

**CITY AND COUNTY OF SAN FRANCISCO**

**BOARD OF SUPERVISORS**

**BUDGET AND LEGISLATIVE ANALYST**

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September 9, 2022

**TO:** Budget and Finance Committee

**FROM:** Budget and Legislative Analyst



**SUBJECT:** September 14, 2022 Budget and Finance Committee Meeting

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<p><b>Item 1</b>  <b>File 22-0199</b>  <i>(Continued from May 11, 2022)</i></p>	<p><b>Department:</b>                  Department of the Environment</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed ordinance would (1) prohibit the City from using small off-road equipment (up to 25 horsepower) starting January 1, 2024, allowing for temporary waivers for City departments under certain conditions, and (2) prohibit the use small off-road equipment (up to 25 horsepower) in the City starting January 1, 2026 and penalize property owners and business owners and managers that violate the prohibition.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• We surveyed City departments to obtain equipment inventories that would be regulated by the proposed ordinance. Our office also consulted administrative survey data to estimate the number of landscapers in San Francisco.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The total estimated upfront cost of replacement technology for REC, MTA, PUC, DPW and AIR is \$10.4 million, and the total annual ongoing cost for these departments is estimated to be \$1.1 million, or \$75,000 more than the current cost of the gas-powered equivalents.</li> <li>• Our estimated \$10.4 million in upfront costs in this report are lower than the \$16.5 million estimated in our prior report because the proposed legislation was amended to change the definition of equipment subject to the ban, which now excludes diesel powered equipment, such as certain ride-on mowers. Such engines, which comprise less than 10 percent of small off-road engines, are regulated by the Federal Clean Air Act, which preempts State and Local regulation.</li> <li>• Electrical charging infrastructure would need to be upgraded in order to provide sufficient charging capacity for the replacement equipment. REC staff estimate that the cost of bringing new primary electrical service to a site could be as high as \$750,000 to \$1 million per site, if trenching, conduit, and new electric circuits need to be installed.</li> <li>• The conversion costs for the landscaping industry are between \$2.4 million and \$10.4 million, offset by a decrease in industry expenses of \$0.4 to \$1.9 million annually. The survey data may undercount the number of landscapers so the actual industry cost may be higher.</li> </ul> <p style="text-align: center;"><b>Policy Consideration</b></p> <ul style="list-style-type: none"> <li>• The proposed ordinance was amended in the April 27, 2022 Budget &amp; Finance Committee meeting to continue to allow the City and the public to use gasoline powered equipment if the cost of new technology is more than 300 percent of existing technology costs, including upfront, infrastructure, and change in operating costs. Incorporating infrastructure costs may extend the transition from using gasoline powered equipment, but also reduces the financial impact on City users and the public.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approval of the proposed ordinance is a policy matter for the Board of Supervisors.</li> </ul>	

**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**

**Existing Local Regulations**

Under Section 4.14 of the Administrative Code, City departments are prohibited from using polluting garden and utility equipment<sup>1</sup> on "Spare the Air Days" or other days in which the Bay Area Air Quality Management District notifies the public of unhealthy levels of air pollution and requests that the public refrain from engaging in polluting activities. Besides Section 4.14 of the Administrative Code, there are currently no City laws that restrict or prohibit City or public use of gas-powered landscaping equipment.

**State Regulation**

In November 2021, the State Legislature amended the Health and Safety Code to enable regulations to prohibit exhaust and evaporative emissions from new small off-road engines, including landscaping equipment, starting in January 2024 (AB 1346). Small off-road engines are defined by State code as 25.5 horsepower or less. The California Air Resources Board (CARB) is responsible for establishing the regulations, which are still under development. The State Budget Act of 2021 included \$30 million to offset transition costs for landscaping businesses, but the rules for awarding the funding have not been finalized as of this writing. In September 2021, CARB issued a Standardized Regulatory Impact Assessment for proposed small off-road engine exhaust and evaporative emission regulations, which estimated the cost to transition to zero emission alternatives.

**DETAILS OF PROPOSED LEGISLATION**

The proposed ordinance would:

- amend the Administrative and Police Code to (1) prohibit the City from using small off-road equipment (up to 25 horsepower) starting January 1, 2024, allowing for temporary waivers for City departments under certain conditions, and (2) prohibit the use small off-road equipment (up to 25 horsepower) in the City starting January 1, 2026 and penalize property owners and business owners and managers that violate the prohibition;
- establish a buy-back program to offset the cost to City residents and businesses transitioning from the use of gas-powered landscaping equipment;

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<sup>1</sup> "Polluting garden and utility equipment" means gasoline-powered equipment under 25 horsepower, including two-stroke and four-stroke models, such as, but not limited to, lawnmowers, leaf blowers, trimmers, weed whackers and jackhammers.

- require that the Department of the Environment (ENV) conduct a public education campaign;
- establish the Healthier, Cleaner, Quieter Communities Fund; and
- designate the Director of ENV with responsibility for enforcing the prohibitions in the ordinance, including penalties of up to \$1,000 per violation

### **Ban on Public Use of Gas-Powered Landscaping Equipment**

Under the proposed ordinance, starting on January 1, 2026, use of small off-road equipment (up to 25 horsepower) would be banned within San Francisco. The ordinance would allow for fines on property owners who allow gas-powered equipment to be used on their property and on businesses whose staff or contractors use banned gas-powered equipment.

### **Waivers**

The ban on City and public use of gasoline powered equipment may be waived by ENV if the replacement technology does not exist or if its costs are more than 300 percent of the existing equipment, including the cost of new equipment, infrastructure costs, and change in annual operating costs. ENV will maintain a list of gasoline powered equipment that is exempt from the ban. The ban on City contracts that require use of gasoline powered equipment may also be waived by the Office of Contract Administration under certain conditions.

### **Penalties and Enforcement**

The proposed ordinance outlines enforcement procedures for non-compliance including administrative citations and penalties. Under the proposed ordinance, in setting the administrative penalty amount (which would not exceed \$1,000 per violation), ENV would need to consider any one or more circumstances presented, including but not limited to the following: the persistence of the violation, the willfulness of the violation, the length of time over which the violation occurred, and the assets, liabilities, and net worth of the violator.

### **Healthier, Cleaner, Quieter Communities Fund and Buy-Back Program**

The proposed ordinance would establish the Healthier, Cleaner, Quieter Communities Fund in the Administrative Code to: (1) receive funds collected for penalties and fees assessed for violations of the ordinance and other funds appropriated or donated to the fund and (2) purchase equipment for City departments and the public to replace gas-powered equipment, the safe disposal of gas-powered equipment, and a public education campaign. Under the proposed ordinance, ENV is charged with developing criteria<sup>2</sup> for eligibility of individuals and businesses to participate in the buy-back program.

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<sup>2</sup> Under the proposed ordinance, criteria would prioritize support for individuals and businesses that have demonstrated compliance with the ban on public use of gas-powered landscaping equipment, businesses with two or more employees that have average gross receipts in the prior five years that do not exceed \$2,500,000 and businesses and individuals that live, are based, or are operating primarily in San Francisco neighborhoods scoring 50 or higher on the CalEnviroScreen tool, compiled and maintained by the California Office of Environmental Health

## Reporting Requirements

The proposed ordinance requires that ENV report annually to the Board of Supervisors on implementation of the program for City departments, the buy-back program, enforcement and education efforts, and uses of funds in the Healthier, Cleaner, Quieter Communities Fund.

## FISCAL IMPACT

### City Department Replacement Technology Cost Estimates

As shown in Exhibit 1 below, the estimated total upfront cost of replacement technology for REC, MTA, PUC, DPW and AIR is \$10.4 million, and the total annual ongoing cost for these departments is estimated to be \$1.1 million, or \$75,000 more than the current cost of the gas-powered equivalents. Our estimated upfront costs in this report are lower than the \$16.5 million estimated in our prior report because the proposed legislation was amended to change the definition of equipment subject to the ban, which now excludes diesel powered equipment, such as certain ride-on mowers. Such engines, which comprise less than 10 percent of small off-road engines, are regulated by the Federal Clean Air Act, which preempts State and Local emission regulation.

Our cost estimates are based on each department's asset inventory. For MTA, DPW, and AIR, upfront and ongoing cost per unit of zero-emission equipment were estimated based on data in the CARB analysis.<sup>3,4</sup> Our estimates for REC and PUC equipment were based upfront estimates in vendor quotes provided by staff for their existing equipment, historical maintenance costs, and estimated ongoing costs for battery powered replacements.<sup>5</sup>

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Hazard Assessment and available on their website at [www.oehha.gov/calenviroscreen](http://www.oehha.gov/calenviroscreen), or equivalent tool approved by California state or local governments to identify communities disproportionately burdened by pollution.

<sup>3</sup> Upfront and ongoing cost per unit of zero-emission equipment are detailed in Table C-23 of the CARB report. According to the report, the costs are based on the median price of popular models as an estimate of the cost of professional-grade equipment owned by landscapers, non-landscaping businesses, and government entities, collectively referred to as professional users. These professional-grade equipment costs include enough batteries for the zero-emission equipment to operate for the relevant portion of a full eight-hour workday. The professional-grade zero-emission equipment are assumed to be cordless. Ongoing costs include gasoline, electricity, and maintenance costs.

<sup>4</sup> Other types of gas-powered landscaping equipment that could not be categorized such as a chainsaw, lawn mower, leaf blower/vacuum, pump, riding mower, or trimmer/edger/brush cutter were not included in our cost estimates. This includes equipment such as a cultivator, woodchipper, rototiller, aerator, and power rake. In addition, similar types of equipment were categorized together, such as a weed eater and a trimmer/edger/brush cutter.

<sup>5</sup> The cost estimates provided by PUC and REC staff assumed more intensive equipment use than the CARB analysis, which require additional batteries and charging units, increasing upfront and ongoing costs. In addition, certain equipment quotes were substantially more expensive than the cost estimates included in the CARB analysis. For example, the REC electric ride-on mower was \$42,217, but the CARB cost estimate for a ride-on mower was \$20,879.

**Exhibit 1. Cost Estimates for Replacement Technology of Gas-Powered Landscaping Equipment for REC, MTA, DPW, PUC and AIR**

<b>Department</b>	<b>Upfront Costs</b>	<b>Current Ongoing Costs</b>	<b>Proposed Ongoing Costs</b>	<b>Change in Ongoing Costs</b>
MTA	\$95,401	\$13,023	\$1,414	(\$11,609)
DPW	\$274,368	\$29,601	\$2,834	(\$26,767)
PUC	\$1,037,267	\$69,440	\$6,479	(\$62,961)
AIR	\$6,099	\$1,321	\$272	(\$1,048)
REC	\$8,971,312	\$960,043	\$1,136,977	\$176,934
<b>Total Cost</b>	<b>\$10,384,446</b>	<b>\$1,073,429</b>	<b>\$1,147,977</b>	<b>\$74,549</b>

Sources: BLA Analysis of asset inventory data provided by REC, MTA, DPW, PUC, AIR and CARB

For all departments included in our estimates except Recreation and Parks, higher upfront costs for zero emission equipment are offset by lower operating costs. REC estimates that actual lifetime costs of zero emission equipment are higher than some gasoline counterparts due to ongoing battery replacements.

