate dedicated CTIEP account for this purpose; and,

4. New City Departments – utilize potential offsets from operational funding to avoid additional General Fund impact for any associated leasing expenses, to the extent that either of the new City Departments are assigned to lease spaces and have funding capacity available within their respective operating budgets from delayed hiring or other potential sources of operational savings.

FISCAL IMPACT

There is no additional General Fund impact projected in the current year for the Citywide Leasing Program. However, due to factors presented in the report Discussion Section an unfunded leasing liability of up to $1.47 million is projected for the upcoming year. To lessen the potential General Fund impact, up to $1.34 million in supplemental funding sources, if authorized for use, would reduce the projected 2021-22 Citywide Leasing shortfall to $124,628.

DISCUSSION

I. 2020-21 Citywide Leasing Program

Based on current known factors as identified by the General Services Department (GSD), there is a year-end, net zero balance projected for the 2020-21 Citywide Leasing Program. A detailed cost reconciliation for the final 2020-21 closeout balance will be provided in the next 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.

II. 2021-22 Citywide Leasing Program

Funding authorized for the 2021-22 Citywide Leasing program totals $21.22 million, as summarized in the chart below:

Source	Amount	Comment
2020-21 Base Budget	$19,516,436	Funding provided through the 2020-21 Adopted Budget.
2021-22 Mayor's Increase	279,745	Reflects incremental funding to address cost escalation for executed leases (excludes POLA leases) and recent adjustment to multiple courthouse leases.
Subtotal	**$19,796,181**	
2021-22 Council Increase	1,425,000	Additional funding for upcoming year to address projected leasing liabilities.
Total:	**$21,221,181**	Total Adopted 2021-22 Budget

A. <u>Potential Leasing Liabilities</u>

Based on the funding provided through the Mayor's Proposed Budget, potential unfunded leasing liabilities were projected at $2,891,663. This projected liability was reduced to $1,466,663 as the result of $1,425,000 in additional funding provided through the Council Budget proceedings, resulting in a final adopted budget level $21.22 million. Contributing factors to the projected leasing liabilities are outlined below, with potential sources of supplemental funding sources presented in Section II.B.:

a. **<u>Obligatory Increases for POLA Leases ($1.36 million)</u>** – This liability was previously reported to the Municipal Facilities Committee through the Quarterly Reports presented at the meeting held on September 24, 2021. The projected shortfall is 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, based on updated appraisals and adjustments that apply for service delivery levels. At this time, retroactive payments are not anticipated for the five years these leases have been in holdover status, and if required, would further increase the projected leasing liability.

b. **<u>Council District (CD) 10 Field Offices ($572,863)</u>** – GSD has provided updated projections for anticipated leasing and tenant improvement costs to establish two new Field Offices in the Crenshaw District and Koreatown. A preliminary shortfall of $920,000 was previously reported to the Municipal Facilities Committee as part of the Quarterly Reports presented at its meeting held on January 28, 2021.

1) <u>Crenshaw Lease ($284,380)</u> – At its meeting held on May 27, 2021, MFC approved a sublease agreement with the Los Angele County Metropolitan Transportation Authority (MTA) to establish a new CD 10 Field Office located at 3695-3699 Crenshaw Boulevard (C.F. 21-0582). This item was subsequently approved by the Information, Technology, and General Services Committee on June 3, 2021, and by Council on June 15, 2021.

   At this time, the projected cost impact to the 2021-22 Citywide Leasing program totals $284,380, which includes the projected rental costs ($203,313), maintenance and utilities ($41,172), furniture ($20,000), and tenant improvements ($19,895 based on initial 1,420 s.f.). This projected rental cost assumes expansion of the lease space following the initial six months (January to June 2022), but does not include any allowance for tenant improvements for the expanded space as these costs have not yet been evaluated. However, if this expansion does not occur, the annual rental, maintenance, and utility costs would be reduced by $188,145 for a total first-year cost of $96,235 for all associated expenses estimated at this time.

