CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292
FAX (415) 252-0461

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: December 4, 2024 Budget and Finance Committee Meeting

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EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a ground lease between Treasure Island Development Authority (TIDA) as landlord and BAFC Team Operator, LLC (Bay FC) as tenant for approximately 370,000 square feet on Treasure Island for an initial term of 25 years, with four 5-year options to extend, and initial annual base rent of $333,000 ($0.90 per square foot annually) which is equal to $27,750 per month ($0.075 per square foot per month) as expressed in the lease, with two percent annual escalation.

Key Points

- Bay FC, a professional women's soccer team that was founded in 2023, has been looking for a site throughout the Bay Area to establish a permanent training and administration facility. Bay FC worked with City officials and identified a largely vacant site on Treasure Island that is planned for open space and adjacent to a future Sports Park. TIDA and Bay FC have agreed to a ground lease for the site.
- Under the lease, Bay FC is required construct three full-size soccer fields (two with natural grass and one with artificial turf) and an approximately 25,000 square foot building with training facilities and offices. The proposed initial annual base rent of $0.90 per square foot is greater than TIDA's minimum parameter rent of $0.60 per square foot for unpaved land. Bay FC would be responsible for demolishing an existing building on the premises, for which it would receive a rent credit, estimated to be approximately $1 million. Bay FC may expand the lease beginning in July 2030 by up to 7.5 acres to construct up to three additional fields as part of a larger future Sports Park on Treasure Island.

Fiscal Impact

- Under the proposed lease, Bay FC would pay initial annual base rent of $0.90 per square foot, or $333,000, with two percent annual escalation. Over the initial 25-year base rent, TIDA would receive approximately $10,666,090 in rental revenue. TIDA would also provide a rent credit to Bay FC for the demolition costs of Building 258, which is estimated to be approximately $1 million. This would reduce the anticipated revenues to approximately $9,666,090. Rent revenues would fund TIDA operating costs.
- If Bay FC extends the lease beyond the initial 25-year term, the rent for the first optional extension would be set at the fair market rate at that time.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(c) states that any lease of real property for a period of ten years or more or that has revenue to the City of $1 million or more is subject to Board of Supervisors approval.

BACKGROUND

Bay FC is a professional women's soccer team in the National Women's Soccer League that was founded in 2023 and began play in 2024. Bay FC has been looking for a site throughout the Bay Area to establish a permanent training and administration facility. Bay FC worked with City officials to identify a site in San Francisco and identified a largely vacant parcel on Treasure Island that currently stores a soil stockpile for use in island construction and a small pre-existing building slated for future demolition. The island master plan identifies the site as future open space (a sports tournament facility or extension of the planned urban farm) and is adjacent to a future 40-acre Sports Park.

In August 2024, Treasure Island Development Authority (TIDA) and Bay FC representatives signed a Letter of Intent (LOI) to negotiate a ground lease to build a soccer training and administration facility on Treasure Island.[1]

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a ground lease between TIDA as landlord and Bay FC as tenant for an initial term of 25 years, with four 5-year options to extend, and initial annual base rent of $333,000 ($0.90 per square foot annually), which is equal to $27,750 per month ($0.075 per square foot per month) as expressed in the lease, with two percent annual escalation. The resolution also makes findings under the California Environmental Quality Act (CEQA) and confirms the Planning Department determination that no additional environmental impacts would occur.

The key terms of the proposed lease are shown in Exhibit 1 below.

[1] TIDA's Board of Directors have delegated authority to the TIDA Executive Director that allow leases to be awarded so long as they conform to parameter rents. There is no requirement in TIDA leasing policy for competitive solicitations to award leases as there is in Administrative Code Chapter 23.33.

Exhibit 1: Key Terms of Proposed Ground Lease

Premises	Approximately 370,000 square feet (8.5 acres), west of Avenue H between 5th and 9th Streets
Initial Term	25 years
Options to Extend	Four 5-year options to extend
Annual Base Rent	$333,000 ($0.90 per square foot) or $27,750 per month ($0.075 per square foot per month)
Rent Escalation	2% per year
Rent Credit	Rent credit equal to the cost of Building 258 demolition (estimated to be $1 million)
Tenant Improvements	Tenant must construct three soccer fields and 25,000 square foot training facility
Option to Expand	Between July 2030 and June 2037, premises may expand by 2.5 to 7.5 acres as part of the adjacent Sports Park development
Security Deposit	$55,500
Parking	TIDA and Bay FC to agree to separate off-site parking lease at same rental rate

Source: Proposed lease

Rent

TIDA sets annual parameter minimum rental rates for various types of properties under its authority. For unpaved land, the FY 2024-25 minimum rental rate is $0.05 per square foot per month, or $0.60 annually. According to Rich Rovetti, TIDA Deputy Director of Real Estate, the proposed annual rental rate of $0.90 per square foot is based on the minimum parameter rents and other recent ground leases on Treasure Island.

Rent Credit

Bay FC would be responsible for demolishing an existing building on the premises, which is currently occupied with commercial tenants but is in poor condition and will be vacated by March 1, 2025. TIDA would provide a rent credit for the demolition costs, which TIDA estimates to be approximately $1 million. TIDA and Bay FC have agreed to a separate off-site parking lease for approximately 100 parking spaces (approximately 26,000 square feet) on an adjacent parcel at the same rental rate as the main lease. Assuming the lease is fully approved in CY 2024, Bay FC would be able to access the site and begin improvements on or before June 30, 2025. TIDA and Bay FC anticipate that the improvements would be complete by February 1, 2027. Base rent (with credits) would be charged after the improvements are completed and Bay FC has been issued a Certificate of Occupancy, or no later than two years after the premises is delivered to Bay FC.

Tenant Improvements

Under the lease, Bay FC is required construct three full-size soccer fields (two with natural grass and one with artificial turf) and an approximately 25,000 square foot building with training facilities and offices, for its exclusive use. The estimated budget of the development is approximately $40 million. If the lease is terminated, the improvements would be owned by TIDA for future use.

Option to Expand

Under the proposed lease, Bay FC may expand its premises beginning in July 2030 by up to 7.5 acres to construct up to three additional fields as part of a larger future Sports Park on Treasure Island. The Sports Park is a 40-acre area in the Treasure Island master plan that will include regional public sports facilities and will be constructed as part of the island's development. The tenant's optional expansion in this area will be informed by a public planning and design process to identify sports uses and field layouts for the planned Sports Park area. TIDA will conduct the public planning process in collaboration with the master developer (Treasure Island Community Development), the public, and the existing sports users on the island along with Bay FC. TIDA and Bay FC would work collaboratively on the expansion plans before the option is executed. Any public fields constructed in the expansion premises would have a base rent of $1 per month, and any exclusive space would have the same rental rate as the main leased premises. The tenant would be responsible for all tenant improvement costs related to the optional space. The tenant may request a rent credit for site infrastructure improvement costs if the tenant elects to exercise the option before the horizontal improvements are constructed.

FISCAL IMPACT

Under the proposed lease, Bay FC would pay initial annual base rent of $0.90 per square foot, or $333,000, with two percent annual escalation (as expressed in the lease, the rent is $27,750 per month or $.075 per square foot per month). Over the initial 25-year base rent, TIDA would receive approximately $10,666,090 in rental revenue. TIDA would also provide a rent credit to Bay FC for the demolition costs of Building 258, which is estimated to be approximately $1 million. This would reduce the anticipated revenues to approximately $9,666,090. Rent revenues would fund TIDA operating costs.

If Bay FC extends the lease beyond the initial 25-year term, the rent for the first optional extension would be set at the fair market rate at that time within 175 percent of the base rent of the lease, with a 2 percent annual escalation thereafter.

RECOMMENDATION

Approve the proposed resolution.

Items 2-6 **Files 24-1085, 24-1086, 24-1098, 24-1099, & 24-1138**	**Department:** Treasure Island Development Authority (TIDA) Office of Public Finance (OPF), Office of Economic and Workforce Development (OEWD)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinances and resolutions would: (1) authorize the execution and delivery of Certificates of Participation (COPs) in an aggregate principal amount not to exceed $65,000,000 as the first tranche of Stage 2 Alternative Financing for the Treasure Island project (File 24-1085); (2) appropriate $65,550,000 to the Treasure Island Development Authority (TIDA) and place the amount on Controller's Reserve in FY 2024-25 (File 24-1086); (3) authorize the Stage 2 contribution as debt to the Treasure Island Community Facilities District (CFD) and confirm that the property is annexed into the CFD as Improvement Area No. 3 of the CFD (File 24-1098); (4) authorize the Stage 2 contribution as debt of the Treasure Island Infrastructure and Revitalization Financing District (IRFD) (File 24-1099); and (5) amend the City's 10-year Capital Expenditure Plan for FY 2024-33 (File 24-1138).

Key Points

- In April 2024, the Board of Supervisors approved an Amended and Restated Disposition and Development Agreement (DDA) for the Treasure Island/Yerba Buena Island Development Project with a new financing plan that anticipated $115 million in General Fund COPs to be issued in three tranches, subject to Board of Supervisors' approval. The plan redirected $550,000 per year in residual property tax increment and residual special taxes to the City to offset the lease payments from the General Fund over the term of the COPs. The proposed action would authorize the first tranche of COPs, as well as authorize the CFD and IRFD to contribute $550,000 in annual residual property tax increment and special taxes to pay debt service on the COPs. The Capital Expenditure Plan would be amended to account for the proposed COPs.

Fiscal Impact

- The proposed legislation would authorize the issuance of Treasure Island COPs in a principal amount not to exceed $65,000,000. The COP proceeds, as well as $550,000 in Treasure Island IRFD tax increment and CFD special taxes, would be appropriated for TIDA and placed on Controller's Reserve
- The City would pay COP debt service of approximately $5.75 million per year for 20 years, of which approximately $5.2 million would be paid for by the General Fund.

Recommendation

- Because the proposed action is consistent with previous Board action, we recommend approval of the proposed ordinances and resolution.

MANDATE STATEMENT

City Administrative Code Section 10.62(b) states that the Board of Supervisors may authorize the issuance of Certificates of Participation (COPs) and other lease financing debt to fund capital projects provided the annual debt service cost of such outstanding general fund appropriation debt does not exceed 3.25 percent of discretionary revenue as determined by the Controller and Director of Public Finance. Administrative Code Section 10.62(c) states that the Director of Public Finance may issue tax-exempt and taxable commercial paper notes to provide interim funds to finance the acquisition, construction and rehabilitation of capital improvements and capital equipment, subject to the project's and financing plan's approval by the Board of Supervisors and Mayor.

City Charter Section 9.105 states that amendments to the Annual Appropriations Ordinance, after the Controller certifies the availability of funds, are subject to Board of Supervisors approval by ordinance.

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of $10 million or more, or (3) any modification of such contracts of more than $500,000 is subject to Board of Supervisors approval.

Administrative Code Section 3.20 states that the Mayor and Board of Supervisors shall review, update, amend, and adopt by resolution the ten-year capital expenditure plan by May 1 every odd-numbered year and may update the plan as necessary.