The costs in Exhibit 1 includes estimates for landscaping equipment and utility carts. The City may incur additional costs if more zero emission equipment alternatives are developed, expanding the set equipment covered by the proposed ordinance.

**Additional Infrastructure Costs**

According to REC staff, electrical charging infrastructure would need to be upgraded in order to provide sufficient charging capacity for the replacement equipment. REC estimates that the cost of bringing new primary electrical service to a site could be as high as \$750,000 to \$1 million per site to trench, lay new conduit, and install new electric circuits.

**Estimated Costs of Citywide Buyback Program**

Under the proposed ordinance, the City would fund a “buy-back” program to offset the cost of transitioning to zero emission equipment. To estimate the potential costs of the buy-back program for landscaping businesses, we used CARB’s estimated costs for a one-person<sup>6</sup> landscaping business converting to zero-emission equipment<sup>7</sup> and the number of landscaping services business establishments in the City.<sup>8</sup> According to Census survey data, there are 85 landscaping business in San Francisco with a total of 464 employees (or an average of 5.5 employees per business). According to the Bureau of Labor Statistics, there were 11,230 landscaping and groundskeeping workers in the San Francisco-Oakland-Hayward metropolitan region in May 2021. Based on San Francisco’s proportional population within the region, we

<sup>6</sup> The costs assume a one-person landscaping business that has purchased a lawn mower, leaf blower, hedge trimmer, chainsaw, and string trimmer at 2023 prices.

<sup>7</sup> Transition costs for landscapers are detailed in Table C-24 of the CARB report.

<sup>8</sup> U.S. Census Bureau County Business Patterns data, 2019

estimate there are 2,021 landscaping workers in San Francisco. We use both data points to estimate a range of possible industry transition costs.

As shown in Exhibit 2 below, we estimated conversion costs to be between \$2.4 million and \$10.4 million and a decrease in industry expenses of \$0.4 to \$1.9 million annually. The survey data may undercount the number of landscapers so the actual industry conversion costs may be higher.

**Exhibit 2. Landscaping Industry Economic Impact**

	Low	High
<b>Upfront Costs</b>	<b>\$2,389,359</b>	<b>\$10,409,159</b>
Current Ongoing Costs	\$492,026	\$2,143,493
Proposed Ongoing Costs	\$50,706	\$220,899
<b>Change in Ongoing Costs</b>	<b>(\$441,320)</b>	<b>(\$1,922,594)</b>

Sources: BLA Analysis of CARB data, U.S. Census Bureau County Business Patterns data, and Bureau of Labor Statistics data

The \$30 million provided by the FY 2021 State Budget Act for landscaper transition costs is likely insufficient to cover actual transition costs for these businesses. Local funding is likely necessary to offset industry transition costs.

Under the proposed ordinance, City departments are prohibited from contracting with vendors that use gas-powered landscaping equipment unless a temporary waiver is granted. Cost estimates shown in Exhibit 2 include City landscaping businesses that contract with City departments.

Exhibit 2 does not include any personal gasoline powered equipment owned by residents for private use.

**Staffing and Contractor Estimates for Proposed Ordinance**

ENV staff report that additional staff and contractor resources will be needed to implement the proposed ordinance. As shown in Exhibit 3 below, for the first year of the program, this includes a new 5642 Senior Program Coordinator, starting in January 2023, to plan and manage implementation of the proposed ordinance for City departments, and \$200,000 for a contracted community-based organization (CBO) to conduct outreach to businesses and individuals impacted by the proposed ordinance.

**Exhibit 3: ENV Staffing and Contractor Estimates, FY 2022-23 & FY 2023-24**

	FY 2022-23	FY 2023-24
5642 Senior Program Coordinator	\$138,062	\$288,134
Outreach Contractors	\$100,000	\$100,000
<b>Total</b>	<b>\$238,062</b>	<b>\$388,134</b>

Source: BLA

In addition, ENV staff estimate that a 6120 Environmental Health Inspector would be necessary starting in 2026 once enforcement activities begin. Other enforcement costs include \$50,000 in

work orders to relevant City departments for running appeals hearings annually, to 311 for fielding complaints, and \$75,000 for continued outreach. In total, costs beyond FY 2024-25 may be \$875,000 annually. Actual program staffing and costs are subject to Board of Supervisors approval.

### **Disposal Costs**

Under the proposed ordinance, the Healthier, Cleaner, Quieter Communities Fund will also fund the safe disposal of gas-powered landscaping equipment that is no longer in use by City departments or that is provided by individuals or businesses participating in the buy-back program. According to ENV, estimated safe disposal costs are \$207 per ton at Recology's Tunnel Road<sup>9</sup> if the equipment can be handled as appliances. Based on the equipment inventories reported by departments, we estimate disposal costs of \$4,600 for City equipment. If the equipment is deemed hazardous waste, disposal costs would be higher.

## **POLICY CONSIDERATION**

### **Amended Legislation**

The proposed ordinance was amended in the April 27, 2022 Budget & Finance Committee to: (1) specify that the equipment subject to the ban is small off-road equipment, as defined in Title 13, Division 3, Chapter 9, Article 1 of the California Code of Regulations, (2) require ENV to maintain a list of gasoline powered equipment that may continue to be used by the public, (3) allow the Purchaser to provide a waiver for City contractors, (4) increases the waiver threshold for the City users and the list of allowable gasoline equipment from 120 percent to 300 percent of new costs, which now include upfront, infrastructure, and change in operating costs, and (5) at the recommendation of the Budget & Legislative Analyst, require annual reporting to the Board of Supervisors.

The new waiver provision, which now incorporates infrastructure costs in assessing the transition cost of ceasing use of small off-road equipment, may extend the transition from using gasoline powered equipment but also reduces the financial impact on City users and the public.

## **RECOMMENDATION**

Approval of the proposed ordinance is a policy matter for the Board of Supervisors.

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<sup>9</sup> Recology's Tunnel Road is a recycling buyback facility.



<b>Item 2</b> <b>File 22-0885</b>	<b>Department:</b> Department of Homelessness and Supportive Housing (HSH)
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution would: (a) authorize the Department of Homelessness and Supportive Housing (HSH) to execute a Standard Agreement with the California Department of Housing and Community Development (HCD) to receive \$7,480,080 of Project Homekey grant funds for the acquisition and initial operations of the property located at 3055-3061 16<sup>th</sup> Street to use as Permanent Supportive Housing; (b) approve and authorize HSH to commit approximately \$1,600,000 in required matching funds and five years of operating costs; (c) affirm the Planning Department’s determination under the California Environmental Quality Act (CEQA); (d) adopt the Planning Department’s findings of consistency with the General Plan and Planning Code; and (e) authorize HSH to enter into any nonmaterial amendments to the Standard Agreement and Homekey Documents.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• In October 2021, the Board of Supervisors approved the purchase of 3055-3061 16<sup>th</sup> Street for \$5,600,000 as a permanent supportive housing site for transitional aged youth and authorized HSH to apply for a Project Homekey grant to help fund the acquisition and operations. In March 2022, HCD notified HSH of a Homekey grant award of \$7,480,080.</li> <li>• 3055-3061 16<sup>th</sup> Street, formerly the Eula Hotel, contains 25 rooms and a ground floor space that had been used as a liquor store. The residential portion of the building has recently been renovated, so the only needed improvements are to convert the ground floor to support spaces for residents, including offices, counseling rooms, and a resident lounge. HSH selected Dolores Street Community Services to be the site operator and Larkin Street Youth Services to be the onsite social services provider</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution would approve the acceptance and expenditure of a total amount not to exceed \$7,480,080 in Homekey grant funds. HSH estimates that the cost for construction and activation of the building is approximately \$1,763,280, and the annual operating costs are approximately \$751,171 for the 25-unit building, or approximately \$30,047 per unit per year.</li> <li>• The estimated Proposition C funds needed for the purchase of the building, construction, and five years of operations are approximately \$3,754,055</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	

**MANDATE STATEMENT**

City Administrative Code Section 10.170-1 states that accepting federal, state, or third-party grant funds in the amount of \$100,000 or more, including any City matching funds required by the grant, is subject to Board of Supervisors approval.

**BACKGROUND**

In November 2018, San Francisco voters approved Proposition C, a gross receipts tax to fund homeless services and housing. In July 2020, Mayor London Breed announced her Homelessness Recovery Plan, with the goal of acquiring and operating 1,500 new units of Permanent Supportive Housing over the next two years. According to HSH staff, as of July 2022, the City exceeded the goal by acquiring or contracting for 2,918 new units of Permanent Supportive Housing.

In July 2020, the California Department of Housing and Community Development (HCD) announced the Homekey program, providing grants to sustain and expand housing for homeless people impacted by COVID-19. In September 2021, HCD announced a second round of Homekey grant funding.

**3055-3061 16<sup>th</sup> Street**

In January 2021, the Department of Homelessness and Supportive Housing (HSH) issued a Request for Information (RFI) to identify suitable properties for possible acquisition as permanent supportive housing sites and received a total of 100 eligible responses, including the Eula Hotel property located at 3055-3061 16<sup>th</sup> Street. The Eula Hotel contained 20 single residential occupancy units, five tourist rooms, and a ground floor liquor store. According to Dylan Schneider, HSH Manager of Policy and Legislative Affairs, HSH prioritized the Eula Hotel for acquisition because of its fitness with the criteria considered as part of the RFI, including the condition, location, price, and ability to meet the needs of the Transitional Aged Youth (TAY) population. Although the RFI stated a preferred minimum of 30 rooms and preferred range of 50 to 150 rooms, HSH determined that the Eula Hotel, with 25 rooms, could viably serve its target population. In October 2021, the Board of Supervisors approved the City's acquisition of 3055-3061 16<sup>th</sup> Street for \$5,600,000, plus an estimated \$115,000 for closing costs, and authorized HSH to apply for a Homekey grant to help fund the acquisition (File 21-0940).<sup>1</sup> In March 2022, HCD notified HSH of a Homekey grant award of \$7,480,080.