2) <u>Koreatown Lease ($288,483)</u> – The amount included is a placeholder based on the recent costs and approval of this lease would be subject to MFC and Council approval.

c. **<u>LAPD Parking Lease ($558,800)</u>** – An accompanying report by GSD on behalf of the Los Angeles Police Department (LAPD) will provide recommendations to enter into a new short term lease agreement to provide replacement parking for LAPD for various displacement that have occurred within the Civic Center area that includes:

1) Reduction of parking capacity due to demolition of the former Tinker Toy Lot parking structure required due to structural deficiencies;

2) Temporary loss of parking spaces due to construction impacting the Ramirez Street lease; and,

3) Temporary parking accommodation to vacate the Metro Transit Division parking structure in order to implement a solar array / electric vehicle project for a projected six month period (August 2021-February 2022); this same capacity would then be utilized as permanent capacity to vacate the Main Street parking lots currently in

use by LAPD as a temporary arrangement, which are leased to Homeboy Industries, prior to initiation of a Housing project anticipated circa December 2021.

Subject to MFC and Council approval of the proposed leasing terms, a potential offset for the first-year leasing costs can be funded utilizing up to $557,837 in current-year monies set aside within the Capital Improvement Expenditure Program (CIEP). These monies have been set aside to address Phase III tenant improvements for the 1111 Mateo Street leases that would be needed to fully occupy 30,000 square feet of unassigned space. This space was tentatively considered for use by LAPD fleet functions. However, based on subsequent space planning a determination was made that only 50 vehicles could be accommodated within this space and necessary upgrades to the HVAC system required by the vehicle operations would be cost prohibitive. Use of the unoccupied Mateo lease space is currently under evaluation to relocate LAPD storage currently located at the City-owned Piper Technical facility and expand capacity for other fleet functions at the latter.

Given the extent of LAPD parking displacement within the Civic Center, the funding set aside for the Mateo lease improvements would be sufficient to accommodate up to 300 vehicles. However, as leased parking, ongoing commitments would be required by the General Fund (GF) for subsequent years through termination of the lease. After deducting the proposed Year 1 leasing offset, there would be an additional $2.4 million impact to the General Fund for leasing costs for years two to five of the proposed lease.

Planning activities are currently underway to evaluate potential co-location of LAPD fleet operations for the North Marianna acquisition site, with initial funding of $3 million provided in the 2021-22 Proposed Budget for pre-development and design costs.

d. **<u>New City Departments ($400,000, Rough Order of Magnitude)</u>** – There are two new City Departments established through the 2021-22 Budget that require space accommodations in the upcoming year, to accommodate a total of 79 authorized positions:

1) Community Investment for Families Department (CIFD) – 71 positions; and

2) Youth Development Department – 8 positions.

Of these 79 positions authorities, 50 are existing position authorities that will be transferred from the Housing and Community Investment Department (HCID), which are currently assigned space within the Garland Building. Once these positions are transferred, HCID would no longer fund the proportionate share of rental costs associated with these positions, tentatively estimated at an annual cost of $400,000 for the Garland Building. Since there was no funding provided for leasing expenses as part of the operating budgets authorized for the new departments, any associated leasing costs that cannot be provided through savings or repurposing of funds would become a potential citywide leasing deficit and General Fund liability for the upcoming year.

To the extent that the new City Departments can be accommodated at City owned space, there would be no associated cost impact on the Citywide Leasing Program. However, based on preliminary assessment conducted by GSD, there does not appear to be viable options to locate the CIFD within City-owned office space located Downtown (including space in the Figueroa Tower that the Housing and Community Investment Department has requested to vacate). A full discussion of relevant considerations is presented in an accompanying report (refer to the Quarterly Space Optimization Program Report).

B. Other Potential Funding Offsets

In addition to the anticipated funding through the City Budget, up to $1,342,035 in additional offsets are potentially available from the following sources, which would reduce the 2021-22 projected leasing liability currently projected at $1,466,663, to an adjusted liability of $124,628. This adjusted year-end deficit would be further reduced by any offsets provided by the new City Departments, absent any additional unfunded liabilities that are not currently projected.

a. **Carryover of Unspent Citywide Leasing Encumbrances ($534,198)** - This total reflects prior year encumbrances for the Citywide Leasing program that GSD has identified as available for release. These monies are currently recommended for reappropriation within GSD's operating budget, with the option to use towards unfunded leasing liabilities in the upcoming fiscal year. A breakdown of the original purposes authorized for these funds is reflected in the chart below:

FY	Dept	Initial Purpose	Amount	Comments
2017-18	40	1200 7th St. (Garland)	$ 113,628.72	Leasing account encumbrances for release and reappropriation that GSD identified as no longer necessary
2018-19	40	1968 W. Adam Blvd.	$ 45,292.64	
2018-19	40	5401 Crenshaw Blvd.	$ 375,276.81	
		Subtotal:	**$ 534,198.17**	

With the establishment of the Citywide Leasing Program (Refer to Section II.B. below) as a separate non-Departmental Fund, these monies would need to be transferred through a future report following annual reappropriations. The usual practice would be to allow the unspent leasing encumbrances to revert at the close of the fiscal year so that these monies can be used as part of year-end balancing. However, an exception should be considered since $1.9 million in funding from the Citywide Leasing program was transferred a part of the Second Financial Status Report (C.F. 20-0600-S84) to avoid potential furloughs or layoffs for GSD personnel. This balance was largely derived from a rental credit held in reserve to address the anticipated POLA leasing rate increases. The proposed use of the $534,198 in prior encumbrances would only restore 28 percent of the prior leasing reserve / contingency level.

b. **<u>LAPD TI Allowance for Phase III Mateo Lease Occupancy ($557,837)</u>** - This reflects General Fund monies originating from the Capital Improvement Expenditure Program (CIEP), which has been set aside to address Phase III Tenant Improvements (TI) for the 1111 Mateo lease space that was previously proposed for use by LAPD fleet operations (C.F. 20-1021-S3, Item II). If approved, a new funding source would need to be identified to address any required tenant improvements in future to accommodate the relocation of functions to achieve full occupation of the 1111 Mateo Street lease.

c. **<u>2021-22 LAFD Annual Capital Repair Program ($250,000)</u>** – As part of the annual CTIEP budget, the Los Angeles Fire Department (LAFD) receives funding each year to address capital repair needs at facilities operated by the Department, through an allocation of General Fund and Municipal Improvement Corporation of Los Angeles (MICLA) monies. The potential use of the LAFD capital funds would be limited to the $250,000 in General Fund monies budgeted for 2021-22, since MICLA funds cannot be used for operational expenses.

   The proposed use of the capital funds as a leasing offset will not adversely impact the LAFD operational budget due to the availability of one-time funding. LAFD indicated the highest capital funding priority for the Department in the upcoming year as the installation of five extractors, as part of the Council budget proceedings. Additional funding of $250,000 was provided for this purpose as part of the LAFD operational budget. However, a pending transfer of $250,000 for this same purpose was subsequently authorized by Council as part of the 2020-21 Construction Projects Report (C.F. 20-1021-S4; Item YY). Combined, this one-time funding sources provides capacity to install a total of ten extractors in the upcoming year, without the need for additional funding from the LAFD annual capital repair program. A regular update as part of the 2021-22 Quarterly Leasing reports will be provided on the status of lease negotiations, along with any potential adverse impact on LAFD capital needs due to the retention of the $250,000 capital offset recommended to mitigate the projected year-end citywide leasing deficit.

d. **<u>New City Departments: Potential Salary Savings Offset (amount of potential offset to be determined)</u>** – In the event that either of the new Departments are assigned to lease space, there would be associated rental costs that are currently unfunded within the Citywide Leasing program. To the extent that operational funds authorized for the new departments can be used towards these expenses would reduce the additional impact on the General Fund. An accompanying report (refer to the Quarterly Space Optimization Report) presents the relevant considerations for the respective space assignments.

C. <u>Restructuring of Citywide Leasing Program</u>

As part of the Council budget proceedings, the CAO was instructed to effectuate the necessary steps to establish the Citywide Leasing Program separate from GSD's operating budget, as a means to prevent potential adverse impact to the latter, among other considerations.

The CAO and GSD have worked with the Controller's Office to ensure the new non-Department program (as Department No. 63) will be fully operational prior to the start of the upcoming fiscal year. No changes are contemplated in terms of current functionality and roles, except to establish a separate account for tracking of Special Fund monies transferred from the Information Technology Agency's (ITA) Telecommunications Development Account.

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