BACKGROUND

The Treasure Island/Yerba Buena Island Development Project (Project) is part of the Treasure Island Development Authority's (TIDA) ongoing project to transition Treasure Island and a portion of Yerba Buena Island from a former military base to a residential and commercial development. In 2011, the Board of Supervisors approved the Development Agreement between the City and Treasure Island Community Development, LLC (TICD)[1], the master developer for the Treasure Island development project, and the Disposition and Development Agreement (DDA) between TIDA and TICD (Files 11-0226 and 11-0291). The Project includes up to 8,000 residential units, including 2,173 affordable units (27.2 percent), as well as retail and commercial space, up to 500 hotel rooms, and 300 acres of public open space. To date, on Yerba Buena Island, 124 condominium units were completed in 2022, with an additional 31 flats and townhomes finished in 2024. On Treasure Island, over 240 affordable housing units have been completed and fully leased, with nearly 600 additional units, both affordable and market-rate, currently under construction and expected to be completed by late 2024 or mid-2025. Infrastructure improvements include new roadways and utilities accepted by the City in March 2024. Four public parks were completed in 2024, with three more anticipated by 2025.

[1] TICD is a limited liability company owned by Stockbridge Capital Group, Wilson Meany, Kenwood Investments, and Lennar Corporation.

The Project is phased over eight stages for a total estimated budget of approximately $2.56 billion. Under the DDA's Financing Plan, public infrastructure costs are paid for by the developer and then reimbursed over time by long-term public financing support by growth in property tax increment (though an Infrastructure and Revitalization Financing District) and special tax revenues (through a Community Facilities District).

In April 2024, the Board of Supervisors approved an amended and restated DDA and an amendment to the DA which extended the timeline for project completion by eight years from 2034 to 2042 and amended the financing plan (File 24-0202 and 24-0198). Due to the limited availability of tax increment financing and special tax bonds for the project, the new financing plan anticipated $115 million in General Fund Certificates of Participation (COPs) to be issued in three tranches, subject to Board of Supervisors' approval. The plan redirected $550,000 per year in residual property tax increment and residual special taxes to the City to offset the lease payments from the General Fund over the term of the COPs. The plan also stated that the City's General Fund would not be available to provide financing to the project beyond Stage 2 alternate financing.

To support the issuance of COPs for the Treasure Island project, TIDA, the Office of Public Finance (OPF), and Office of Economic and Workforce Development (OEWD) have prepared several pieces of legislation, as shown below.

DETAILS OF PROPOSED LEGISLATION

The proposed legislation is shown as follows:

1. Ordinance authorizing the execution and delivery of COPs in an aggregate principal amount not to exceed $65,000,000 as the first tranche of Stage 2 Alternative Financing for the Treasure Island project and approving related documents and actions (File 24-1085). The proposed ordinance also approves associated transaction documents;
2. Ordinance appropriating $65,550,000 to TIDA, including $65,000,000 of COP proceeds, $383,948 of Treasure Island Infrastructure and Revitalization Financing District (IRFD) tax increment, and $166,052 of Treasure Island Community Facilities District (CFD) special taxes, and placing these amounts on Controller's Reserve in FY 2024-25 (File 24-1086);
3. Resolution authorizing the Stage 2 contribution as debt to the Treasure Island CFD and confirming that the property is annexed into the CFD as Improvement Area No. 3 of the CFD (File 24-1098) and associated transaction documents;
4. Resolution authorizing the Stage 2 contribution as debt of the Treasure Island IRFD (File 24-1099) and associated transaction documents; and
5. Resolution amending the City's 10-year Capital Expenditure Plan for FY 2024-33 (File 24-1138).

The COPs would be used to fund improvements in the Stage 2 area of the Treasure Island Project. This includes geotechnical studies, demolition of existing structures, deep utility work, and roadway infrastructure. The COP ordinance authorizes a lease for City property at 1995 Evans

Avenue to secure the COPs. This authorization is the first of three anticipated tranches of Treasure Island COPs, totaling $115 million in proceeds.

Infrastructure and Revitalization Financing District and Community Facilities District

The legislation includes two resolutions that authorize the Stage 2 contribution as debt to the Treasure Island IRFD and CFD in maximum principal amounts not to exceed $25 million each. This mechanism allows $550,000 in annual residual property tax increment and special taxes to pay debt service on the COPs. These revenues would not be pledged as security for the COP debt service but may be used to pay for such debt service, up to $550,000 per year.

Under the DDA's Financing Plan, 17.5 percent of IRFD revenues are set-aside for housing and 82.5 percent of IRFD revenues are set-aside for infrastructure. Under the proposed IRFD resolution (File 24-1099), only the facilities portion of the revenues would be allowed to pay for COP debt service.

Capital Plan Amendment

The proposed Capital Plan Amendment memorializes changes to the City's use of COP debt to finance capital projects through FY 2031-32, as required by the Administrative Code and by the 2024 ordinance authorizing changes to the Treasure Island DDA. The 10-year Capital Expenditure Plan for FY 2024-33 includes $70 million in COPs to finance the acquisition and improvement of a replacement building for the Human Service Agency's headquarters at 170 Otis Street. Since the City plans to move a portion of staff and programs from 170 Otis Street to a leased facility at 1455 Market Street, the City will pursue a smaller replacement project and the Capital Planning Committee is proposing to reduce the 170 Otis Street COPs from $70 million to $55 million and delaying the issuance from FY 2023-24 to FY 2025-26. The Capital Planning Committee has also proposed increasing the FY 2024-25 Critical Repairs COPs from $30 million to $45 million to enhance the street paving program (the issuance of which was already approved by the Board of Supervisors, File 24-0784). Finally, the proposed Capital Plan amendment delays full funding of the Hall of Justice Replacement Project from FY 2029-30 to FY 2031-32 (which was not stated in the resolution). The changes are shown in Exhibit 1 below:

Exhibit 1: Proposed Capital Plan Amendment, COP Schedule ($ in Millions)

Current

Issuance	Project	Amount
FY 2024	HSA HQ Relocation	$70
FY 2024	Critical Repairs	30
FY 2024	Street Resurfacing	30
FY 2025	Critical Repairs	30
FY 2027	HOJ Replacement	167
FY 2030	HOJ Replacement	200
Total		**$527**
By Fiscal Year		
FY 2024		130
FY 2025		30
FY 2027		167
FY 2030		200
Total		**$527**

Proposed

Issuance	Project	Amount
FY 2024	Critical Repairs	$30
FY 2024	Street Resurfacing	30
FY 2025	Critical Repairs & Street Resurfacing	45
FY 2025	Treasure Island	50
FY 2026	HSA HQ Relocation	55
FY 2026	Treasure Island	50
FY 2027	Treasure Island	15
FY 2027	HOJ Replacement	157
FY 2030	HOJ Replacement	180
FY 2032	HOJ Replacement	30
Total		**$642**
By Fiscal Year		
FY 2024		$60
FY 2025		95
FY 2026		105
FY 2027		172
FY 2030		180
FY 2032		30
Total		**$642**

Source: Proposed resolution

It is anticipated that the Treasure Island COPs will be issued in three tranches as follows: $50 million in FY 2024-25, $50 million in FY 2025-26, and $15 million in FY 2026-27.

FISCAL IMPACT

The proposed legislation would authorize the issuance of Treasure Island COPs in a principal amount not to exceed $65,000,000. The COP proceeds, as well as $550,000 in Treasure Island IRFD tax increment and CFD special taxes, would be appropriated for TIDA and placed on Controller's Reserve. The sources and uses of the appropriation are shown in Exhibit 2 below.

Exhibit 2: Estimated Sources and Uses of COPs

Sources	Amount
COP Proceeds	$65,000,000
Infrastructure Financing District Revenues	383,948
Special Tax Proceeds	166,052
Total Sources	**$65,550,000**
Uses	**Amount**
Project Fund	$50,000,000
Capitalized Interest	5,705,756
Debt Service Reserve Fund	5,754,249
Cost of Issuance	800,000
Debt Service, IRFD & CFD	550,000
Underwriter's Discount	439,600
CSA Audit Fee (0.2%)	100,000
Reserve for Market Uncertainty	2,200,395
Total Uses	**$65,550,000**

Source: Appropriation Ordinance

The estimates above are based on good faith estimates provided to OPF by KNN Public Finance. Based on an estimated 6.34 percent true interest cost and an anticipated par amount of $62.8 million, the total debt service paid over the estimated 20-year term of the COPs is approximately $113.1 million. Based on market conditions, OPF reports that the COPs may be structured with up to a 30-year term. Debt service would be paid by annual $550,000 residual tax increment and special tax revenue from Treasure Island, with the remainder paid by the City's General Fund.

The 2024 ordinance authorizing the Amended and Restated DDA required the Treasure Island COP debt service not be paid from the General Fund until FY 2026-27. According to debt service projections provided by the Office of Public Finance, the proposed COPs would be issued in FY 2024-25 but the first debt service payment would occur in FY 2026-27. The proceeds would accrue capitalized interest totaling approximately $5.7 million during FY 2024-25 and FY 2025-26, would then be paid down as part of the City's debt service payments, totaling an estimated $5.75 million per year, of which approximately $5.2 million would be paid for by the General Fund.

The proposed COPs would reimburse the Treasure Island developer on a monthly basis for eligible costs. This provides additional public financing for Stage 2 of the project, which otherwise would have to wait until the IRFD and CFD generate sufficient revenue. The COPs will reduce the reimbursement from these sources over the long-term.

City Debt Policy

Administrative Code Section 10.62 limits debt service of COPs and other lease financing to 3.25 percent of discretionary General Fund revenues. According to projections from the Controller's Office, the proposed COP authorization (including future tranches) would increase the debt service paid in FY 2028-29 to approximately 3.24 percent of General Fund revenues, just below the 3.25 percent limit. According to Anna Van Degna, OPF Director, debt service may be less than this projected amount due to actual issuance of COPs being less than the maximum authorized amount and changes in interest rates. Furthermore, actual revenues in FY 2028-29 may exceed the current projections, which would reduce the percentage of revenues used on COP debt service (unless additional COPs are authorized).

Treasure Island Project Fiscal Impact

The Treasure Island Project is anticipated to eventually provide positive net revenue to TIDA and the City's General Fund. According to a November 2024 analysis by Keyser Marston Associates, the Treasure Island project will generate $5.35 million in net new General Fund revenues (in 2016 dollars) at build-out. This figure accounts for new revenues generated from more residents and businesses on Treasure Island, property taxes diverted to the IRFD, new General Fund expenses to provide services for the new residents and businesses, and baseline transfers out of the General Fund. However, this estimate does not account for debt service paid on COPs, which may make the project negative net revenue until approximately 2053. Because the proposed action is consistent with previous Board of Supervisors action, the Budget and Legislative Analyst recommends approval.

RECOMMENDATION

Approve the proposed ordinances and resolutions.