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<sup>1</sup> Initially, HSH did not intend to apply for a Homekey grant for the Eula Hotel purchase, intending to prioritize Homekey grant applications for larger sites with higher acquisition costs. However, after HSH determined that a Eula application would qualify for Homekey transitional-aged youth set-aside funds and not compete with other applications, HSH decided to apply.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would:

- 1. Authorize HSH to execute a Standard Agreement with HCD for a total not-to-exceed amount of \$7,480,080 in Project Homekey grant funds;
- 2. Accept and expend those funds for the acquisition of the property at 3055-3061 16<sup>th</sup> Street for Permanent Supportive Housing for Transitional Aged Youth and to support its operations upon execution of the Standard Agreement through June 2026;
- 3. Approve and authorize HSH to commit approximately \$1,600,000 in required matching funds for capital expenditures and a minimum of five years of operating costs;
- 4. Affirm the Planning Department’s determination under the California Environmental Quality Act (CEQA);
- 5. Adopt the Planning Department’s findings of consistency with the General Plan and eight priority policies of Planning Code Section 101.1; and
- 6. Authorize HSH to enter into any nonmaterial additions, amendments, or modifications to the Standard Agreement and Homekey Documents.

In 2021, Saida + Sullivan Design Partners Inc. and ZFA Structural Engineers assessed the general interior condition of the building and site accessibility on behalf of the City. The residential portion of the building had recently been renovated, so the only needed improvements are to convert the ground floor from a liquor store use to support spaces for residents, including offices, counseling rooms, and a resident lounge. HSH estimates that the improvement costs are approximately \$1,200,000. Including soft costs, contingencies, furnishings, and start-up costs, HSH estimates that the total cost for activating the building is approximately \$1,763,280. According to HSH Policy and Legislative Affairs Manager Schneider, HSH is working with the site operator to select architects, engineers, other consultants, and a general contractor to perform the improvements. HSH anticipates that construction will begin in Summer 2023 and will be complete by approximately January 2024.

In October 2021, HSH issued a Solicitation of Information (SOI) to select operators for three Permanent Supportive Housing sites, including 3055-3061 16<sup>th</sup> Street. Based on the SOI, HSH selected Dolores Street Community Services to be the site operator and Larkin Street Youth Services to be the onsite social services provider. HSH estimates the total annual operating costs to be \$751,171 for the building, or approximately \$30,047 per unit. This estimate is approximately 52 percent greater than HSH’s previous estimate of \$19,800 per unit estimated before purchasing the building. According to HSH staff, the cost increase is due to the lack of economies of scale in a smaller building, as well as standardized case management to client ratios of 1:20 for transitional aged youth in permanent supportive housing that was approved in the FY 2022-24 budget.

**FISCAL IMPACT**

The proposed resolution would approve the acceptance and expenditure of a total amount not to exceed \$7,480,080 in Homekey grant funds. Homekey awards are generally based on the number of units served and the commitment of matching local funding. Of this amount, \$5,763,280 would be used to purchase the property, and \$1,716,800 would subsidize operations for the first five years. The total amount includes a bonus award of \$250,000 if the building achieves full occupancy within eight months of the award date,<sup>2</sup> which HSH anticipates meeting, and a \$250,000 bonus for submitting an early grant application. HSH would be required to commit at least \$1,600,000 in matching funds for capital expenditures and five years of operating subsidy. HSH estimates that annual operating costs would be approximately \$751,171, or \$30,407 per unit. Of this annual amount, approximately \$526,170, or \$21,047 per unit, would be for property management, and approximately \$225,001, or \$9,000 per unit, would be for support services. Proposition C funds would be used to fund remaining expenditures once the grant funding is exhausted. The estimated sources and uses of funds over the first five years are shown in Exhibit 1 below.

**Exhibit 1: Estimated Sources and Uses of Funds over Five Years**

<b>Sources</b>	<b>Amount</b>
Homekey Grant	\$7,480,080
Proposition C Funds	3,754,055
<b>Total Sources</b>	<b>\$11,234,135</b>

<b>Uses</b>	<b>Amount</b>
Building Purchase (w/Closing Costs)	\$5,715,000
Construction/Activation	1,763,280
Operating Costs (5 Years)	3,755,855
<b>Total Uses</b>	<b>\$11,234,135</b>

The estimated Proposition C funds needed for the purchase and renovation of the building and five years of operations are approximately \$3,754,055. Proposition C general housing funds to cover the City’s share of the site activation and two years of operating expenses are included as part of the adopted FY 2022-24 budget.

**RECOMMENDATION**

Approve the proposed resolution.

<sup>2</sup> HSH anticipates that the building will be occupied before the ground floor improvements are complete.

<p><b>Item 3</b> <b>File 22-0900</b></p>	<p><b>Departments:</b> Office of Economic and Workforce Development, Real Estate Division</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution would (1) approve an amended and restated lease with the San Francisco Market Corporation and (2) authorize separate parcel leases to provide real estate security for the San Francisco Market Corporation to obtain private construction loans.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The San Francisco Wholesale Produce Market is located on 23 acres of City-owned land in the Bayview. In July 2012, the Board of Supervisors approved a 60-year ground lease with the San Francisco Market Corporation that provided for a phased development that replaces four existing warehouses and improves the surrounding public streets. The Market subleases warehouse space to wholesale produce businesses and net rental revenues are dedicated to fund the capital improvements. Once the project is complete, rent will be paid to the City. In 2015, the tenant completed Phase I of the development, which included replacing structures at 901 Rankin Street. The tenant has not yet commenced subsequent project phases, including Phase II street improvements which were scheduled to be completed by February 2021.</li> <li>• The proposed amendments would: (a) allow the Market to place each building on a separate legal parcel to allow conventional mortgage financing; and (b) change the project schedule to delay street improvements and delay project completion from 2036 to 2041.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The purpose of delaying completion of the street improvements is to allow the City to identify funding sources for this portion of the project beyond the \$5 million in the FY 2022-23 budget. Street improvements are estimated to cost at least \$18 million. The \$300 million in remaining project costs will be funded by Market equity, debt, and other sources.</li> </ul> <p style="text-align: center;"><b>Policy Consideration</b></p> <ul style="list-style-type: none"> <li>• The Market renovation project will provide economic benefits to City businesses and to the neighborhood and will generate income to the City’s General Fund in 2066 after all phases of the development are complete and the project generates positive cash flow. However, the City does not have control over the funding and schedule. The project will take place over a 20-year period and the final project costs and financing plans are unknown.</li> <li>• Due to the uncertainty of final project costs and the associated financing plan and the delegation of Board of Supervisors authority to approve separate parcel leases, we consider approval of the proposed resolution to be a policy matter for the Board of Supervisors.</li> </ul> <p style="text-align: center;"><b>Recommendations</b></p> <ol style="list-style-type: none"> <li>1. The Board of Supervisors could consider amending the proposed resolution to require Board of Supervisors’ approval of any separate parcel leases.</li> <li>2. Approval of the proposed resolution is a policy matter for the Board of Supervisors.</li> </ol>	

**MANDATE STATEMENT**

City Charter Section 9.118(c) states that any lease, modification, amendment or termination of a lease that had an initial term of ten years or more, including options to extend, or that had anticipated revenues of \$1 million or more is subject to Board of Supervisors approval.

**BACKGROUND****San Francisco Wholesale Produce Market**

The San Francisco Wholesale Produce Market (the Market) is located on 23 acres of City-owned land bounded by Toland Street, Innes Avenue, Rankin Street, and Kirkwood Avenue in the Bayview, which provides a central distribution center for approximately 30 wholesale produce businesses and produce distributors.

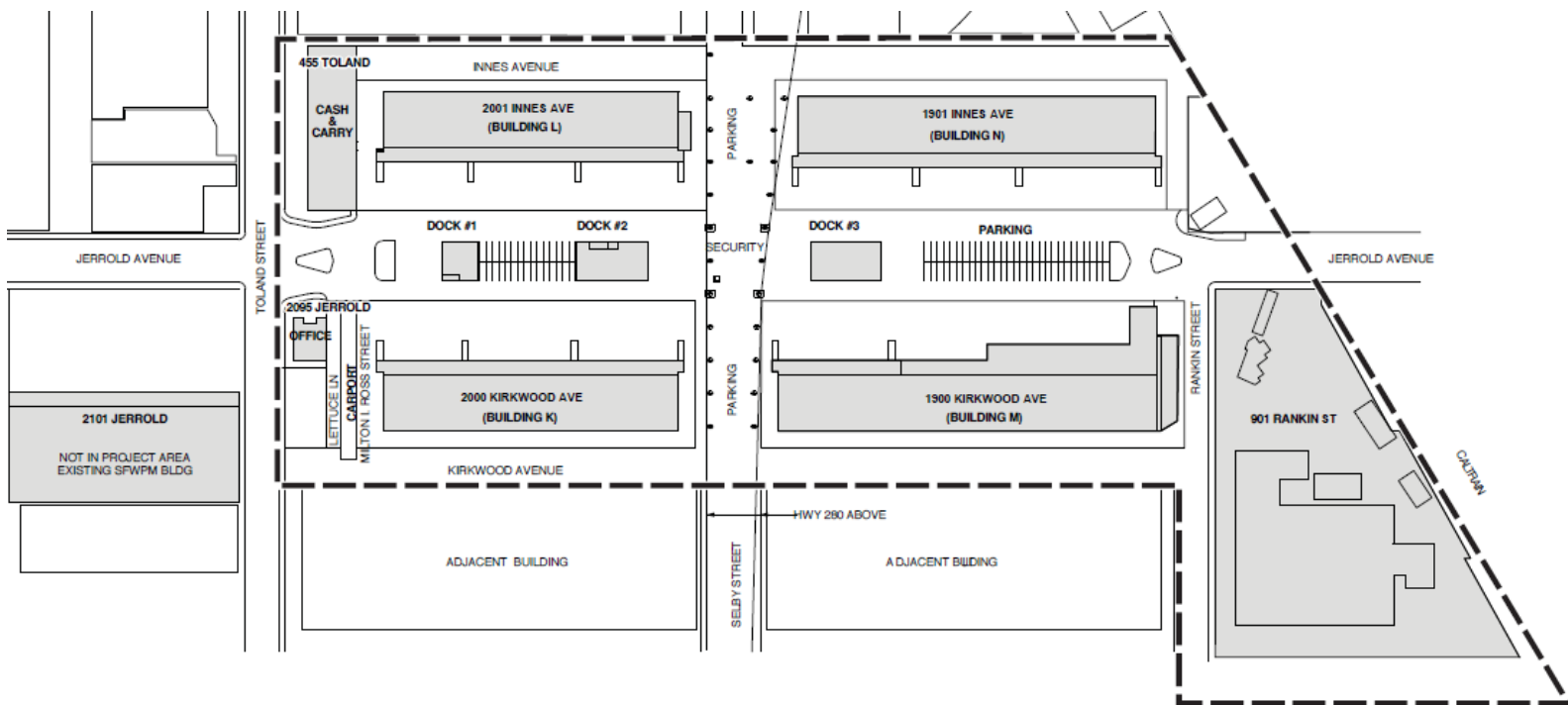
The Market has operated at its current location since 1963 and currently consists of three subareas, the Main Site (which consist of four buildings<sup>1</sup> and truck loading/unloading space adjacent to Jerrold Avenue between Toland, Innes, Rankin, and Kirkwood Avenues), 2101 Jerrold Avenue, 455 Toland Street, 2095 Jerrold Avenue, and 901 Rankin Street with 357,764 square feet of warehouse, dock, and office space. The Market is operated by the non-profit San Francisco Market Corporation<sup>2</sup> under the terms of an existing ground lease described below. To meet evolving food industry standards, the age of the Market facilities, and the demand for more space at the Market, the San Francisco Market Corporation is renovating and expanding the existing site according to the terms of the lease. Exhibit 1 below shows the Market layout.

