



The State Bar of California

OPEN SESSION AGENDA ITEM FINANCE COMMITTEE III.A

DATE: March 4, 2020

TO: Members, Finance Committee

FROM: Steve Mazer, Chief Administrative Officer
Mayte Diaz, Director of General Services

SUBJECT: Real Estate Analysis and Strategy Development

EXECUTIVE SUMMARY

This is an informational item for the Finance Committee, describing a number of initiatives currently underway in the Office of General Services to develop an updated real estate strategy for the State Bar's headquarters building at 180 Howard Street in San Francisco. This topic will be discussed with the full Board later this year.

BACKGROUND

180 Howard Street, a 13-story, 207,000 square foot office building in downtown San Francisco, is the State Bar's largest physical asset. The building was constructed in 1978 and purchased by the State Bar in 1996. The State Bar occupies approximately 60 percent of the building, with the remaining 40 percent allocated to third-party tenant leasing. The State Bar also owns a 139,000 square foot office building at 845 South Figueroa Street in downtown Los Angeles, purchased in 2012. The State Bar occupies more than 80 percent of that building, with the remainder occupied by a single retail tenant.

The State Bar has a multi-year capital improvement program in place to ensure its buildings operate in a safe and efficient manner and comply with current building codes. The 2020-2024 capital plan included eight projects totaling approximately \$8.8 million over five years, with \$5.4 million scheduled in Year 1 because many of the projects had been deferred over multiple years. These projects were recommended by the State Auditor and were funded in the 2020 fee bill; that funding, however, was \$8.1 million, spread over ten years, with an annual amount of approximately \$0.81 million. Additionally, the fee bill did not support the rebuilding of general

fund reserves in the manner proposed by the State Bar. This funding structure will not allow the State Bar to implement the capital improvement projects as they are currently planned.

There is currently one remaining vacant tenant floor at 180 Howard Street, which likely requires an investment of approximately \$3.75 million to \$4.25 million for warm shell renovations and tenant improvements in order to be leased. We continue to pursue a leasing deal whereby a tenant would fund the initial investment itself, which would be repaid through a rent credit.

Staff discussed the funding challenges for both capital improvements and tenant floors with the Finance Committee at its meeting on December 20, 2019. Because of the limited funding, staff recommended that the 2020 proposed budget include only \$0.7 million for capital improvements (for Phase 1 of the elevator modernization project), and no funding for tenant improvements, while a more thorough analysis of alternatives and funding options was pursued. The final budget adopted by the Board on January 24, 2020 reflects this recommendation.

In November 2019, following a competitive bidding process, the State Bar ended its contractual relationship with CBRE and entered into a new contract with Cushman & Wakefield for real estate services, including brokerage, property management and construction project management.

DISCUSSION

In light of the funding challenges noted above, staff is working with the State Bar's real estate vendors on a number of analyses related to 180 Howard Street, in order to formulate an updated strategy for maximizing the value of this major asset.

Peer Review of the Capital Improvement Plan: The existing five-year capital improvement plan is undergoing a peer review by a third-party engineering firm, in order to assess, validate or recommend changes to the scope and sequencing of all projects.

Cost Review of the Capital Improvement Plan: Following the engineering peer review, a third-party cost-estimating firm will assess the projects and provide updated cost estimates. Note that, ultimately, the true cost of each project will be determined through a competitive bidding process.

Space Utilization Study: Cushman & Wakefield's workplace strategies group is conducting a space utilization study to analyze how the State Bar currently uses its office space, conference rooms and specialized work spaces; and to quantify future space requirements. This study will provide "restack" options to occupy the building more efficiently and in line with industry standards; to maintain a productive working environment for staff; and to increase revenue generation by vacating one or two office floors, which could then be made available for leasing to tenants. Cost estimates will then be prepared for the restack options.

Occupancy Analysis: Cushman & Wakefield's capital markets group is conducting an occupancy analysis, which will include options and costs to: 1) stay in place as owner and occupier; 2) sell

the building and lease back office space; and 3) sell the building and relocate to leased space in downtown Oakland or another Bay Area location along a BART line.

Other Funding Options: The Office of Finance is evaluating other funding options, including taking an additional loan or issuing bonds to finance capital improvements.

California Department of General Services (DGS): Staff will have discussions with the Department of General Services (the state agency that manages state-owned real estate) about the feasibility of various scenarios, which could include contracting with DGS for property management services, capital improvement planning services, construction project management services, or other options to support the State Bar's funding needs.

Staff will keep the Finance Committee apprised of its progress on these various initiatives, and expects to be ready to discuss these matters with the full Board by September 2020.

FISCAL/PERSONNEL IMPACT

When the initiatives described herein are complete, the cost estimates of various options and recommendations resulting from the initiatives will be provided.

AMENDMENTS TO RULES OF THE STATE BAR

None

AMENDMENTS TO BOARD OF TRUSTEES POLICY MANUAL

None

STRATEGIC PLAN GOALS & OBJECTIVES

Goal: 3. Improve the fiscal and operational management of the State Bar, emphasizing integrity, transparency, accountability, and excellence.

Objective: (k) In conjunction with annual budgets, ensure maintenance and use of the Bar's Los Angeles and San Francisco buildings to maximize benefit to the Bar and the people of California.

RECOMMENDATIONS

This item is for information only. No Committee action is required at this time.

ATTACHMENT(S) LIST

None