Item 11 **File 24-1136**	**Department:** San Francisco Municipal Transportation Agency (MTA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution conditionally approves a Design-Build-Finance-Operate-Maintain (DBFOM) Agreement for SFMTA's Potrero Yard Modernization Project, subject to final pricing, with financial limits including an initial milestone payment of up to $75 million at financial close, a relocation payment up to $500,000, a milestone payment of up to $200 million by 2033, and an initial maximum annual availability payment of $42.2 million in FY 2030 dollars, adjusted for interest rate fluctuations, credit spread changes, and CPI increases over a 30-year maintenance term.
- The resolution would delegate authority under Charter Section 9.118(b) to the SFMTA Board of Directors to approve final pricing within these limits.

Key Points

- The Potrero Yard Modernization Project replaces a 109-year-old facility with a four-level structure for up to 246 buses and includes plans for up to 465 affordable housing units and commercial space, contingent on financing feasibility. The DBFOM agreement covers the Bus Yard Component and Common Infrastructure but excludes the Housing and Commercial Component.
- The final contract will be with Potrero Neighborhood Collective (PNC), a developer consortium selected to develop the Potrero Yard Modernization project following a competitive solicitation, or a special purpose corporate affiliate of Plenary Americas, an infrastructure financing firm that is part of PNC.

Fiscal Impact

- The developer secures private financing for design, construction, and maintenance, while the City provides fixed milestone payments of $75 million at Financial Close, $200 million by 2033, a $500,000 relocation payment, and availability payments starting at $42.2 million annually, subject to adjustments, over the 30-year maintenance term. Over the thirty-year maintenance term, PNC currently estimates the availability payments will total $1,967,956,981.
- Our analysis suggests the City could deliver the project at a lower cost if conventional public financing sources were available. The capital cost is $121 million more than a conventional general obligation bond and the annual operating cost is $10 million more than the City is currently spending on the facility.
- SFMTA has secured $70.1 million in funding, leaving approximately $2.2 billion in additional funding needed based on the current project estimate, which may come from sources such as bonds or federal programs.

Recommendation

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

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of $10 million or more, or (3) requires a modification of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

Potrero Yard Modernization Project

Potrero Yard, a 4.4-acre site located at Bryant Street and Mariposa Street, is a 109-year-old facility that currently serves as a trolley bus storage yard and maintenance facility. The Potrero Yard Modernization Project (the Project) will replace the existing trolley bus yard and two-story building with a four-story bus maintenance and storage facility (Bus Yard Component) and shared systems and utilities (Common Infrastructure), collectively referred to as the Infrastructure Facility.

The site is being developed through a "joint development" model, and the proposed Project would also add approximately 2,886 square feet of ground floor commercial space and housing adjacent to (along Bryant Street) and above the Bus Yard Component to provide up to 465 units of housing (Housing and Commercial Component), all of which would be affordable to low- to moderate-income residents.[1]

If construction of the units above the bus yard is infeasible due to inadequate financing, an alternative proposal would extend the bus yard facility onto the fifth floor to house SFMTA's Paratransit division, including administrative and operation spaces and paratransit vehicle storage. The alternative proposal would still provide for the low-income units of housing adjacent to the bus yard, along Bryant Street.

Procurement

In March 2021, the Board of Supervisors granted SFMTA exemption from certain procurement and contracting requirements of Chapters 6, 14B, and 21 of the Administrative Code to facilitate a joint development delivery method for the Project and permit a best-value selection of the

[1]According to SFMTA, the project includes up to 465 affordable housing units across three developments, to be delivered under their own housing agreements separate from the SFMTA Project Agreement. About 245 units for low-income residents (30%-80% AMI) will be split between approximately 99 units at Bryant Street and the remainder atop the bus yard. Another 218 middle-income units (81%-120% AMI) will also be on the bus yard podium, with a preference for SFMTA staff if the preference complies with the Fair Housing Act.

developer team (File 20-0947).[2] Following a competitive procurement process that began with a Request for Qualifications (RFQ) in August 2020, SFMTA selected three proposers to participate in a Request for Proposals (RFP) issued in April 2021. Of the three proposals submitted by December 30, 2021, SFMTA determined that two were eligible to submit revised proposals. In May 2022, SFMTA issued an RFP addendum requesting revised proposals from the two eligible proposers. Potrero Neighborhood Collective (PNC) submitted a revised proposal that met expectations, while the other proposer did not submit a revision. As a result, SFMTA selected PNC as the Lead Developer to deliver the Potrero Yard Modernization Project. Plenary Americas US Holdings, Inc.[3] is the controlling equity member of PNC. PNC also includes affordable and workforce housing developers, design consultants, construction management consultants, and an infrastructure facility maintenance consultant.

The proposed Project is in predevelopment, as discussed below, and will be constructed in three phases. Phase 1 includes the design and construction of the Bus Yard Component and common infrastructure it would share with the Housing and Commercial Component (collectively, the Infrastructure Facility). Phase 2 includes construction of housing along Bryant Street, and Phase 3 includes construction of housing on top of the bus maintenance and storage facility. According to SFMTA staff, construction of Phase 1, including the bus facility and common infrastructure is anticipated to begin in third quarter of CY 2025.

Predevelopment Agreement

In November 2022, SFMTA executed a predevelopment agreement with PNC. The predevelopment agreement covers the Project's predevelopment activities, including development of financing plans, schematic designs, and maintenance plans, project entitlements, and contractor procurement to design and build the Infrastructure Facility. The agreement also provides the terms for the SFMTA and PNC negotiations to develop the terms for one or more project agreements to deliver the Bus Yard, the Common Infrastructure, and Housing and Commercial Components. The project agreements will be subject to Board of Supervisors' approval.

Under the terms of the predevelopment agreement, the Lead Developer is required to fund all predevelopment activities at their own expense. Compensation to the Lead Developer is contingent upon achieving specific milestones, such as obtaining project entitlements and reaching financial close for the Project Agreement. However, if the City terminates the agreement without cause, or if the agreement expires without the execution of the Project

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[2] Chapter 6 of the Administrative Code contains policies for the City's public works procurements. Chapter 14B contains policies for Local Business Enterprise and non-discrimination in the City's contracting processes. Chapter 21 contains policies related to the City's contracting process for commodities and professional services. The Project is not exempt from certain prevailing wage, First Source Hiring, Local Business Enterprise, and State Apprenticeship Program requirements.

[3] According to its website, Plenary Americas is a long-term investor, manager, and developer of public and private infrastructure, with a focus on public-private partnerships. Plenary Americas is owned by CDPQ, an institutional investor that manages insurance programs and pension plans in Quebec.

Agreement, the City is obligated to provide a termination payment to the Lead Developer, provided the Lead Developer is not at fault. This termination payment is in addition to a continuation payment, intended to support ongoing predevelopment activities. The original agreement provided for a maximum term of 568 days from November 2, 2022 to May 23, 2024 and a maximum potential payment of $14,340,000 to the Lead Developer, including a potential termination payment not to exceed $9,990,000 and potential continuation payment of $4,350,000 if approved by the Board of Supervisors.

In March 2024, the Board of Supervisors approved the predevelopment agreement to facilitate payment of the continuation payment (File 24-0136).

In May 2024, SFMTA administratively approved the First Amendment to the predevelopment agreement to: (a) extend the predevelopment term by approximately five months through October 18, 2024; (b) extend the outside delivery date of the project by two years to November 30, 2029 and extend the timing for substantial completion of the housing and commercial component; (c) update the description and unit counts for the affordable housing projects; (d) specify terms related to the alternative paratransit component; and (e) make changes to the housing developers and affordable housing developers.

In October 2024, the Board of Supervisors adopted a resolution that retroactively approved a Second Amendment to the predevelopment agreement to: (a) increase the termination payment by $5,556,566 for a total termination payment that will not exceed $15,546,566, (b) require the Lead Developer to perform the activities described in the Second Amendment, (c) extend the predevelopment agreement term to no later than July 31, 2025, and (d) be retroactively effective as of October 17, 2024 (File 24-0937).

Loan Agreement for Affordable Housing at 2888 Bryant Street

In December 2023, the Mayor's Office of Housing and Community Development (MOHCD) executed a loan agreement with PY Bryant Street Housing, LP, to support the development of affordable housing at 2888 Bryant Street, Phase 2 of the Project. The loan provides $3 million in funding to finance predevelopment activities for the construction of a 96-unit affordable rental housing project and a 1,000-square-foot commercial space intended for nonprofit or community-serving tenants. According to MOHCD staff, approximately $0.8 million of the $3 million has been disbursed.

The loan agreement ties directly to the Potrero Yard Modernization Project, as the 2888 Bryant Street housing development will be constructed on a subdivided portion of the property leased by SFMTA to PY Bryant Street Housing, LP or an affiliate created for financing purposes. Under the terms of the loan, the borrower must meet specific requirements, including securing site control, complying with affordability and tenant selection criteria, and using the funds solely for eligible predevelopment expenses. At the time of the loan agreement, construction was estimated to begin by December 30, 2025, and be completed by May 30, 2028, with occupancy by December 30, 2028. However, the dates in the loan agreement will be updated after final selection of the bus yard design-builder to align with the broader timeline and objectives of the bus yard which will determine the construction and occupancy dates of the Bryant Street housing project.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution conditionally approves an Infrastructure Facility Design-Build-Finance-Operate-Maintain (DBFOM) Agreement between SFMTA and the Principal Project Company (PPC), which would either be Potrero Neighborhood Collective (PNC) or a special purpose corporate affiliate of Plenary Americas, for SFMTA's Potrero Yard Modernization Project's Bus Yard Component and Common Infrastructure, subject to final pricing. The resolution delegates authority to the SFMTA Board of Directors to approve final DBFOM agreement, subject to pricing within specified limits, including an initial milestone payment of up to $75 million, a relocation payment of up to $500,000 within 60 days of completing temporary relocation of Potrero Yard operations, a milestone payment of up to $200 million by 2033, and an initial maximum annual availability payment of $42.2 million over a 30-year maintenance term. The availability payment escalates by changes in interest rates, credit spread risks[4], the Consumer Price Index, and alignment with SFMTA debt obligations. The proposed resolution also authorizes the Director of Transportation to execute the Form Project Agreement, as modified with the final pricing and to substantially include the terms of a Draft Small Business Enterprise/Disadvantaged Business Enterprise Plan with PNC or its affiliate[5].

The proposed resolution also authorizes the City to pay possessory interest tax on the PPC's interest to the Bus Yard property under the DBFOM agreement, if it is assessed. The waiver does not apply to any commercial and residential uses of the wider Potrero Yard project, which will be developed under separate agreements and subject to Board of Supervisors' approval.

The proposed resolution authorizes the Director of Transportation to execute and amend the DBFOM agreement with the PPC, provided such changes do not materially increase the City's obligations, while ensuring CEQA compliance.

Delegated Authority

According to SFMTA, the Department is requesting delegated authority to the SFMTA Board of Directors to approve final pricing strengthen the City's negotiating position. According to the

[4] Credit spread risk refers to the potential increase in borrowing costs due to changes in the difference between project-specific interest rates and benchmark rates, such as government bonds. Under the agreement, if credit spreads rise before Financial Close, the City may need to adjust availability payments to account for higher financing costs incurred by the Principal Project Company.