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<sup>1</sup> The four buildings on the main market site are: 2001 Innes Avenue, 1901 Innes Avenue, 2000 Kirkwood Avenue, and 1900 Kirkwood Avenue.

<sup>2</sup> The San Francisco Market Corporation is a non-profit organization that was formed in 2012 to operate the Market under the existing lease.

**Exhibit 1: San Francisco Wholesale Produce Market Current Layout**



Source: July 2022 Planning Department memo: Addendum 2 to Mitigated Negative Declaration

**Existing Lease**

In July 2012, the Board of Supervisors approved a 60-year ground lease, which expires January 31, 2073, between the City and the San Francisco Market Corporation for the lease of the Market property (File 12-0530). The 2012 ground lease provides for the rehabilitation and expansion of the Market through a phased, 25-year development that replaces four existing warehouses located at the Main Site, demolishes several small structures, adds new buildings, and improves the surrounding public streets. The 2012 ground lease also added 901 Rankin Street, which was previously used as storage and office space by the Department of Technology and the Municipal Transportation Agency, to the leased premises.<sup>3</sup>

Under the existing lease, the San Francisco Market Corporation leases the property from the City and subleases warehouse space to wholesale produce businesses and distributors. A list of subleases is included as an appendix to this report. The San Francisco Market Corporation is required to deposit net revenues, or remaining revenues from rents received under subleases after subtracting operating expenses, debt service payments, and capital investments, for the previous month into a dedicated account (the Project Development Account) to fund the planned tenant capital improvements. No rent is paid directly to the City.

<sup>3</sup> From February 1, 2013 through January 1, 2028, the San Francisco Market Corporation is required to pay the City \$11,862 per month towards the costs of relocating City operations from 901 Rankin St.

The City's Real Estate Division is the property owner and landlord for the Market, and the Office of Economic and Workforce Development (OEWD) leads the City's active partnership with the Market. In addition to operating the market, the San Francisco Market Corporation is responsible for managing and financing the development project, with engagement from the City. As discussed below, the City Administrator or their designee (in practice, the Real Estate Division) is responsible for reviewing design documents and budgets for each phase of the development project.

#### *Vacation of Public Streets and Street Improvements*

To provide better controls for food safety at the Market and to eliminate vehicular traffic through the Main Site, the lease anticipated that the City would vacate sections of public streets bisecting or adjacent to the Market, including portions of Jerrold Avenue, Selby Street, and other streets, and add the vacated street portions to the leased premises. In July 2012, the Board of Supervisors approved an Ordinance, ordering the vacation of certain sections of public streets<sup>4</sup> to facilitate the planned expansion of the Market and the transfer of the property from the Department of Public Works to the Real Estate Division so that the areas could be added to the leased premises (File 12-0670). The Ordinance authorized: (a) the immediate vacation of a portion of Kirkwood Avenue east of Rankin Street, and the (b) conditional vacation of the remainder of the street portions until required under the terms of the lease. The existing lease requires that the remaining street portions be vacated after the San Francisco Market Corporation completes required improvements to surrounding streets (Phase II).

The lease requires that the San Francisco Market Corporation improve the surrounding streets as part of Phase II of the development and relinquish certain portions of the existing leased premises to the City after demolishing an existing warehouse on site. Portions of Rankin Street, Innes Avenue, and Kirkwood Avenue would be reconfigured under the development plan and two new street intersections would be created at Toland Street to improve the flow of traffic given the planned street vacations.

#### **Project Status**

In 2015, the tenant completed Phase I of the development plan, which included demolition of the existing structures at 901 Rankin Street and construction of a new 82,000 square foot distribution warehouse. The tenant has not yet commenced subsequent project phases, including Phase II street improvements which were scheduled to be completed by February 2021 under the existing lease. Project phases as defined under the existing lease are shown in Exhibit 2 below.

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<sup>4</sup> Including Jerrold Avenue between Rankin Street and Toland Street, Milton I. Ross Street between Innes Avenue and Kirkwood Avenue, Kirkwood Avenue between Rankin Street and the proposed boundary of the Market, Lettuce Lane between Jerrold Avenue and Kirkwood Avenue, portions of Selby Street between Innes Avenue and Kirkwood Avenue, and a portion of Rankin Street between Jerrold Avenue and Innes Avenue.



**Exhibit 2: Produce Market Expansion Project Phases and Schedule**

Phase	Description	2012 Lease Completion Date	2022 Proposed Lease Completion Date
I	901 Rankin St premises, including street and sidewalk improvements	2/1/2018	1/26/2015 (completed)
II	Surrounding street improvements associated with Central Market Site and Traffic, Marshalling Yard and Infrastructure Improvements	2/1/2021	8/31/2036
III	Central Market Site - renovation/ replacement of 2 of 4 existing warehouse buildings	2/1/2026	8/31/2031
IV	Central Market Site - renovation/ replacement of remaining 2 existing warehouse buildings	2/1/2036	6/30/2041

Sources: 2012 Ground Lease and Proposed Amended and Restated Ground Lease

The San Francisco Market Corporation is proposing to amend the schedule of performance to reflect economic conditions more accurately by providing flexibility in the commencement and completion dates of the Phase II street improvements, extending overall project completion by five years and five months, and making other changes as discussed below.

In addition, the total project cost estimate has increased from \$107.8 million in 2012 to \$400.3 million in 2022. The cost increases are driven in part by the fact that 2012 cost estimate did not include any construction cost escalations and assumed renovation of certain buildings which are now expected to be demolished and rebuilt.

### DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve an amended and restated lease for the San Francisco Wholesale Produce Market with the San Francisco Market Corporation, and also:

- Authorize separate parcel leases, as needed, to provide real estate security for the San Francisco Market Corporation to obtain private construction loans;
- Adopt findings pursuant to the California Environmental Quality Act;
- Adopt findings that the transactions are consistent with the General Plan and the eight policy priorities of the Planning Code Section 101.1; and
- Authorize the Director of Property to execute the amended and restated lease, make certain modifications, and take certain actions in furtherance of the lease.

The San Francisco Market Corporation is seeking to amend and restate the existing lease to: (a) allow the San Francisco Market Corporation to obtain conventional mortgage financing for the project; and (b) change the schedule of performance to allow the City to vacate public streets bisecting the Market before completion of the street improvements, and delay the

commencement and completion deadlines of the street improvements in recognition of the City having absorbed this aspect of the project.

### **Street Vacations and Changes to Schedule of Performance**

The Amended and Restated lease would revise the conditions, referred to in the Vacation Ordinance, for the remaining portions of City streets that bisect the premises, allowing the streets to be vacated and added to the leased premises before completion of all the street improvements. This would allow the San Francisco Market Corporation to proceed with its core reinvestment plan by creating individual development parcels, obtaining debt financing, and beginning the demolition and construction of warehouses on the Main Site prior to completion of the surrounding public street improvements.

As mentioned above, the proposed lease would also amend the schedule of performance to delay the commencement and completion of Phase II street improvements, delay project completion by five years and five months, and split each of the remaining phases (Phases II, III, and IV) into two subphases, as shown in Exhibit 3 below. The existing lease required the surrounding street improvements to be completed by February 1, 2021, and the proposed lease would delay the completion of these public street improvements by 15.5 years to August 31, 2036. According to OEWD, the Department of Public Works has taken on the construction of the most critical of these street connections, Innes Avenue between Toland and Rankin Streets, and is currently beginning the Design Phase for that project. When completed, this new street will provide a continuous east-west connection between Third Street and Bayshore Boulevard.

**Exhibit 3: Proposed Amended Schedule of Performance**

<b>Phase (under Existing Lease)</b>	<b>Proposed Lease Description</b>	<b>Schedule</b>
I	901 Rankin St premises	Completed 1/2015
III	1900 Kirkwood Avenue premises on Central Market Site (SE quadrant)	8/2024 - 7/2025
III	1901 Innes Avenue premises on Central Market Site (NE quadrant)	5/2030 - 8/2031
II	Street Improvements, including (i) connection from Toland to Milton Ross Lane (NW quadrant), and (ii) Innes Extension (Innes to Jerrold, NE quadrant)	3/2030 - 8/2031
IV	2001 Innes Avenue premises on Central Market Site (NW quadrant)	3/2035 - 6/2036
II	Remaining street improvements	1/2035 - 8/2036
IV	2000 Kirkwood Avenue premises on Central Market Site (SW quadrant)	3/2040 - 6/2041

Source: Proposed Amended and Restated Lease, Exhibit G

**Back-up Rent and Authorization of Separate Parcel Leases**

According to a July 2022 Memo from OEWD to the Board of Supervisors, the existing lease structure makes it infeasible for a bank to make a loan against one or more of the Market’s buildings. A bank would require collateral in the form of one or more of the Market’s buildings to make a loan. If the tenant were to default on loan payments, the bank would be able to take over one of the buildings and sell its leasehold rights to another owner to recoup its loan proceeds. However, due to the requirement under the existing lease that the tenant deposit all net revenue into a project development account to fund capital improvements, a new owner could not earn income from owning the building for the remaining term of the lease and the buildings have no value as collateral.

The proposed amended and restated lease includes a “back-up” fair market rent structure to be used only in the unlikely event of a leasehold foreclosure to facilitate the use of the buildings as collateral in a traditional bank loan. The backup fair market rent would be determined at the time of financing by an appraiser hired by the City based on instructions contained in Exhibit O of the Amended and Restated Lease. According to the instructions, the appraiser would determine the fair market rent for each parcel based on the building’s anticipated net operating income and cost of construction.

In addition, the proposed lease includes a new “Separate Parcel Lease” structure that will allow the Market to place each building on a separate legal parcel and have separate leases with the City for each building or project phase. This structure will allow the tenant to borrow against each building separately, so that the bank could only foreclose on the leasehold interest in the specific parcels that are identified as collateral for each loan, rather than the entire leased premises, if the tenant failed to make required loan payments and the City elected not to exercise its step in and cure rights. Separate parcel leases would be substantively identical in their provisions to the

master lease and based on the form of parcel lease that is attached to the master lease and included in the Board’s file.