[5] The agreement requires the PPC and its contractors to meet specified Local Business Enterprise (LBE) and Disadvantaged Business Enterprise (DBE) participation goals by subcontracting work to qualifying businesses during the design, construction, and operation phases. Contractors must demonstrate good faith efforts to achieve these goals, provide documentation of compliance, and report progress regularly, with penalties applied for non-compliance without valid justification.

Department, establishing a maximum budget for the bus facility will increase the likelihood that contractor bids will come in at or below the budget.

We note, however, that SFMTA and PPC do not need Board of Supervisors approval to provide cost guidance to project bidders during the vendor solicitation process that is currently underway. City Departments routinely do so without approval of the legislative body, as do other municipalities.

Project Timeline

According to SFMTA staff, on January 11, 2024, the San Francisco Planning Commission certified the Project's Final Environmental Impact Report (FEIR) and adopted findings under CEQA. On March 12, 2024 the Board of Supervisors approved the project entitlements ordinance which was signed into law by the Mayor on March 22, 2024. In March 2024, SFMTA formally initiated the National Environmental Policy Act (NEPA) process with the Federal Transit Administration (FTA), Regional District 9 office. SFMTA anticipates that FTA will provide NEPA clearance by the end of 2024. On November 5, 2024 a draft Small Business Enterprise/Disadvantaged Business Enterprise (SBE/DBE) plan was formally released. The Principal Project Company is currently soliciting design and construction bids for the Infrastructure Facility. A Request for Proposals for design-build contractors was issued November 2024 with bids due in the first quarter of 2025.

The proposed agreement outlines the following key milestones:

- **Financial Close:** Marks the completion of all financing agreements and preconditions, ensuring the PPC has secured necessary funds without City debt. This milestone is required before construction can begin on the Infrastructure Facility and the deadline will be determined in the final agreement.
- **Construction Start:** Begins after financial close and the issuance of the Notice to Proceed, contingent on regulatory approvals, finalized designs, and site readiness. Timing aligns with minimizing transit disruptions. According to SFMTA, construction is anticipated to start in the third quarter of 2025.
- **Substantial Completion:** Achieved when construction meets all technical and performance standards, making the bus yard operational. The 30-year operating term begins at this point, and the City starts making annual availability payments to the PPC, payable on a quarterly basis. The availability payments are unitary payments that account for project debt, ongoing maintenance and operations, and equity returns. According to SFMTA, construction is anticipated to reach substantial completion by 2029.
- **Handback Condition:** At the end of the 30-year term, the PPC must return the facility to the City in compliance with handback requirements, including completing any renewal work and ensuring operational readiness.

Scope of Work

The Potrero Yard Design-Build-Finance-Operate-Maintain (DBFOM) Agreement focuses on constructing and managing a modernized bus yard facility and the Common Infrastructure (collectively, the Infrastructure Facility) for SFMTA. The agreement specifies the development of a four-level podium structure capable of storing at up to 246 buses and supporting future battery-electric transit needs. The Principal Project Company (PPC) is responsible for substantial completion of the construction by 2029 and will then manage the facility for up to 30 years.

The Principal Project Company (PPC) and SFMTA have defined responsibilities under the DBFOM agreement, distributed across the design, build, finance, operate, and maintain phases. Below is a detailed breakdown of the responsibilities outlined in the DBFOM agreement, followed by a clarification of elements excluded from the agreement:

Design Responsibilities

The PPC is responsible for designing the Infrastructure Facility in compliance with SFMTA's specifications. This includes creating a fully integrated Building Information Model (BIM) to support construction, operation, and facility management. The design must meet criteria such as seismic resilience, LEED Gold certification, and compatibility with battery-electric bus infrastructure. The PPC must also ensure that designs incorporate sustainability measures, including energy efficiency and water management systems. SFMTA reviews design deliverables, ensuring compliance with city regulations, zoning laws, and environmental policies. The agency oversees the design process, approving deviations or changes only when they align with project goals and legal standards.

The design must address the requirements of the Infrastructure Facility, which are the primary deliverables under this agreement. The Bus Yard Component includes storage for up to 246 buses, a 68% increase in current capacity, as well as maintenance facilities, administrative offices, and a training center. The structure will be designed to accommodate future housing or paratransit components above it. Common Infrastructure includes shared structural systems, utility connections, vertical circulation elements, and stormwater management systems to support both the Bus Yard Component and potential future alternatives.

Build Responsibilities

The PPC is tasked with demolishing the existing facility and constructing a four-story structure with spaces for bus storage, maintenance, and training facilities. The construction scope includes site preparation, the development of the Bus Yard's structural systems, the installation of utilities, and the creation of related infrastructure, such as a "warm shell" retail space ready for operational use. Additionally, the construction must ensure compatibility with future joint development alternatives, such as housing or paratransit facilities.

The PPC must adhere to safety protocols, traffic control measures, and community impact mitigation, such as noise and dust suppression. SFMTA ensures that construction activities comply with relevant permits and city requirements while monitoring project progress. Regular project meetings are conducted to coordinate construction timelines and resolve challenges that might affect municipal services.

Finance Responsibilities

The PPC is required to secure and manage private financing to cover the design, construction, and operational phases of the project. This involves preparing financial models, managing risks, and ensuring budgetary compliance throughout the project lifecycle. The PPC must also report on financial performance to SFMTA at regular intervals, maintaining transparency and accountability. To recover its upfront costs, the PPC is reimbursed by the City through a combination of milestone payments and availability payments:

- **Milestone Payments**: These payments are tied to the successful completion of specific project milestones during the design and construction phases. They cover a portion of direct costs, such as labor, materials, and equipment, while providing partial recovery of the PPC's initial investment.
- **Availability Payments**: Starting after Substantial Completion, these quarterly payments compensate the PPC for project debt, ongoing operations and maintenance activities, and equity return. They include funding for lifecycle replacements and performance incentives. Deductions may apply if performance standards are not met, or parts of the facility are unavailable.

The Milestone Payment and Availability Payments may be deducted if certain design, construction, and operating metrics are not met. The City's financial obligations under the agreement are limited to Milestone Payments and Availability Payments, as defined in the contract. The Principal Project Company is solely responsible for obtaining and repaying all project financing, including debt, equity, or other funding sources, with no recourse to the City for any portion of the developer's financial obligations.

Operational Responsibilities

During the Infrastructure Facility Management phase, the PPC is responsible for managing the Infrastructure Facility. This includes maintaining utilities, vertical circulation systems (elevators and stairs), common-use spaces, IT infrastructure, and building security systems. The PPC also operates a Help Desk to address infrastructure-related service requests and incidents.

Transit-specific operations, such as bus maintenance schedules, fleet logistics, and transit equipment management, remain the responsibility of the San Francisco Municipal Transportation Agency. The PPC must coordinate with SFMTA to ensure that facility operations do not interfere with transit services. SFMTA oversees the PPC's performance to ensure compliance with contractual obligations, safety standards, and service-level requirements.

Maintenance Responsibilities

The PPC is responsible for maintaining the Infrastructure Facility to ensure long-term functionality, compliance with performance standards, and adherence to contractual handback requirements. This includes routine inspections, preventive maintenance, and lifecycle replacements for critical systems such as HVAC, fire safety equipment, and elevators, as well as building envelope components like roofs, walls, and windows. The PPC must promptly address unplanned repairs and emergencies, track activities through a Help Desk system, and provide detailed monthly and annual reports on maintenance performance. All maintenance must align with sustainability objectives and city policies, with oversight and audits conducted by SFMTA to ensure compliance. Maintenance schedules must also be coordinated with SFMTA to avoid disruptions to transit operations.

Exclusions from the Agreement

The agreement explicitly requires the design and construction of the Infrastructure Facility but does not mandate the development of either the Housing and Commercial Component or paratransit facilities. The Housing and Commercial Component is the preferred alternative and would involve multi-story housing adjacent to and above the Bus Yard Component and ground-floor commercial spaces above the Bus Yard. The Paratransit Component is a contingency option to replace housing, should it be deemed infeasible, and would provide maintenance, storage, and operations facilities for paratransit vehicles. Both alternatives would require separate agreements and additional funding to proceed.

This agreement does not obligate the development of housing or paratransit facilities. These components are treated as potential future projects, with the PPC only required to deliver the structural foundation and Common Infrastructure needed to support such alternatives.

FISCAL IMPACT

The proposed resolution conditionally approves a Design-Build-Finance-Operate-Maintain (DBFOM) Agreement between the City and Principal Project Company, subject to final pricing, with the following key components:

- A milestone payment of up to $75 million at financial close.
- A relocation payment of up to $500,000 within 60 days of the temporary relocation of Potrero Yard operations.
- A milestone payment of up to $200 million due at Substantial Completion of the Infrastructure Facility.[6]
- Annual availability payments, paid on a quarterly basis, starting at up to $42.2 million over a maintenance term not to exceed 30 years after the scheduled Substantial Completion date, anticipated in 2029. These payments are subject interest rate and credit spread fluctuations between commercial close and financial close and annual CPI adjustments, with the part of the payment covering capital costs increasing 1% per year and sculpted to align with SFMTA's existing debt service obligations.

Exhibit 1 below summarizes the City's estimated costs under the proposed agreement's current financial model, which totals approximately $2.24 billion.

[6] The current Project Agreement requires this milestone payment at Substantial Completion. The proposed resolution extends the payment until 2033 at the latest.

Exhibit 1: City Costs Under DBFOM Agreement

Milestone Payment 1	75,000,000
Milestone Payment 2	200,000,000
Relocation Payment	500,000
Availability Payments - Capital	1,269,493,222*
Availability Payments - Operating	698,463,759*
Total City Cost	**2,243,456,981**

Source: SFMTA

*Subject to interest rate, credit spread fluctuations, and CPI adjustments between commercial close and financial close and annual CPI adjustments during the operating period.

Based on the current financial model developed by PNC, the Availability Payment is estimated to have an initial value of up to $42,228,876, which includes a fixed portion of $27,547,685 for capital expenses and $14,681,191 for operating and maintenance expenses, which is escalated based on inflation. The Availability Payment may also be escalated by changes in interest rates and credit spreads between the execution of the final Project Agreement and Financial Close. Over the thirty-year maintenance term, PNC currently estimates the Availability Payments will total $1,967,956,981, with the initial Availability Payment in 2030 totaling $42.2 million and the final Availability Payment in 2059 totaling $91.6 million. The agreement, under Section 4.7.2, requires the PPC to provide an updated financial model reflecting final financing terms, adjustments to costs or revenues, and any impacts from mitigation measures, which must be reviewed and approved by the City as part of the Financial Close process.

Cost Assessment

Capital Costs

SFMTA provided for our review an independent cost estimate of the project, which found the total construction cost for the new bus yard would be approximately $560 million. Final construction costs are not known because the design-build procurement process is underway and will not be complete until early 2025.

The current PNC financial model estimates that the total financing required for construction is $828.8 million, including $174.9 million in financing costs, resulting in total development costs of $653 million (excluding financing expenses).