*Financing Notice and Delegation of Approval of Separate Parcel Leases*

Under Article 2.9 of the proposed lease, the tenant must provide a “financing notice” to the City when proposing to enter into a separate parcel lease in connection with a financing. The “financing notice” would include: (a) a description of the proposed separate parcel lease premises; (b) the terms of the financing, identity of the lender, and other information related to the lender; and (c) the status of the design work and cost estimates for the new or renovated building and any applicable conditions or requirements. The City may request additional information or documents related to the proposed financing. The Director of Property, in consultation with the Controller, City Attorney’s Office, and other City staff, may withhold approval if it determines that the financing plan or the proposed financing “is not viable or otherwise imprudent.”

The proposed lease would also authorize the Director of Property to enter into separate parcel leases and amend the master lease to remove the applicable separate parcel lease premises without approval of the Board of Supervisors. However, the Director of Property must notify the Board of Supervisors of the proposed separate parcel lease at least 30 days prior, and any Board of Supervisors member may require that the separate parcel lease be considered and approved by the Board of Supervisors by notifying the Director of Property in writing within the 30-day period. Further, the tenant for a separate parcel lease must be the Market organization itself, or a wholly owned subsidiary thereof, and such separate parcel lease would be substantially identical in its provisions as the parent lease.

**City’s Review of Design and Budget for Project Phases**

The City’s review of project design and budget for each phase is unchanged under the proposed lease compared to the existing lease. Under Article 5 of the existing and proposed lease, the San Francisco Market Corporation would submit design documents<sup>5</sup> and corresponding budgets to the City Administrator at progressive stages of completion of the tenant capital improvements for the City Administrator to review and approve prior to beginning construction.<sup>6</sup> The City Administrator has designated the Real Estate Division to review design documents to ensure they would conform with the project scope and other project requirements, such as consistency with previously approved submittals and the design of any areas required to be accessible to the public. The Real Estate Division’s review of budgets would be to ensure that the budget is accurate and reliable relative to the design documents submitted for that phase and that the budget is reasonable in light of the project’s goals.

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<sup>5</sup> Design documents consist of (a) schematic drawings, (b) design development documents, (c) preliminary construction documents, and (d) final construction documents for each phase of development.

<sup>6</sup> The City Administrator would designate City staff to conduct review of both the design documents and the budgets for each phase of the project.

In addition, no later than 90 days before the commencement of construction, the San Francisco Market Corporation would submit to the City Administrator final construction documents consisting of: (a) a final budget, (b) a statement indicating that the San Francisco Market Corporation has sufficient funds to complete the tenant capital improvements and service any debt issued in accordance with the budget, (c) a copy of all financing documents for any portion of the budget intended to be borrowed by the San Francisco Market Corporation for that phase, and (d) a copy of the construction contracts. The City Administrator shall notify the San Francisco Market Corporation within 30 days of its approval or disapproval of the submitted documents. The City Administrator would be reimbursed by the San Francisco Market Corporation for the City's costs to review and approve all design, budget, and financing documents.

## **FISCAL IMPACT**

### **Net Lease Revenues**

As mentioned above, under the existing lease, the San Francisco Market Corporation is required to deposit net revenues into a dedicated account to fund the planned tenant capital improvements. According to San Francisco Market Corporation's 2021 Audited Financial Statement, the project development reserve held \$12.6 million as of December 2021, which was an increase from \$9 million in December 2020.

No rent is paid directly to the City until all phases of development are complete and net income is positive for three months. Although construction is now estimated to be complete in 2041, according to the San Francisco Market Corporation's 2021 Audited Financial Statement, cash flow is not expected to be positive until 2066, or nine years before the lease expires.

As noted above, the proposed lease adds a "back-up" fair market rent structure to facilitate the use of the Market buildings as collateral in a traditional bank loan. This rent structure would only be used in the event of a foreclosure.

### **Cost of Capital Improvements**

According to OEWD, the total spending to date for the project is \$21.4 million, which was the cost of construction of 901 Rankin Street. The total project cost has increased nearly four-fold from \$107.8 million in 2012 to \$400.3 million estimated in 2022. According to OEWD and as shown in Exhibit 4 below, increases are due to escalations in construction costs, which have increased over 40 percent since 2012, overall inflation, which has increased 30 percent in the past 10 years, and clarification to the scope of work to demolish and rebuild all four buildings at the Market's Main Site (rather than rehabilitate them). The 2012 project cost numbers were also not escalated in the later years of the project, further adding to the increased total as compared to the 2012 numbers. The current estimates of future Project costs all account for assumed increases in the cost of construction.

**Exhibit 4: Estimated Costs of Tenant Capital Improvements in Millions (\$)**

901 Rankin Street Building	21.40
1900 Kirkwood Avenue Building	59.20
1901 Innes Avenue Building	77.90
2001 Innes Avenue Building	98.30
2000 Kirkwood Avenue Building	125.50
Innes Street Improvements*	18.00
Kirkwood Street Improvements*	Unknown
<b>Total</b>	<b>\$400.30</b>

Source: OEWD

Note: Items marked with “\*” will be undertaken and funded by the City using a combination of General Fund and other sources.

**Street Improvements**

The proposed lease amendment also shifts the timeline for the Market to complete surrounding street Improvements from 2021 to 2036, which will allow the City time to pursue remaining funds for this portion of the project. Innes Street improvements will replace Jerrold Avenue (which is to be vacated by the City) as the main connection between Bayshore Boulevard and Third Street. This change reflects the City’s agreement that the replacement of Jerrold Avenue by Innes Avenue as the primary east-west vehicle route through this area will benefit not just the Market, but also a much wider group of stakeholders. OEWD states that as such, this street improvements project is an appropriate recipient of funds from public infrastructure funding sources. (The proposed lease amendments retain a “backstop” obligation for the Market to fund the street improvements in the unlikely event that that the City is unable to do so).

The Innes Street improvement work is projected to cost \$18 million, of which \$5 million is included in DPW’s FY 2022-23 budget and is expected to be complete before 2028.<sup>7</sup> Further, OEWD and the Market partnered to secure a \$5 million allocation from the State of California in its current FY 2022-23 budget – some or all of which may be spent on the Innes Avenue improvement. Working with DPW and the Transportation Authority (TA), OEWD has identified several other potential one-time and ongoing funding sources that align well with the Innes Rebuild project including, but not limited to, the possible reauthorization of the Half Cent Sales Tax, the One Bay Area Program, and Federal Highway Administration community-oriented initiatives.

The cost of the Kirkwood Avenue street improvements is not yet known. OEWD reports that this street is less critical from a regional connectivity perspective than the Innes Avenue improvements. OEWD is exploring contributions from nearby development projects, as well as the public funding sources discussed above, to fund the Kirkwood street improvements, which will also remain an obligation of the Market in the future, if other funding is not found. As of this

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<sup>7</sup> The San Francisco Public Utilities Commission expects to reopen Jerrold Avenue adjacent to its Southeast Water Treatment Plant by 2028, which would result in additional vehicular traffic near the Market.

writing, the City is expecting to take the lead on identifying financing for street improvements (rather than use Produce Market equity or Produce Market -related debt).

### **Project Financing**

The tenant is responsible for financing tenant improvements under the existing and proposed lease. The City is not obligated to fund improvements, but the City has provided funding to the project. The project received a \$3 million allocation of FY 2021-22 Certificates of Participation and, as noted above, the street improvements are no longer expected to be funded by the Produce Market (though they remain part of the lease requirements).

The \$3 million Certificates of Participation will fund the following ongoing work:

- Lighting upgrades to improve safety of loading docks; and
- Paving of the Marshalling Yard on the Main Site (to occur after the City vacates Jerrold Avenue)

The Certificates of Participation may also help fund:

- Additional lighting upgrades on the Main Site;
- Demolition of the 455 Toland Street warehouse, which lies in the future right of way of the improved Innes Avenue; and
- Site preparation and horizontal infrastructure associated with the next warehouse building.

Phase I of the project (the 901 Rankin St. warehouse) was funded using project equity (from net revenues accumulated in the dedicated account to fund the planned tenant capital improvements) and a New Market Tax Credit allocation of \$12.8 million.<sup>8</sup> According to the San Francisco Market Corporation, financing sources for future phases would include project equity<sup>9</sup> and commercial debt and may also include New Market Tax Credits, Federal grants from the U.S. Economic Development Administration or other agencies, State grants, Loan guaranty programs from agencies including the U.S. Department of Agriculture, and program or mission-related philanthropic investments.

### **Financing Scenarios for 1900 Kirkwood Avenue**

Exhibit 5 below shows two financing scenarios for 1900 Kirkwood Avenue, the first of the four warehouses on the Main Site to be completed. The \$59.2 million financing plan covers \$53.5

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<sup>8</sup> The New Market Tax Credit Program attracts investment capital by permitting Community Development Entities and their subsidiaries to apply for and receive tax credits that they can then sell to investors. The proceeds from the sale of new market tax credits are loaned to eligible projects in low-income communities as defined by the Community Development Financial Institutions Fund, a branch of the United States Department of the Treasury. The investors use the tax credits to offset their tax burden on their Federal income tax return. New Market Tax Credits can only fund up to 20 percent of a project phase and cannot be used for street improvements under federal rules.

<sup>9</sup> According to 2021 Audited Financial Statement for the San Francisco Produce Market the current balance of the Project Development Account is \$12.6 million.

million in costs for 1900 Kirkwood Avenue, as well as \$3.2 million for improvements to the Marshalling Yard, and \$2.5 million for demolition of the 455 Toland Street warehouse.

**Exhibit 5: Financing Scenarios for 1900 Kirkwood Avenue**

Financing Sources	<i>Scenario A</i>		<i>Scenario B</i>	
	Amount (\$ millions)	% of Total	Amount (\$ millions)	% of Total
Market equity (incl. Project Development Reserve)	\$24.7	42%	\$24.7	42%
Debt Financing	26.3	44%	31.5	53%
City Certificates of Participation (COPs)	3.0	6%	3.0	6%
Federal / State / Other Sources	5.2	9%	0.0	0%
<b>Total Financing Sources</b>	<b>\$59.2</b>	<b>100%</b>	<b>\$59.2</b>	<b>100%</b>

Source: OEWD

Under both scenarios, the Market would contribute \$24.7 million in project equity (42 percent of total financing sources) and the City’s previous allocation of FY 2021-22 Certificates of Participation would finance \$3 million of the \$59.2 million total (6 percent). The remaining \$31.5 million would be financed through debt or Federal or State sources mentioned above. Under Scenario A, the Market would obtain \$5.2 million in other sources and finance the remaining \$26.3 million with debt. Under Scenario B, the Market would not obtain any other sources and would finance all \$31.5 million with debt.

Based on projections, including historical and anticipated net revenues, provided by the Market, Scenario A would result in annual loan payments of \$1.96 million with the Market maintaining a debt coverage ratio of between 1.9x and 2.1x (i.e., net revenues would be between 1.9 and 2.1 times the annual loan payment). Scenario B would result in annual loan payments of \$2.35 million with the Market maintaining a debt coverage ratio of between 1.6x and 1.8x.<sup>10</sup>

Financing for the remaining three buildings (1901 Innes, 2001 Innes, & 2000 Kirkwood), which total approximately \$300 million (assumes escalation), is still being determined as of this writing.