If the City issued its own debt to finance and build the facility, we estimate the total debt service for a $653 million project would be $1.42 billion.[7] This is $121.1 million less than the City's expected contribution for capital costs under the proposed agreements, which is $1.54 billion ($275 million in Milestone Payments plus $1.27 billion in Availability Payments). However, the City's current Capital Plan only has $300 million earmarked for transportation (a general obligation bond in 2026). The general obligation bond and General Fund certificate of

[7] Assuming a 6 percent interest rate and thirty-year term.

participation programs are both currently at capacity in the capital plan. Providing additional City debt for transportation would require changes to the capital plan or changes to the City's debt policies. We also note that voters rejected a $400 million general obligation bond proposal for transportation in June 2022.

As of this writing, we do not know if SFMTA has capacity to finance the project with revenue bonds.

In summary, our analysis suggests the City could deliver the project at a lower cost if conventional public financing sources were available. Given the limited availability of infrastructure financing, SFMTA has devised the proposed project delivery mechanism to replace the Potrero Bus Yard.

Operating Costs

Under the proposed agreement, SFMTA would conduct transit-specific operations for the bus yard while delegating infrastructure maintenance responsibilities to the developer. The developer would handle regular maintenance, repairs, replacements, inspections, and renewal work in accordance with the Infrastructure Facilities Maintenance (IFM) Management Plan to ensure the facility remains safe, operational, and compliant with all regulatory requirements over the 30-year term. These obligations include implementing technology enhancements, managing utilities, addressing vandalism within specified thresholds, and preparing the facility to meet contractual handback conditions. Despite these responsibilities, the $14.7 million in annual maintenance expenses SFMTA would incur to pay the developer appears high, particularly when compared to the agency's current spending on Potrero Bus Yard building maintenance, which is $2.7 million. Regular compliance monitoring and reporting would also be required, with noncompliance potentially leading to City intervention and cost recovery.

Housing Costs

Housing costs are not included in this agreement, though the new bus yard will incorporate shared infrastructure capable of supporting up to 465 housing units. At an estimated average cost of $1.2 million per unit, the total housing development cost is projected at $558 million. With an assumed City subsidy of $350,000 per unit, the City's share of the housing costs would amount to approximately $162.8 million. Currently, the Mayor's Office of Housing and Community Development (MOHCD) has committed $35 million, subject to loan committee approvals, to fund the housing portion of the project at 2888 Bryant Street.

Funding Sources

According to SFMTA, the list of funds below are funds programmed within SFMTA's 5-Year Capital Improvement Program and reflected as revenues in the City's 10-Year Capital Plan (File 23-0265). All funds are secured for Milestone Payment #1, except for $5,750,000 in Caltrans SB 1 State of

Good Repair funds, a formula source, expected as a FY 26 allocation, in Summer 2025. SFMTA provided the following information about funding sources for the proposed agreement:

Exhibit 2: Funding Sources

Milestone Payment 1 & Relocation Payment

Source	Amount	Status
CalTrans -SB 1 State of Good Repair (FY23-FY26)*	$14,420,253	Partially Secured
SFCTA - Prop K/ L Sales Tax	12,309,786	Secured
FTA - Section 5337 (FY19)	350,000	Secured
MTC - Regional Measure (RM3)	20,895,747	Secured
City General Fund (2014 Prop B - Transit)	8,587,401	Secured
FTA - Section 5307 (FY22-FY24)	18,936,813	Secured
Total	**$75,500,000**	

*Future fiscal year funds are programmed.

Milestone Payment 2

Source	Amount	Status
Future General Obligation Bond 2026	**$200,000,000**	TBD

Availability Payments

Source	Amount	Status
TBD	**$1,967,956,981**	TBD
Total City Funding Requirement	**Amount**	**Amount Secured**
	$2,243,456,981	**$70,100,000**

Milestone Payment 2: According to SFMTA, if voters fail to approve a GO Bond—whether one or multiple—the Department would explore alternative revenue or financing options, such as the Federal Transit Administration (FTA) Transportation Infrastructure Finance and Innovation Act (TIFIA) program.

Availability Payments: According to SFMTA, planned sources for the availability payments include Municipal Transportation Fund (SFMTA Operating Budget); Transportation Sales Taxes (post FY 30); Caltrans – SB 1 Funds (post FY 30); FTA – Section 5307 (post FY 30).

Source: SFMTA

As shown above, SFMTA has secured $70,100,000, with an additional $5,400,000 expected in FY 2025-26 or $75,500,000 out of total project costs of $2,243,456,981.

RECOMMENDATION

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

Item 12 **File 24-1096**	**Department:** Port

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would: (1) Approve a Lease Termination Agreement between the Port and JPPF Waterfront Plaza, L.P. and (2) Approve a new Lease Agreement between the Port and JPPF Waterfront Plaza, L.P.

Key Points

- The Port owns three waterfront parcels in North Beach on Embarcadero Street between Bay and Chestnut Streets. The land is leased to JPPF Waterfront Plaza, L. P., a corporate affiliate of Jamestown L.P., a real estate firm. Jamestown operates two four story office buildings and one restaurant on the Port land. According to Port staff, although Jamestown has not missed any rent payments as of this writing, the severe decrease in office occupancy and rents has impacted the financial condition of the operation. To facilitate financing and with a goal of stabilizing a revenue generating asset for Port, the Port and Jamestown have negotiated a new long-term lease for the site that reduces the rent Jamestown must pay to the Port.
- The current lease term ends in 2040 and has a base rent of $2.9 million. The proposed new lease has a new 57-year term (ending in 2081) and an initial base rent of $1 million. The lease also requires the tenant to invest $9.5 million for tenant improvements within ten years, which is the difference between the current and proposed base rent.

Fiscal Impact

- The immediate impact of the proposed lease is a decrease in annual rent to the Port of $1,896,377 or approximately $950,000 in FY 2024-25. According to Michael Martin, Assistant Port Director, the Port's FY 2024-25 budget did not anticipate the decrease in revenue, however the Department can absorb the revenue loss without reducing services.

Policy Consideration

- Although the proposed lease provides less revenue to the Port, it helps the Port avoid the property going into foreclosure and not generating any revenue during the ensuing financial restructuring. In addition, it provides the Port with a higher chance of a stable tenant through 2081 rather than through 2040, when the current lease ends. The Port does not believe an alternative use of the property is feasible given existing zoning, Port staff capacity, market conditions, and future work on the seawall.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(a) states that contracts entered into by a department, board, or commission that (i) have anticipated revenues of $1 million or more, or (ii) have anticipated revenues of $1 million or more and require modifications, are subject to Board of Supervisors approval.

BACKGROUND

The Port owns three waterfront parcels in North Beach on Embarcadero Street between Bay and Chestnut Streets: Seawall Lots 315, 316, and 317. The land is leased to JPPF Waterfront Plaza, L. P., a corporate affiliate of Jamestown L.P., a real estate firm. Jamestown operates two four story office buildings and one restaurant on the Port land. Jamestown also owns the land immediately adjacent to Seawall Lot 315, the "Santa Fe" parcel, where it owns and operates a parking garage. According to Port staff, occupancy of the office buildings has declined from 95 percent in 2019 to an estimated 38 percent in 2024, similar to a citywide decline in office occupancy and valuations. The restaurant space has an active restaurant tenant (operated as the "Hillstone" restaurant).

According to Port staff, although Jamestown has not missed any rent payments as of this writing, the severe decrease in office occupancy and rents has impacted the financial condition of the operation. Jamestown is facing a loan maturity totaling approximately $42 million due in November 2024. According to the Port, without a new long term lease in place that enables Jamestown to refinance and access capital to operate and reposition the asset, Jamestown may be forced to cede the property to the lender. To facilitate financing and with a goal of stabilizing a revenue generating asset for Port, the Port and Jamestown have negotiated a new long-term lease for the site that reduces the rent Jamestown must pay to the Port.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would:

1. Approve a Lease Termination Agreement between the Port and JPPF Waterfront Plaza, L.P.
2. Approve a new Lease Agreement between the Port and JPPF Waterfront Plaza, L.P.
3. Authorize the Port Executive Director to amend the agreements so long as the amendments do not materially increase the obligations or liabilities of the City or Port.

Exhibit 1 below shows the current and proposed lease terms.

Exhibit 1: Current and Proposed Lease Terms

	Current	Proposed
Premises	Seawall Lots 315, 316, & 317	Seawall Lots 315, 316, & 317
Term	1974 - 2040 (66 Years; 15.5 years remaining)	2024 - 2081 (57 Years)
Base Rent	$2,896,377 through 2029, then the base rent is reset based on a new market appraisal of the site.	Lease Years 1 - 5: $1,000,000 per year Lease Years 6 - 10: $1,250,000 per year or 6.5% annual rental revenues, whichever is greater
Base Rent Escalation After Lease Year 10	Rent resets every ten years and is the greater of: 9% appraised value or 6.987% average gross annual rental income.	Starting Lease Year 10, rent resets every five years and is the greater of (a) 85% of average base and percentage for prior three years or (b) prior year's base rent escalated by five-year change in CPI with 10% Floor and 20% Cap.
Percentage Rent	None	6.5% of annual rental income, starting Lease Year 6.
Participation Rent	None	Port receives 0.5% of refinancing proceeds or sale proceeds, excluding the initial refinancing.
Security Deposit	$7,500	$166,890
Required Investment	Original developer was required to complete horizontal and vertical improvements.	Tenant must spend at least $8.5 million on property improvements during the first ten years of the lease. This amount is equal to the difference between the current and proposed rent ($2,896,377 - $1,000,000 = $1,896,377 x 4.5) multiplied by the difference between the start date of the new lease and June 30, 2029.
Maintenance	Tenant pays for all operating expenses and capital maintenance.	Tenant pays for maintenance, operating expenses and capital investments, including for needs identified in capital need assessment every ten years.
Utilities	Tenant pays.	Tenant pays.
Adjacent "Sante Fe" Parcel	Port may purchase at market value at lease end. If not, Port must purchase portion of the property that is encroached on by building that is primarily located on Port land.	Port may purchase or lease the Santa Fe parcel at lease end. If not, Port must purchase portion of the property that is encroached on by building that is primarily located on Port land.

Source: Current and Proposed Lease

New Lower Initial Base Rent

As shown above, the proposed lease would immediately decrease base rent to the Port from $2,896,377 to $1,000,000 per year, escalating to $1,250,000 in Year 6 of the lease. This rent is higher than the base rent of $751,500 in place before the last previous rent adjustment in 2019. The proposed new base rent is not based on an appraisal, which was not required under Administrative Code Chapter 23 because the amount per square foot, $6.52, is less than $45. According to Port staff, the amount was negotiated based on the rent the asset can sustain given current office market conditions. The Port believes the 65 percent decrease in rent is reasonable and provided a list of eleven market transactions for office buildings in San Francisco between August 2023 and August 2024 where the sales price declined by 37 to 67 percent relative to each building's prior sale price. This is consistent with other reporting, including a report from CBRE, a real estate broker, on San Francisco office real estate from Q3 2024 that noted two recent office building sales were 56 and 65 percent lower than previous sales.

Rent Escalation

The proposed lease changes how base rent resets are calculated. Under the current lease, base rent resets every ten years based on an appraisal of the property. The rent was last modified in June 2019, when it increased from $751,500 to $2,890,000 per year. Since that time, citywide office vacancy has increased to approximately 40 percent and office rents have declined by approximately 50 percent.

Under the proposed lease, the base rent escalates starting in Year 6 from $1,000,000 to the greater of $1,250,000 or 6.5% of annual rental revenues. Starting in Year 10 of the proposed lease and every five years after, base rent resets to the greater of (a) 85% of average base and percentage for prior three years or (b) prior year's base rent escalated by five-year change in CPI. This structure avoids major changes to rent for both the tenant and the Port while providing for market rate adjustments.

Lease Term

The current lease term is 1974 to 2040; sixteen years remain on the lease. The proposed lease term is (41 + 16) 57 years (through 2081) which, according to the Port, provides sufficient term for the tenant to access capital to invest in the property in hopes of improving occupancy and stabilize this asset. The Port hired Century Urban, a real estate analysis firm, to analyze the lease terms. According to the Century Urban analysis, it is unlikely that any lender would provide sufficient credit to refinance this asset with only sixteen years left on the ground lease, as this timeframe would not provide enough time to justify additional investment.

Required Investment

The proposed lease requires the tenant to invest the initial difference in base rent in the property within the first ten years of the lease. The minimum value of the investment is likely $8.5 million. The tenant's plans include refreshing common areas, building out tenant improvements to increase asset revenues, maintaining building infrastructure, and investing in sustainability upgrades.

Operating Costs

The tenant continues to be responsible for maintenance, utilities, and capital improvements.

FISCAL IMPACT

Financial Analysis of Lease

The immediate impact of the proposed lease is a decrease in annual rent to the Port of $1,896,377 or approximately $950,000 in FY 2024-25. On the other hand, with a lender foreclosure, rent payments to the Port may be questionable as the lender may request a new lease to entice a buyer. According to Michael Martin, Assistant Port Director, the Port's FY 2024-25 budget did not anticipate the decrease in revenue, however the Department can absorb the revenue loss without reducing services.

According to Century Urban's analysis, the current lease structure would provide $33.6 million - $30.8 million in revenue to the Port on a net present value basis, depending on the underlying office rents during the 57-year term, however, Century Urban was doubtful of Port being able to collect rent under the current lease. The proposed lease would result in $18.7 million - $21 million in revenues to the Port, again on a net present value basis, which Century Urban indicated is feasible if underlying assumptions hold.

Transfer Tax

Because the proposed lease term exceeds 35 years, the transaction is subject to the City's transfer tax (a one-time tax on transferring property ownership) and possessory interest tax (an annual property tax). File 24-1084 is an ordinance pending Board of Supervisors approval that would waive transfer taxes for certain Port leases transactions, including this one. According to the Assessor's Office, the basis for the transfer tax on long-term leases is the present value of the rental payments over the lease term. Using Century Urban's estimates, the waived transfer tax for the proposed lease would total a one-time $1,028,500 loss to the General Fund. This is less than our estimate of the transfer tax loss ($1,040,930) noted in our report on File 24-1084, which has different rent assumptions than Century Urban's analysis.

POLICY CONSIDERATION

According to the Controller's Office *Status of the San Francisco Economy, September 2024 Report*, citywide office vacancy increased in the second half of 2024 and is over 33 percent. The proposed office complex is outside the downtown core but had a 91 percent occupancy rate pre-COVID. Although the proposed lease provides less revenue to the Port, it helps the Port avoid the property going into foreclosure and not generating any revenue during the ensuing financial restructuring. In addition, it provides the Port with a higher chance of a stable tenant through 2081 rather than through 2040, when the current lease ends. The Port does not believe an alternative use of the property is feasible given existing zoning, Port staff capacity, market conditions, and future work on the seawall.

RECOMMENDATION

Approve the proposed resolution.

Item 13 **File 24-1084**	**Department:** Port

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would waive the transfer tax for Port leases that are effective between November 1, 2024 and December 31, 2034 under the following conditions: (1) The prior lease for the property had an effective date on or before December 31, 1979; (2) The replacement lease is with the same tenant; and (3) The replacement lease begins immediately after the prior lease is terminated.

Key Points

- Article 12-C of the Business Tax and Regulations Code provides for a tax on any transfer of ownership of real property. Such transfers include leases longer than 35 years. In these cases, the transfer tax is calculated based on the present value of the rental payments over the lease term.
- The purpose of the proposed ordinance is to allow the Port to renegotiate leases for long-term tenants and make the transactions more financially feasible by reducing their tax liability.
- Based on the criteria in the proposed ordinance, 33 Port leases pre-date 1980 and would be eligible for the transfer tax waiver, if they were replaced with new long term lease with the same tenant. One tenant has negotiated a new long term lease, which is pending Board of Supervisors approval (JPPF Waterfront LP, File 24-1096). In addition, the Port plans to negotiate with one other tenant regarding a possible new long-term lease. No other eligible tenants have requested a new long-term lease, though the Port may seek lease extensions for six other tenants.

Fiscal Impact

- If all eight Port tenants that are both eligible for the proposed property tax transfer exemption and that the Port believes could potentially pursue an extended lease term, the proposed ordinance would result in a one-time $1,340,857 loss to the General Fund, which would occur over multiple years as new leases are signed. Actual values will be different as they will be based on the terms of the new leases.

Policy Consideration

- According to analysis provided by the Port for the lease that is pending Board approval and would benefit from the proposed ordinance, the transfer tax loss is offset by possessory interest taxes within two years.
- At the same time, given the City's overall financial condition, the Board of Supervisors should also consider amending the proposed ordinance to require the Port reimburse the General Fund for any loss in transfer taxes resulting from this ordinance.

Recommendation

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

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

Article 12-C of the Business Tax and Regulations Code provides for a tax on any transfer of ownership of real property. Such transfers include leases longer than 35 years. In these cases, the transfer tax is calculated based on the present value of the rental payments over the lease term.

Like all commercial landlords in San Francisco, the Port is restructuring certain leases in light of a citywide decline in commercial rents and increase in commercial real estate vacancy. The Port is revising lease terms to avoid vacancy and foreclosures that jeopardize Port revenue.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would waive the transfer tax for Port leases that are effective between November 1, 2024 and December 31, 2034 under the following conditions:

1. The prior lease for the property had an effective date on or before December 31, 1979.
2. The replacement lease is with the same tenant.
3. The replacement lease begins immediately after the prior lease is terminated.

The purpose of the proposed ordinance is to allow the Port to renegotiate leases for long-term tenants and make the transactions more financially feasible by reducing their tax liability and removing an upfront cost that is currently due upon lease extension or execution of a replacement lease for the same operator.

Based on the criteria in the proposed ordinance, 33 Port leases pre-date 1980 and would be eligible for the transfer tax waiver, if they were replaced with new long term lease with the same tenant. One tenant has negotiated a new long term lease, which is pending Board of Supervisors approval (JPPF Waterfront LP, File 24-1096). In addition, the Port plans to negotiate with one other tenant regarding a possible new long-term lease. No other eligible tenants have requested a new long-term lease, though the Port may seek lease extensions for six other tenants.

The Port and OEWD maintain that the proposed one-time transfer tax waiver is appropriate for this subset of current long-time Port tenants that may seek to extend or replace their current leases because it will increase the capacity of such tenants to spend private capital on the refresh of these properties, facilitate re-financings, and generate more tax revenues to the City from possessory interest tax, gross receipts tax, and taxing on other commercial activity. In some cases it will prevent foreclosure or lease expiration, which would interrupt future tax payments to the City.

FISCAL IMPACT

Exhibit 1 below shows the eight Port tenants that are both eligible for the proposed property tax transfer exemption and that the Port believes could potentially pursue an extended lease term, with the economic terms of these potential extensions still unknown. To estimate the cost of the waiver, we reduced the new rents by 66 percent, extended the lease terms by 57 years, escalated rents each year by 3 percent, and applied a discount rate of 8 percent in order to calculate the net present value of the new lease payments.[1] We then applied those resulting values to the City's transfer tax rate. The result is a one-time $1,340,857 loss to the General Fund, which would occur over multiple years as new leases are signed. Actual values will be different as they will be based on the terms of the new leases.

Exhibit 1: Estimated One-Time General Fund Revenue Loss

Company Name	Space Name	Start	End	Current Annual Rent	New Annual rent	Transfer Tax Loss
Blue & Gold Fleet, LP	Pier 41 1/2	4/1/1975	3/31/2015	$391,751	$133,195	$19,200
Castagnola's Restaurant	Castagnola's Restaurant	5/1/1970	4/30/2036	$308,894	$105,024	$15,138
G.B. Associates	SWL 322	12/1/1973	11/30/2039	$1,411,502	$479,911	$207,528
JPPF Waterfront Plaza, L.P.	SWL 315	6/28/1974	6/27/2040	$2,896,377	$984,768	$1,040,930
Pier 39 Limited Partnership	Pier 39	8/3/1977	12/31/2042	$500,000	$170,000	$24,506
Portco, Inc	Cioppino's	4/1/1975	4/30/2036	$75,833	$25,783	$3,372
Portco, Inc	Coast Marine & Industrial Supply	1/1/1976	4/30/2036	$161,194	$54,806	$7,901
SFS39, Inc.	Franciscan Restaurant	5/1/1970	4/30/2036	$454,611	$154,568	$22,282
				$6,200,162	**$2,108,055**	**$1,340,857**

Source: BLA

Under City Charter Section 9.118(a), the Board of Supervisors will have the right to review and approve each of these lease transactions before the waiver would be conferred. Port staff caution that this estimate is not a likely outcome as not all of these tenants will seek extensions, nor would the Port seek the maximum term for all of these tenants. For example, retail leases are generally for shorter duration and rising sea levels may limit the useful life of some waterfront facilities.

[1] These assumptions are consistent with the business terms of a Port lease pending Board approval that would benefit from the proposed transfer tax waiver (File 24-1096, JPPF Waterfront Plaza LP). We also consulted the Assessor's Office to determine the appropriate tax calculation.

POLICY CONSIDERATION

The proposed transfer tax waiver would result in a one-time revenue loss to the General Fund. The Port and OEWD maintain that this one-time impact would be in exchange for an increased ability for the Port and the proposed sub-set of long-term tenants to enter into new or extended leases that will ultimately improve Port property and maintain ongoing revenues both to the Port and the City's General Fund. According to analysis provided by Century Urban for the one lease replacement currently before the Board that would benefit from the proposed transfer tax waiver (File 24-1096, JPPF Waterfront Plaza LP), the possessory interest tax paid by the existing tenant would offset the one-time loss in transfer taxes within two years. If the tenant defaulted and vacated the property, the City would likely not receive possessory interest taxes for two years while the Port found a new tenant for the property, resulting in a General Fund revenue loss of approximately $1 million, a similar magnitude to the proposed transfer tax loss.