**City Reimbursement**

Under the existing and proposed lease, the Market will reimburse the City for its actual costs related to the implementation, management, or enforcement of the lease based on annual cost estimates provided by the City. Under the proposed lease, this includes reimbursement for the City’s costs related to creating any separate parcel leases, such as planning, legal, real estate, and related City staff time. Under the existing lease, the Market paid the City \$70,000 as reimbursement for City costs.

<sup>10</sup> The loan scenarios assume an interest rate of 5.5% and a 25-year amortization term.



**POLICY CONSIDERATION**

The Market renovation and expansion project will provide economic benefits to City businesses and to the neighborhood and will generate income to the City’s General Fund in 2066 after all phases of the development are complete and the project generates positive cash flow. However, the City does not have control over the funding and schedule. Aside from the street improvements, the project is not a City-funded development project. The project is delayed, and the project budget has increased by \$300 million since 2012 and new funding sources for these costs have not yet been identified. Additional delays could result in further increases to project costs due to increases in the cost of construction and delay future economic benefits to the City. In addition, the project will take place over a 20-year period, so the final project costs and financing plans are unknown as of this writing. Finally, the City is now planning to take responsibility for identifying financing sources, including at least \$5 million of General Fund monies, for improvements to existing public streets adjacent to the Market’s campus that were originally intended to be funded by Produce Market revenues and related debt.

As mentioned above, the proposed lease would delegate the Board of Supervisors’ authority to approve separate parcel leases to secure bank loans for the project. Under the proposed lease, the Director of Property could approve separate parcel leases after providing 30-days notification to the Board of Supervisors. The Board of Supervisors could consider amending the proposed resolution to require Board of Supervisors’ approval of any separate parcel leases.

Due to uncertainty of final project costs and the associated financing plan as well as the delegation of Board of Supervisors authority to approve separate parcel leases, we consider approval of the proposed resolution to be a policy matter for the Board of Supervisors.

**RECOMMENDATIONS**

1. The Board of Supervisors could consider amending the proposed resolution to require Board of Supervisors’ approval of any separate parcel leases.
2. Approval of the proposed resolution is a policy matter for the Board of Supervisors.

Appendix: SF Produce Market Merchant Directory



**The SF Market**  
2095 Jerrold Avenue, #212  
San Francisco, CA 94124

415.550.4495  
info@sfproduce.org  
sfproduce.org

<b>Arcadio's Produce</b> 901 Rankin Unit 1	<b>Payless Logistics</b> 901 Rankin Unit 2	<b>Mollie Stone's Markets</b> 901 Rankin Unit 3
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<p><b>Item 4</b> <b>File 22-0880</b></p>	<p><b>Department:</b> Homelessness and Supportive Housing</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution authorizes the Director of Property, on behalf of the Department of Homelessness and Supportive Housing, to exercise the second of two 10-year options to extend the term of a lease of real property located at 124 Turk Street with 124 Turk Street, L.P.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The City has an existing master lease with 124 Turk Street, L.P. for the Camelot Hotel located at 124 Turk Street that is dated August 1, 2002. The original master lease was for 10 years, from August 1, 2002 through July 31, 2012, with two 10-year options to extend. In September 2012, the Board of Supervisors approved the first 10-year option to extend the master lease through July 31, 2022 (File 12-0790). The existing master lease expired on July 31, 2022 and is currently in holdover status, pending approval of the proposed second 10-year option to extend the lease.</li> <li>• The site provides 55 units of permanent supportive housing. Property management services are provided by Delivering Innovation in Housing (DISH), under an agreement extended by the Board of Supervisors in June 2022 (File 22-0452). HSH staff provide supportive services to residents.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• Base rent starts at \$563,654 per year (or \$854 per room per month) and is escalated by regional inflation. We estimate total rent costs would be \$6.5 million over the 10-year extension term.</li> <li>• Costs are funded by the General Fund, State Mental Health Service Act (MHSA) funds, and US Department of Housing and Urban Development grants.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	

**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**

The City has an existing master lease with 124 Turk Street, L.P. for the Camelot Hotel located at 124 Turk Street that is dated August 1, 2002 to provide 55 units of permanent supportive housing. The original master lease was for 10 years, from August 1, 2002 through July 31, 2012, with two 10-year options to extend. In September 2012, the Board of Supervisors approved the first 10-year option to extend the master lease through July 31, 2022 (File 12-0790).

The existing master lease expired on July 31, 2022 and is currently in holdover status, pending approval of the proposed second 10-year option to extend the lease. As of August 1, 2022, the rent of the existing lease is \$38.34 per square foot per year, which reflects a five percent increase from the prior year (\$36.52 per square foot per year) according to terms of the existing master lease that permit annual increases based on the Consumer Price Index (CPI) for the San Francisco metropolitan area. According to a letter from Andrico Penick, Director of Real Estate, to the Board of Supervisors, the Real Estate Division negotiated that holdover rent between the existing term and approval of the proposed 10-year extension would be the extended term monthly base rate instead of the 150 percent holdover rate.

**Property Management and Supportive Services**

Delivering Innovation in Housing (DISH), under the fiscal sponsorship of Tides Center (Tides), provides property management services to the 55 units of permanent supportive housing at the Camelot Hotel under an existing agreement with HSH. The Board of Supervisors approved the second amendment to this agreement in June 2022 (File 22-0452). HSH staff, including 1.0 Full Time Equivalent (FTE) 2932 Senior Behavioral Health Clinician and 2.0 FTE 2487 Health Worker III, provide support services to residents.

**Capital Improvements**

According to an August 2022 amended budget for the Tides/DISH contract provided by HSH, the \$53.5 million not-to-exceed amount for the contract includes \$705,600 for capital improvements for six supportive housing sites, including the Camelot Hotel. Improvements to the Camelot Hotel include \$80,000 to remodel shared shower rooms and \$41,800 to replace the security camera system, for a total of \$121,800. The budget for capital improvements was based on a capital needs assessment completed by Tides/DISH.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution authorizes the Director of Property, on behalf of the Department of Homelessness and Supportive Housing, to exercise the second of two 10-year options to extend the term of a lease of real property located at 124 Turk Street with 124 Turk Street, L.P., at a base rent of \$563,654 per year to provide 55 units of permanent supportive housing. The proposed resolution also authorizes the Director of Property to execute documents, make certain modifications, and take certain actions to extend the term of the lease.

**Exhibit 1: Proposed Extended Lease Terms**

Premises	124 Turk Street
Rental area	14,700 square feet, including: <ul style="list-style-type: none"> <li>• 1,876 sqft. for laundry facilities and storage</li> <li>• 2,431 sqft. for office space</li> <li>• 10,393 sqft. for 55 SRO units</li> </ul>
Base rent	\$38.34 per square foot per year (\$563,654 annually)
Base rent adjustments	Annual increase on August 1 of each year of at least 1.5% and no more than 5% based on regional inflation
Term start and end	August 1, 2002 through July 31, 2032
Options to extend	No options remaining if proposed second option to extend is approved.
Utilities and Services	The City pays utility costs and other services' cost necessary for City's use of the building, such as the cost of linen service, janitorial service, security, and elevator maintenance.
Real Estate Taxes	Paid by Landlord.
Option to Purchase	City has right of first refusal to purchase.

Source: Original Lease Agreement

**Effective Date**

The existing lease expired on July 31, 2022. The City continued to occupy the site per the holdover provision of the lease, which did not extend the term. Therefore, the effective date of the proposed lease extension is backdated to August 1, 2022.

**FISCAL IMPACT**

The proposed resolution authorizes the 10-year extension of the master lease of 124 Turk Street to the City for a base rent of \$563,654 annually, \$38.34 per square foot per year or \$854 per room per month. The total annual costs for the Camelot Hotel master lease are \$2,031,122 from August 1, 2022 through July 31, 2023, as shown in Exhibit 2 below.

**Exhibit 2: Annual Operating Costs for 124 Turk Street Lease, Aug 2022 – July 2023**

<b>Item</b>	<b>Annual Amount</b>
Rent	\$563,654
Property Management	977,468
Supportive Services	490,000
<b>Total Operating Costs</b>	<b>\$2,031,122</b>

Source: Real Estate Division

According to HSH, the annual cost of the DISH/Tides contract for property management services attributable to 124 Turk Street is \$977,468, and the annual cost for HSH staff providing support services is \$490,000. HSH charges Camelot Hotel tenants rent equal to 30 percent of their income for housing and supportive services, which totals approximately \$143,000 per year and is used to offset property management costs.

As shown in Exhibit 1 above, the lease permits annual increases to rent of at least 1.5 percent and no more than 5.0 percent based on regional inflation. Assuming rent and operating costs increase by three percent per year, total rent and operating costs for the 10-year extension would be approximately \$21.9 million, which includes \$6.5 million in building rent (the subject of the proposed resolution), \$11.2 million in property management, \$5.6 million in supportive services, minus \$1.4 million in tenant rental income.

The proposed lease costs are funded by the General Fund, State Mental Health Service Act (MHSA) funds, and US Department of Housing and Urban Development grants within HSH's operating budget.

### RECOMMENDATION

Approve the proposed resolution.

<p><b>Item 5</b> <b>File 22-0533</b></p>	<p><b>Department:</b> Sheriff's Department</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution authorizes the Director of Property, on behalf of the Sheriff's Department, to amend the City's lease with 120 14th Street LLC. The amendment extends the term of the lease an additional five years to June 2027 and allows one additional five-year option to extend the lease through June 2032.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The Sheriff's Office plans to continue to use the building as the primary headquarters for the Sheriff's Department's Field Operations Division including use as the Sheriff's Office Emergency Operation Center (EOC) and training.</li> <li>• The City, on behalf of the Sheriff's Department, has leased space at 1740 Folsom Street (also known as 120 14<sup>th</sup> Street) since 2002. According to the Director of Real Estate, the landlord did not want to include an option to purchase in the new lease. The Real Estate Division did not look for alternative properties to buy because no funds for a purchase and associated move costs have been identified either in the Capital Plan or by the Sheriff. The Sheriff's Office indicated it would be open to moving if a new space had sufficient parking available, given its use of the current site as a training and emergency operations facility.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The proposed starting base rent of \$1,030,431 is \$22,069 or 2.2 percent more than the current base rent of \$1,008,456. Total base rent and operating expenses are projected to cost \$5.8 million over the initial five-year term. Costs are paid by the General Fund. The proposed rent was confirmed by an appraisal.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	

**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**

**Current Lease**

The City, on behalf of the Sheriff’s Department, has leased space at 1740 Folsom Street (also known as 120 14<sup>th</sup> Street) since 2002. The original 10-year lease was approved by the Board of Supervisors in 2002 and included two five-year extension options, which were exercised in 2012 (File 12-0038) and 2017 (File 17-0064). The existing lease expired on June 30, 2022 and is currently on holdover status. The Sheriff’s Office now desires to extend the lease for an additional five years through June 2027.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution authorizes the Director of Property, on behalf of the Sheriff’s Office, to amend the City’s lease with 120 14th Street LLC. The amendment extends the term of the lease an additional five years to June 2027 and allows one additional five-year option to extend the lease through June 2032, with an adjusted base rent starting at 95 percent of the prevailing rent for similar properties.