At the same time, given the City's overall financial condition, the Board of Supervisors should also consider amending the proposed ordinance to require the Port reimburse the General Fund for any loss in transfer taxes resulting from this ordinance. According to the Port's 2024 audited financial statement, the Port had $276.1 million in unrestricted net assets as of June 30, 2024, all held in cash, which was an increase from the prior year unrestricted net assets of $204.8 million. As we note in our report on the JPPF Waterfront Plaza lease, the Port did not budget the annual $1.9 million in revenue loss from the Waterfront Plaza lease modifications but is able to absorb the revenue loss without reducing services. Port staff note that the Port's capital plan is underfunded and any transfer to the General Fund could require approval from the Port Commission.

RECOMMENDATION

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

Item 14 **File 24-1100**	**Department:** Port

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would a) find the redevelopment of a portion of Fisherman's Wharf including two sheds of Pier 45 and Sea Wall Lot 300/301 fiscally feasible under Chapter 29 of the Administrative Code; and b) also endorse the term sheet for the project.

Key Points

- The Port has negotiated an exclusive negotiating agreement with Fisherman's Wharf Revitalized, LLC, a new venture that proposes redeveloping Pier 45 and an adjacent seawall lot. Project components would include create a visitor's center, seafood market and redesigned public open space.
- The approvals in the proposed resolution would allow the environmental review process to begin.

Fiscal Impact

- According to a consultant report provided to the Port, the completed project would generate approximately $5.2 million in tax revenue, of which an estimated $2.9 million would be tax increment revenue used to repay construction costs. The remaining annual revenue of $2.3 million results in an annual fiscal benefit of $1.3 million in net new General Fund revenues, after accounting for current revenues, baseline requirements, and anticipated municipal service costs.
- Of the $548 million in development costs, the developer would initially source $488.9 million through a combination of debt and equity. Approximately $37 million would be paid through a Community Facilities District and by tax increment from an Infrastructure Finance District. The Port would also provide up to a $22.5 million rent credit.
- Under the term sheet with FWR, the Port would not be responsible for any operating or maintenance costs associated with the project.

Policy Consideration

- Port staff plan to seek additional public funding sources, such as federal, state, and local grants, to reduce the debt and equity required of the project developer and overall project risk. Reaching the target range in the term sheet (40-50% of infrastructure costs) would require identifying $15.3 million to $33.9 million of such additional sources.

Recommendations

- Request that the Port provide an update on the Project financing plan when the Port submits the LDDA for approval to the Board of Supervisors.
- Because reaching the target percentage of public funding for project infrastructure would require identifying $15.3 million to $33.9 million of additional public sources, approval of the proposed resolution is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

Administrative Code Chapter 29 requires the Board of Supervisors to conduct a fiscal feasibility analysis of any project (1) that has a total cost exceeding $25,000,000, and (2) where the City is expected to incur costs related to project development in excess of $1,000,000. Chapter 29 requires consideration of five factors: (1) direct and indirect financial benefits to the City including the extent of applicable cost savings or new revenues, including tax revenues, generated by the proposed project; (2) cost of construction; (3) available funding for the project; (4) the long-term operating and maintenance cost of the project; and (5) debt load to be carried by the City or Department.

A determination by the Board of Supervisors that a project is fiscally feasible only finds that the proposed project merits further evaluation and environmental review; a determination of fiscal feasibility does not include a determination the project should be approved.

BACKGROUND

Project Origin and Summary

In February 2023, the Port of San Francisco received an unsolicited proposal to redevelop a portion of Fisherman's Wharf that includes Shed A and the former Shed C site on Pier 45 and an adjacent seawall lot. (Note, Shed C was destroyed by fire in 2020.) The proposed developer, Fisherman's Wharf Revitalized, LLC, is proposing a) creating a seafood market and the "Fisherman's Wharf Experience," an attraction that includes exhibition halls, a seafood-focused food hall, an events center, and an immersive theater; b) preserving existing space in Shed A for existing tenants including fishers and crabbers, Musee Mecanique, and the U.S.S. Pampanito, and constructing new storage and "back-of-house" flexible space for fishers and crabbers in the former Shed C; c) constructing a public plaza, playground, and/or open space on SWL 300/301, and improving the Little Embarcadero, including an enhanced pedestrian promenade. The project would also require infrastructure work to reinforce the substructure and apron of Pier 45 and portions of the seawall along SWL 300/301.

Developer

Fisherman's Wharf Revitalized, LLC (FWR) is a new venture led by the business executives Lou Giraudo,[1] Christopher McGarry, and Seth Hamalian.

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[1] According to a July 7, 2023 memo to the Port Commission from the Port Executive Director, Lou Giraudo is the former operator of the Boudin Flagship restaurant but is no longer affiliated with the Boudin Restaurants. Lou's son, Dan Giraudo, acquired a controlling interest in the Boudin Restaurants under a restructuring in 2021, and submitted the letter on behalf of Boudin Restaurants' current ownership.

Exclusive Negotiating Agreement

In May 2023, the Port issued a Request for Information (RFI), seeking proposals to develop the project site to determine if there was other interest in developing the site. The Port received two responses, including a letter from Dan Giraudo, the son of FWR member Lou Giraudo and the Chairman and CEO of Boudin Bakery (which operates a flagship location adjacent to the proposed project site) and a follow-up response from FWR. The Boudin Letter did not include a specific proposal but instead argued for a competitive format to select a developer, rather than on a sole source basis.

In July 2023, after consulting with the City Attorney's Office, the Port Commission authorized staff to seek a waiver from the City's competitive solicitation requirements and to begin negotiations for an exclusive negotiating agreement with FWR in light of the limited response to the RFI and the "urgency of providing support to the recovery of Fisherman's Wharf". In September 2023, the Board of Supervisors approved a waiver from competitive solicitation requirements and authorized the Port to negotiate an exclusive negotiating agreement and a term sheet with FWR on a sole source basis (File 23-0842). The Port Commission approved an ENA in October of 2023, and the parties entered into an agreement on Jan. 1, 2024.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would find the proposed redevelopment of a portion of Fisherman's Wharf including two sheds of Pier 45 and Sea Wall Lot 300/301 fiscally feasible under Chapter 29 of the Administrative Code. It would also endorse the term sheet for the project. These approvals would allow the environmental review process to begin.

TERM SHEET

The term sheet is attached. Key provisions include:

Parties and Location

The agreement is between the developer Fisherman's Wharf Revitalized, LLC and the City, acting by and through the Port Commission. The site includes:

- Pier 45 Sheds A and C (approximately 215,000 square feet)
- Seawall Lot 300/301 and the Little Embarcadero (approximately 88,000 square feet)

Proposed Development Program

The proposed development concept, as described in an exhibit to the term sheet, includes:

- Seawall 300/301: Visitor center, beverage garden, approximately 10 large hotel rooms/vacation rentals
- Pier 45, New Shed C: Seafood market, exhibit hall, food hall, performing arts space, fishing industry space, parking, outdoor roof deck

- Pier 45, Shed A: Fishing industry space; visitor-serving uses including Musee Mecanique arcade and U.S.S. Pampanito
- Maritime Uses: Retains maritime berths along Sheds A and C consistent or larger than existing berths; continued docking of U.S.S. Pampanito
- Open Space: Plaza, playground and/or green space between the Franciscan and Boudin Bakery; enhanced pedestrian promenade along Little Embarcadero; pedestrian access to Northeastern edge of Pier 45,
- Pier and Resilience Infrastructure Improvements: Substructure enhancements to support new uses; seismic safety improvements

Transaction Documents

The primary transaction documents will be a Lease Disposition and Development Agreement (LDDA) between the Port and FWR and up to four ground leases between the Port and FWR. The LDDA would serve as the master agreement for the site over an anticipated 12-year term, including a six-year term for Phase 1 (Seawall Lot 300/301 and Pier 45) and, concurrently if Phase 1 targets are met, a 12-year term for Phase 2 of Seawall Lot 300/301. The LDDA will include a schedule of performance showing outside dates for filing site permits, construction commencement, and construction completion for each of the two project phases. However, the LDDA will provide schedule relief if delays are due to reasons outside of the Developer's control.

The ground leases would be executed on a phased basis after the Developer satisfies certain conditions, such as the Developer demonstrating evidence of financing and permit issuance. For both Pier 45 and Sea Lot 300/301, the term sheet envisions a 66-year ground lease.

Rent

For Seawall Lot 300/31, rent during the construction period would be $400,000 annually. Following construction, the developer would be responsible for paying:

- Minimum base rent of $700,000 annually, with increases every five years based on CPI limited to 2-6% annually; plus
- Percentage rent equal to the amount, if any, by which 6 percent of gross annual revenues within the lease area exceeds the minimum base rent.

For Pier 45, rent during the construction period would be $500,000 annually. Following construction, minimum base rent would be $1,800,000 annually, with increases every five years based on CPI growth (limited to 2 – 6% annually). For Pier 45, the developer would receive an annual rent credit, starting at $1,500,000 and increasing every five years based on CPI growth, for up to 15 years. This rent credit would be subject to reduction in the even that additional public funding is secured.

Fishing Industry Protections

The term sheet outlines protections for fishing industry tenants, including preservation of the amount of total square footage available for industry operations in Sheds A and C as of 2020.

Infrastructure and Additional Public Financing

The term sheet notes that project infrastructure costs are estimated to total $186 million and that such costs create financial viability challenges for projects like the proposed development. This figure also includes the plaza, little embarcadero, and seawall infrastructure work. It states that the Port and FWR shall work to secure additional public funding sources – separate from the tax increment financing and rent credit already proposed, which are described below – so that public sources ultimately fund approximately 40-50% of infrastructure improvements.

Sources of Funding

The term sheet lists as intended sources:

- Community Facilities District funding, under California's Mello-Roos Community Facilities Act of 1982, backed pledges of special taxes and by tax increment from an Infrastructure Finance District[2]
- Resiliency funding from local, state and/or federal sources
- Developer equity and debt
- Other potential sources identified in the future

FISCAL FEASIBILITY

We present the fiscal feasibility analysis for the project below based on the November 4, 2024 Findings of Fiscal Responsibility and Feasibility Report for the Project, prepared by Economic & Planning Systems, Inc. (EPS) for the Port. Chapter 29 of the San Francisco Administrative Code requires a fiscal feasibility analysis that includes consideration of (1) direct and indirect financial benefits to the City including the extent of applicable cost savings or new revenues, including tax revenues, generated by the proposed project; (2) cost of construction; (3) available funding for the project; (4) the long-term operating and maintenance cost of the project; and (5) debt load to be carried by the City or Department.