**Provisions of the Lease**

Exhibit 1 below provides an overview of the terms of the proposed lease agreement.

**Exhibit 1: Proposed Lease Terms**

Premises	Entire property of 1740 Folsom Street and the contiguous parking lot known as 120 14 <sup>th</sup> Street
Rental area	18,862 square feet
Base rent	\$54.63 per square foot per year (\$1,030,431 annually); reset to 95% of market rate if option to extend is exercised
Base rent adjustments	Three percent annually
Term	July 1, 2022 - June 30, 2027
Options to Extend	One five-year extension
Utility costs	Paid by City
Janitorial Services	Paid by landlord

Source: Proposed Lease Amendment



**Services Provided by Landlord**

Landlord would provide building maintenance, repair, and janitorial services. Any additional services requested and approved by the City may be provided by the Landlord for an additional charge plus a three percent administrative fee.

**Site Appraisal**

The Real Estate Division obtained an appraisal from Colliers International Valuation & Advisory Services which determined that the proposed rent of \$54.63 per square foot per year was consistent with fair market rent as of December 16, 2021. The appraisal is based on a market-rent survey.

**Site Use**

The Sheriff's Office plans to continue to use the building as the primary headquarters for: (i) the Sheriff's Department's Field Operations Division including use as the Sheriff's Office Emergency Operation Center (EOC), (ii) training classrooms for State-mandated annual training to members of the Sheriff's Department, (iii) office space for the Sheriff's Office Background Unit, Warrant Service Unit, and Emergency Services Unit, & Projects and Planning Division, and (iv) the Survivor Restoration Project, which provides services to victims and families of victims of domestic violence. The premises includes cubicles and offices, conference rooms, a kitchen, 29 parking spaces, and locker rooms.

The Field Operations Division conducts all administrative functions related to the daily operation of field units including operations for building security of the Superior Court, City Hall, Adult Probation, and others City buildings. The Division also includes the Homeland Security Unit, the Transportation Unit, and the Warrant Service Unit. The Warrant Service unit is charged with fugitive recovery and apprehension for persons with active warrants. The Projects and Planning Division is responsible for coordinating all services for the Sheriff's operations including Information and Technology Services, Communications, Facility Maintenance and Capital Planning, Professional Standards audits, and state mandated reporting. The Background Unit conducts investigations for prospective staff including all sworn and civilian staff, jail clearances and fingerprinting of staff and volunteers conducting services at all County jail facilities.

The Sheriff's Office has 40 staff permanently assigned to this site. According to information provided by the Sheriff's Office, on average, 40-75 staff may be present at the site due to various events and trainings. Our office evaluated the layout and site uses and believe the space use is reasonable.

**Long Term Lease**

As noted above, the City has leased this site since 2002. According to the Director of Real Estate, the landlord did not want to include an option to purchase in the new lease. The Real Estate Division did not look for alternative properties to buy because no funds for a purchase and associated move costs have been identified either in the Capital Plan or by the Sheriff. The Sheriff's Office indicated it would be open to moving if a new space had sufficient parking available, given its use of the current site as a training and emergency operations facility.

**FISCAL IMPACT**

The proposed resolution authorizes the lease of 1740 Folsom Street for a base rent of \$1,030,431 annually, or \$54.63 per square foot per year. Exhibit 2 below shows a breakdown of the rent and associated costs with the lease.

**Exhibit 2: Annual Base Rent and Operating Costs**

<b>Item</b>	<b>Cost</b>
Base Rent	\$1,030,431
Utilities	\$37,704
Backup Generator	\$15,600
Security System	\$7,200
<b>Total</b>	<b>\$1,090,935</b>

Source: Sheriff's Office

The proposed starting base rent of \$1,030,431 is \$22,069 or 2.2 percent more than the current base rent of \$1,008,456. Total base rent and operating expenses are projected to cost \$5.8 million over the initial five-year term. Costs are paid by the General Fund.

**RECOMMENDATION**

Approve the proposed resolution.

<p><b>Item 6</b> <b>File 22-0803</b></p>	<p><b>Department:</b> Real Estate Division</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution would approve a fourth amendment to the lease between the New Conservatory Theater Center (as tenant) and the City (as landlord) for continued use of 14,229 square feet of rentable space at the lower level of 25 Van Ness Avenue. The proposed lease would add a five-year option to extend the term through September 2033 and also forgive \$50,067 in base rent accrued from January 2021 through June 2021.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The New Conservatory Theater is a nonprofit theater organization that provides educational programs, theater productions, new play development, and conservatory training for youth in San Francisco. The Theater was closed from March 2020 until October 2021 due to local health orders.</li> <li>• In April 2021, the Board of Supervisors approved Ordinance No. 059-21 (File 21-0001), which authorized the City Administrator to amend three leases (the New Conservatory Theater Center, New Asia Restaurant, and Stephen M. Paoli) managed by the Real Estate Division to provide rent forgiveness for outstanding rent due from April 2020 to December 2020, including \$32,733 for the theater. The theater still has \$50,067 in outstanding rent for January 2021 to June 2021. No additional rent is outstanding beyond July 2021.</li> <li>• The City is extending the lease because the tenant plans to undertake improvements to the site, including upgrades to theater seating, investing in new production equipment, upgrades to technological infrastructure, and expanding programming.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The City will receive an approximate total of \$1,226,959 over the current lease term (from December 2008 through September 2023), net of the previously approved rent forgiveness of \$32,733 and of \$50,067 in unpaid rent that would be forgiven under the proposed amendment. Assuming three percent annual increases to base rent, we estimate the City would receive \$1.3 million over the remaining 10 years of the extension period (September 2023 to September 2033). Rent is a General Fund revenue.</li> <li>• A financial statement for the theater was not available for our review so we cannot assess the organization’s financial condition and ability to pay back rent.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Because the proposed resolution would forgive rent for a City tenant, we consider approval to be a policy matter for the Board of Supervisors.</li> </ul>	

**MANDATE STATEMENT**

City Charter Section 9.118(c) states that (1) any lease of real property for ten or more years, including options to renew, or anticipated to have revenues to the City of \$1,000,000 or more, or (2) the modification, amendment, or termination of any such leases, is subject to Board of Supervisors approval.

City Administrative Code Section 23.30 states that the Board of Supervisors can authorize the Director of Property to lease any City-owned property that is not required for the purposes of the Department. The Director of Property is also required to lease City property for no less than market rent unless authorized by the Board of Supervisors for a “proper public purpose.” This authority excludes month-to-month and year-to-year leases with a fair market rental value of \$15,000 or less per month, which the Director of Property can enter without Board approval, per Section 23.31.

**BACKGROUND**

On March 27, 2020,<sup>1</sup> the City Administrator issued a memo to all City departments regarding the enforcement of tenant lease obligations for private and non-profit tenants of City-owned property in response to the COVID-19 pandemic and related public health orders. This memo set out a City policy which provided the following relief for commercial City tenants: (1) waived all late charges, interest and other penalties related to late payment of rent from March 17 to December 31, 2020 due to the impact of COVID-19, (2) required the resumption of timely rent payment on January 1, 2021, and (3) specified that any delinquent rent not repaid by June 30, 2021 would be subject to applicable interest and penalties thereafter. The policy authorized City departments to provide further relief to tenants if warranted. This policy only applied to General Fund departments and not enterprise departments. The policy was intended to provide COVID-19 affected City tenants the ability to retain their leasehold while using financial reserves for other operational needs, including payroll, to remain in business.

In April 2021, the Board of Supervisors approved Ordinance No. 059-21 (File 21-0001) which authorized the City Administrator to amend three leases (the New Conservatory Theater Center, New Asia Restaurant, and Stephen M. Paoli) managed by the Real Estate Division to provide rent forgiveness for outstanding rent due from April 2020 to December 2020 in the amount of \$257,723.92. Of this total, the New Conservatory Theater Center (NCTC) received \$32,733 in rent forgiveness for the period of April 2020 to December 2020.

**Previous Proposed Ordinance to Forgive Rent Due between January through June 2021**

In January 2022, the Board considered an ordinance (File 21-1163) to amend the same three leases to forgive rent due between January through June 2021, in the amount of \$200,068. Of

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<sup>1</sup> The memo was subsequently updated on June 1, 2020 to extend protections to December 31, 2020.

this total, the proposed rent forgiveness amount for NCTC was \$50,057. The proposed ordinance did not include additional changes to the three leases. According to Real Estate Division staff, the proposed ordinance was discontinued because there were issues regarding compliance with lease terms with other tenants included in the proposed ordinance to forgive rent. As a result of these issues, it was determined to pull the legislation and propose rent forgiveness for only NCTC.

#### *New Conservatory Theater Center (25 Van Ness)*

NCTC is a nonprofit theater organization that provides educational programs, theater productions, new play development, and conservatory training for youth in San Francisco. The City leases the lower level of 25 Van Ness Avenue (14,229 square feet) to the NCTC, an arrangement in place since 1984. The Theater was closed from March 2020 until October 2021 due to local health orders. NCTC secured federal CARES Act funding to pay rent through August 2020. While NCTC secured \$188,706 in other federal aid and \$25,000 in state aid, these monies were only used for salaries. NCTC still has \$50,067 in outstanding rent for January 2021 to June 2021. No additional rent is outstanding beyond July 2021.

#### **Prior Lease History**

The City entered into the original lease in November 2008 (Resolution No. 489-08) with an initial expiration date of September 30, 2013 and two five-year extension options through September 2023. In October 2018, the lease was amended to add another five-year extension option from October 2023 through September 2028 (Resolution No. 327-18).

### **DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would approve a fourth amendment to the lease between the New Conservatory Theater Center (as tenant) and the City (as landlord) for continued use of 14,229 square feet of rentable space at the lower level of 25 Van Ness Avenue. The existing lease term is through September 2028 and has one five-year extension. The proposed amendment would add an additional five-year option to extend the term through September 2033. The proposed amendment would also forgive \$50,067 in base rent accrued from January 2021 through June 2021.

In addition, the proposed amendment clarifies that the tenant is responsible for maintaining the floors, interior plumbing, electrical wiring, fixtures, and related equipment on the rented premises. The City would continue to be responsible for other building systems and common areas and for repairing damage caused by flooding. The City pays any flooding damage costs that exceed \$11,000 in any year.

#### **Current and Proposed Lease Terms**

Exhibit 1 below summarizes key terms of the proposed and current lease.

**Exhibit 1. Summary of Current and Proposed Fourth Amendment Lease Provisions**

	<b>Current Lease</b>	<b>Proposed Amendment</b>
Term	December 1, 2008 - September 30, 2023; one 5-Year Option to Extend through September 2028	December 1, 2008 - September 30, 2023; two 5-Year Options to Extend through September 2033
Premises	12,792 sq. feet at 25 Van Ness Ave	12,792 sq. feet at 25 Van Ness Ave
Annual Base Rent	\$104,136 (\$8.14/sq. ft.)	Approximately \$107,260 (\$8.38/sq. ft.) starting October 2022, depending on CPI
Annual Rent Increases	Between 2%-4%, based upon CPI	No change
Utilities Services	City responsible	No change
Building Systems	City responsible	No change
Flood Damage	City responsible and absorbs costs above \$11,000 per year	No change
Interior Maintenance	Tenant responsible	Clarifies that the tenant is responsible for maintaining the floors, interior plumbing, electrical systems on premises
Rent Forgiveness	\$32,733 base rent forgiven for April 2020 to December 2020	\$50,067 base rent forgiven for January 2021 through June 2021

Source: Received from Real Estate Division.

**Additional Five Year Extension & Tenant Improvements**

According to Real Estate Division staff, the additional extension option, which could extend the lease from September 2028 to September 2033, was included in the proposed agreement because the tenant plans to perform tenant improvements and develop new programming if there are at least 10 additional guaranteed lease years beyond September 2023. Some of the planned tenant improvements and programming changes include: refurbishing management's office space which has been damaged and repaired during numerous rain and sewage flooding events, upgrades to Theater seating, investing in new production equipment, upgrades to technological infrastructure, expanding the Theater-In-Education program through more class offerings, touring educational Theater programs and performance opportunities and offering low-cost weekend classes and summer training sessions for youth ages 6 – 17 from all backgrounds. Tenant improvements are funded by the tenant.

**Reason for Requested Rent Forgiveness**

According to the Real Estate Division, NCTC was severely impacted by the slow pace of recovery from the COVID-19 pandemic and did not fully reopen until October 2021. NCTC was closed during the period for which rent forgiveness is being requested (January 2021 – June 2021) and was therefore unable to collect sufficient revenue from ticket sales. According to the Real Estate Division, while NCTC did receive CARES act funding to pay rent through August 2020, as well as

other federal and state aid to fund salary costs, it did not obtain other aid to pay the \$50,067 owed in back rent for the 2021 period. A financial statement for the Theater was not available for our review so we cannot assess the Theater's financial condition and ability to pay back rent.

### **FISCAL IMPACT**

According to Real Estate Division staff, the City will receive an approximate total of \$1,226,959 over the current lease term (from December 2008 through September 2023), net of the previously approved rent forgiveness of \$32,733 and of \$50,067 in unpaid rent that would be forgiven under the proposed amendment. Assuming three percent annual increases to base rent, we estimate the City would receive \$1.3 million over the remaining 10 years of the extension period (September 2023 to September 2033). Rent is a General Fund revenue.

Because the proposed resolution would forgive rent for a City tenant, we consider approval to be a policy matter for the Board of Supervisors. As noted above, a financial statement for the Theater was not available for our review so we cannot assess the Theater's financial condition and ability to pay back rent.

### **RECOMMENDATION**

Approval of the proposed resolution is a policy matter for the Board of Supervisors.

<p><b>Item 9</b> <b>File 22-0855</b></p>	<p><b>Department:</b> Public Works (DPW)</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution would authorize the Department of Public Works (Public Works) to accept and expend a grant in the amount of \$1,193,594 from the California Department of Forestry and Fire Protection (CAL FIRE) Urban and Community Forestry Grant Program, for a term of approximately three years and six months from the date of Board of Supervisors approval through March 2026, to support the operation of a tree nursery development program at the South of Market Tree Nursery, and affirm the California Department of Transportation’s (Caltrans) determination under the California Environmental Quality Act (CEQA).</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The vacant freeway parcel at the intersection of 5th Street and Interstate 80 has struggled with ongoing dumping, homeless encampment, public safety, and maintenance challenges. Public Works and the Caltrans have collaborated on a plan to transform the site into the proposed South of Market Street Tree Nursery, which would help achieve the objectives of the Urban Forest Plan and Central SoMa Plan. In December 2021, Public Works applied for a grant from the CAL FIRE Urban and Community Forestry Grant Program for the project. In February 2022, CAL FIRE awarded Public Works \$1,193,594.</li> <li>• Site improvements for the proposed nursery project include a perimeter fence, driveways, vehicle access roads, ground surface preparation, irrigation, electrical and water service, and an office trailer. A total of 75 trees would be planted during the grant term, including 20 at the nursery site and 55 street trees in the South of Market and Bayview neighborhoods. Approximately 300 trees would be grown and cared for in the nursery. A non-profit operator would provide job training in urban forestry and nursery operations for 20 participants.</li> <li>• The proposed resolution states that approval is retroactive. However, because the grant agreement takes effect upon signature after Board of Supervisors approval, the Budget and Legislative Analyst recommends amending the resolution to clarify that approval is not retroactive.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The proposed grant agreement would provide \$1,193,594 in CAL FIRE funding for the South of Market Tree Nursery project. The total project budget is approximately \$5,824,335, of which approximately \$2,005,741 would be funded by City sources. Caltrans has also awarded Public Works a grant of \$2,625,000 for the project.</li> </ul> <p style="text-align: center;"><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>• Amend the proposed resolution to clarify that approval is not retroactive.</li> <li>• Approve the resolution as amended.</li> </ul>	



## MANDATE STATEMENT

City Administrative Code Section 10.170-1 states that accepting federal, state, or third-party grant funds in the amount of \$100,000 or more, including any City matching funds required by the grant, is subject to Board of Supervisors approval.

## BACKGROUND

In February 2015, the Board of Supervisors approved an ordinance to amend the General Plan and adopt the Urban Forest Plan (File 14-1264). The Urban Forest Plan recommended a life-cycle approach to tree maintenance and proposed establishing a street tree nursery to grow trees locally. The Central SoMa Plan, approved by the Board of Supervisors in November 2018, envisions additional street trees, parks, and open space in the neighborhood (File 18-0490).

According to the Department of Public Works (Public Works), the vacant freeway parcel at the 5<sup>th</sup> Street and Interstate 80 intersection has struggled with ongoing dumping, homeless encampment, public safety, and maintenance challenges. Public Works and the California Department of Transportation (Caltrans) have collaborated on a plan to transform the site into the proposed South of Market Street Tree Nursery, which would help achieve the objectives of the Urban Forest Plan and Central SoMa Plan.<sup>1</sup> In December 2021, Public Works applied for a grant for the project from the California Department of Forestry and Fire Protection (CAL FIRE) Urban and Community Forestry Grant Program. In February 2022, CAL FIRE informed Public Works that a grant was awarded in the amount of \$1,193,594. In July 2022, the Board of Supervisors approved the acceptance and expenditure of \$2,400,000 in grant funds from Caltrans for the project, which was increased to \$2,625,000 in August 2022 under the final grant agreement (File 22-0762).

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize Public Works to accept and expend a grant in the amount of \$1,193,594 from the CAL FIRE Urban and Community Forestry Grant Program, for a term of approximately three years and six months from the date of Board of Supervisors approval through March 2026, to support the operation of a tree nursery workforce development program at the South of Market Tree Nursery. The proposed resolution would also affirm Caltrans' determination that the project is exempt under the California Environmental Quality Act (CEQA). Because the grant agreement takes effect upon signature after Board of Supervisors approval, the Budget and Legislative Analyst recommends amending the resolution to clarify that approval is not retroactive.

The project consists of developing a street tree nursery on an approximately 14,000 square foot site at the 5<sup>th</sup> Street and Interstate 80 interchange. Site improvements include a perimeter fence, driveways, vehicle access roads, ground surface preparation, irrigation, electrical and water service, and an office trailer. A total of 75 trees would be planted during the grant term, including

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<sup>1</sup> According to DPW Grants Manager Swae, the City Attorney's Office is negotiating an airspace lease with Caltrans for a nominal rental rate.

20 at the nursery site and 55 street trees in the South of Market and Bayview neighborhoods. Approximately 300 trees would be grown and cared for in the nursery. A non-profit operator would provide job training in urban forestry and nursery operations for 20 participants. Each participant would work 32 hours per week, at a rate of \$19 per hour, for six months. The project would support four full-time employees, two employed by Public Works, and two employed by the non-profit provider, for a period of two years and six months.

In the application to CAL FIRE, Public Works indicated that San Francisco Clean City Coalition (SF Clean City) would serve as the non-profit partner to provide workforce development services. According to Jon Swae, Public Works Urban Forestry Manager of Grants, Contracts, and Initiatives, Public Works was required to list a non-profit partner on the grant application, but, per Chapter 21G of the Administrative Code, would have to conduct a competitive process to determine the actual workforce development operator. DPW Grants Manager Swae anticipates that a Request for Proposals (RFP) would be issued in approximately January 2023 and that the nursery would be operational in June 2023. Grant funds must be spent by March 2026.

**FISCAL IMPACT**

The proposed grant agreement would provide \$1,193,594 in CAL FIRE funding for the South of Market Tree Nursery project. The total project budget is approximately \$5,824,335, of which approximately \$2,005,741 would be funded by City sources. The estimated sources and uses of funds are shown in Exhibit 1 below.

**Exhibit 1: Estimated Sources and Uses of Funds**

<b>Sources</b>	<b>Amount</b>
Caltrans Grant	\$2,625,000
CAL FIRE Grant	1,193,594
City General Fund	1,023,750
Tree Maintenance Fund <sup>2</sup>	883,991
Eastern Neighborhoods Infrastructure Impact Fees	98,000
<b>Total Sources</b>	<b>\$5,824,335</b>

<b>Uses</b>	<b>Amount</b>
Capital Construction	\$3,223,000
Workforce Development Program (2.5 Years, Including Indirect Costs)	717,063
Public Works Staffing (2.5 Years) <sup>3</sup>	1,760,522
Street Tree Planting and Watering	123,750
<b>Total Uses</b>	<b>\$5,824,335</b>

Source: Public Works

<sup>2</sup> In November 2016, San Francisco Voters approved Proposition E, which shifted maintenance of street trees to Public Works, and established the Tree Maintenance Fund as a General Fund set-aside.

<sup>3</sup> According to Grants Manager Swae, 16 positions would contribute to the project in varying degrees.

According to Grants Manager Swae, Public Works intends for the tree nursery to continue operating beyond the two years and six months funded by the grant. If the program is extended, Public Works would fund the nursery using City funds, or pursue future grant opportunities.

### RECOMMENDATIONS

1. Amend the proposed resolution to clarify that approval is not retroactive.
2. Approve the resolution as amended.