Financial Benefits to the City

Ongoing Fiscal Benefits

Once completed, the project will generate approximately $5.2 million in tax revenue, of which an estimated $2.9 million will be tax increment revenue used to repay construction costs. The remaining annual revenue of $2.3 million results in an annual fiscal benefit of $1.5 million, including $1.3 million in net new General Fund revenues, after accounting for current revenues,

[2] The revenue raised through the IFD would be used to pay the special taxes required by the CFD process. The extent to which the IFD revenue could fully cover the special tax obligations would depend on the amount of IFD revenue, which would depend on the property value increases associated with the development project. However, the Port's goal is for the IFD to generate enough revenue to fully cover the special taxes that local property owners would otherwise owe through the CFD.

baseline requirements, and anticipated municipal service costs. Exhibit 1 below shows the estimated annual fiscal impact.

Exhibit 1: Estimated Annual Fiscal Impact

	Current	Proposed Development	Net new
General Fund Revenue	$133,000	$2,318,000	**$2,185,000**
GF Baseline Requirements	-$38,000	-$664,000	**-$626,000**
GF Revenue After Requirements	*$95,000*	*$1,653,000*	***$1,558,000***
GF Expenditures	$0	-$277,000	**-$277,000**
Net Annual GF Revenues	*$95,000*	*$1,376,000*	***$1,281,000***
Net Impact on MTA Fund	$13,000	$185,000	**$172,000**
Total Fiscal Benefit Estimate	**$108,000**	**$1,561,000**	**$1,453,000**

Source: Economic & Planning Systems, Inc.

Note: Totals may not sum due to rounding.

Job Creation

EPS estimates the creation of approximately 500 permanent jobs from the project at full build-out, including jobs based at the project location and jobs elsewhere in San Francisco from ripple effects. EPS also estimates that the construction period, which is projected to last three years, will create 880 temporary jobs, including direct, indirect and induced jobs.

Direct Financial Benefits to the Port and the City

As described by EPS, direct benefits to the Port include:

- rent revenue of up to $2.5 million annually (with a rent credit of $1.5 million for up to 15 years) over the course of the 66-year leases
- fees from certain refinancings, sales or lease transfers.

Direct Benefits to the City

As described by EPS, direct benefits to the City include:

- The public plaza and park at Seawall Lot 300/301
- An improved waterfront promenade along the north edge of the Seawall Lot 300/301
- Improved public access along Pier 45
- Improvements to Port property, including an estimated $186 million of new infrastructure

Cost of Construction and Available Funding

Of the estimated $535 million cost to develop the project, more than $370 million is for construction. The total budget of $535 million includes, $17 million for planning and entitlement, $186 million for infrastructure and public facilities, $298.1 million for building construction and parking, and $33 million for other capital investments.

Exhibit 2 below shows the construction budget, which is not included in the EPS report and was provided by Port staff on behalf of the Developer. Work associated with Pier 45, driven by pier substructure reinforcement and repair work, is budgeted to cost approximately $401 million. Construction at the "Triangle Lot," comprising Seawall lots 300/301 is budgeted at $43 million in vertical costs and includes creation of a visitor center, beverage garden, and vacation/rental units and $39 million for public improvements, including development of Little Embarcadero and a public plaza. Remaining costs, including entitlement, start-up and production costs, total $64 million.

Exhibit 2: Construction Budget, Sources and Uses

Sources and Uses			**Amount**
Sources			
Equity			$249.8
Debt			$239.1
CFD/IFD			$36.6
Rent Credit			$22.5
Total Sources			**$548.0**
Uses	**Vertical Budget**	**Horizontal Budget**	**Total**
Pier 45	$254.5	$147.0	$401.5
Triangle Lot (SWL 300/301)	$43.6	$39.0	$82.6
Other Costs	$64.0	$0.0	$64.0
Total Uses	$362.1	$186.0	$548.1

Source: Port of San Francisco

Note: "Other costs" include entitlements, start-up and production costs, and working capital.

Of the $548 million in development costs, the developer would initially source $488.9 million through a combination of debt and equity. Approximately $37 million will be paid through a combination of CFD and IFD sources, as shown above. The Port is also providing up to a $22.5 million rent credit. To reduce general risk, Port staff also plan to seek additional public funding sources, which would reduce the debt and/or equity needed. According to a report by Port staff, these additional sources could include federal, state, and local grants.

Long-Term Operating and Maintenance Costs

Under the term sheet with FWR, the Port will not be responsible for any operating or maintenance costs associated with the project. These costs would be the sole responsibility of the Developer.

Debt Load to be Carried by the City or Department

The City will not incur any debt for the Project. Although the CFD and IFD formed by the City will incur debt, the CFD and IFD debt will not be secured by General Fund revenues.

Determination of Fiscal Feasibility

Based on our review of the EPS report, our office has determined that the vertical development and entitlement of the proposed project meets the basic criteria for fiscal feasibility as required by Administrative Code Chapter 29. However, an additional $15 million to $34 million in public sources would need to be identified to meet the target range in the term sheet as discussed below. As noted above, a determination by the Board of Supervisors that a project is fiscally feasible only finds that the proposed project merits further evaluation and environmental review; a determination of fiscal feasibility does not include a determination the project should be approved.

POLICY CONSIDERATION

The term sheet states that the Port and FWR seek to have public sources fund approximately 40-50 percent of total infrastructure costs, which are currently estimated to total $185.9 million. As described above, the Port anticipates generating approximately $36.6 million through tax increment financing, as well as providing a rent credit totaling approximately $22.5 million. Together, these public sources total $59.1 million, or 31.8 percent of estimated infrastructure costs.

Port staff plan to seek additional public funding sources, such as federal, state, and local grants, to reduce the debt and equity required of the project developer and overall project risk. Reaching the target range in the term sheet (40-50% of infrastructure costs) would require identifying $15.3 million to $33.9 million of such additional sources, based on the current estimated infrastructure cost total.

RECOMMENDATIONS

1. Request that the Port provide an update on the Project financing plan when the Port submits the LDDA for approval to the Board of Supervisors.
2. Because reaching the target percentage of public funding for project infrastructure would require identifying $15.3 million to $33.9 million of additional public sources, approval of the proposed resolution is a policy matter for the Board of Supervisors.

Item 16 File 24-1142	Department: Office of Contract Administration

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution seeks approval for a contract between the City and Recology to provide refuse collection and disposal services for City departments. The contract has a total term of up to ten years, including an initial seven-year period from January 1, 2025, to December 31, 2031, with an option to extend for three additional years through December 31, 2034. The total contract amount is not to exceed $119,000,000 over the ten-year term.

Key Points

- In June 2022, the Office of Contract Administration (OCA) issued an RFP to secure refuse collection and disposal services for City facilities, including recyclables, compostables, and trash. The initial highest-scoring proposer, Allied Waste Services, withdrew its proposal in March 2024 due to pricing errors before Board approval, leading Recology, the second highest-scoring proposer and current service provider, to be selected for contract negotiations.
- Recology will continue to provide refuse collection services for both City-owned and leased facilities, including the collection of recyclables, compostables, trash, bulky items, and pallets. Recology will also supply and deliver color-coded containers for internal material separation.
- A dedicated Waste Zero Specialist will be assigned by Recology to manage the Zero Waste Plan, in collaboration with the San Francisco Environment Department, to support the City's zero waste goals.

Fiscal Impact

- The total contract amount is not to exceed $119,000,000 over the ten-year term.
- A new Recovery Discount Incentive Program provides discounts on base collection costs to the City's Recovery Rate (the amount of recycling and composting), incentivizing departments to reduce landfill disposal and overall waste. Unlike the previous contract, which included an automatic discount, the new discount is performance-based. Departments may achieve higher savings each year by meeting certain waste reduction targets.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of $10 million or more, or (3) requires a modification of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

Recology and Procurement

The City and County of San Francisco requires refuse collection and disposal services (recyclables, compostables, and trash) for City facilities, which are managed separately from residential and commercial services. In June 2022, the Office of Contract Administration (OCA) issued a Request for Proposals (RFP) for refuse collection and disposal services at City facilities. Proposals were evaluated on a 100-point scale, with the Written Proposal comprising 50 points, the Oral Interview contributing 10 points, and the Price Proposal accounting for 40 points. Allied Waste Services (AWS) received the highest total score of 87.83 but withdrew its proposal in March 2024 due to pricing errors prior to Board of Supervisors' approval of the contract.[1] Recology, the second highest-scoring proposer with 87.19 points, was subsequently selected for contract negotiations. The scores are outlined in Exhibit 1 below.

Exhibit 1: Proposers and Rankings from RFP[2]

Proposer	Score (Out of 100)	Rank
Allied Waste	87.83	1
Recology SF	87.19	2

Source: OCA

[1] In February 2024, prior to Board of Supervisors approval of the Allied Waste contract, Recology, the only other proposer, issued a letter to OCA with copies to members of the Board of Supervisors questioning Allied Waste's pricing on Aggregate 3 (collection of large compactors), namely that collection rates did not increase as container sizes increased. Allied Waste subsequently indicated to the City that it could not proceed with the contract at the proposed rates for Aggregate 3 and withdrew its proposal. Since the final RFP scores were very close, Recology may have been the higher scoring proposer if Allied Waste had submitted slightly higher rates in its proposal.

[2] The evaluation panel included: Environment Department Commercial Zero Waste Coordinator, Airport Zero Waste Compliance Lead, Recreation and Parks Department Field Operations Analyst, and City Administrator's Office CFO.

To ensure continuity of service during negotiations, the existing contract with Recology, the current provider of refuse services for the City, was extended through amendments (File 24-0863), with the current extension valid until December 31, 2024.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves a contract between the City and Recology (comprised of Sunset Scavenger Company doing business as Recology Sunset Scavenger, Golden Gate Disposal & Recycling Company doing business as Recology Golden Gate, and Recology San Francisco) to provide refuse collection and disposal services for City departments, for a total contract term of up to ten years, including an initial seven-year term from January 1, 2025, to December 31, 2031, followed by an option to extend for three additional years through December 31, 2034, with a total not-to-exceed amount of $119,000,000 over the 10-year term.

Scope of Services

Under the proposed agreement, Recology will provide refuse collection services for both City-owned and leased facilities. Services include the collection of recyclables, compostables, trash, bulky items, and pallets, as well as the supply and delivery of color-coded internal containers for proper material separation. City departments may adjust service levels and collection locations. Increases in trash and reductions in recycles or compost must be approved by the San Francisco Environment Department (SFE). Collections will occur Monday through Sunday, excluding holidays, based on facility-specific needs.

Zero Waste Plan

Recology is required to assign a dedicated Waste Zero Specialist to administer the Zero Waste Plan in collaboration with SFE. Within six months of the contract's start date, Recology must develop a Zero Waste Plan, which will outline recommended annual activities to enhance resource recovery, reduce landfill disposal, and ensure compliance with local and state regulations. The plan will include benchmarks for initiatives such as the Recovery Inspection Program, Auto-Migration Program, and Three-Cart Pilot Program, subject to SFE's approval.[3] Annual revisions will begin in 2026 for the 2027 agreement year.

To enhance recovery outcomes, Recology will conduct Waste Zero Site Visits and provide Source Reduction Recommendations to City facilities to reduce refuse generation. Alternative Service Plans and Technical Assistance will be offered to locations requiring customized refuse

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[3] The Recovery Inspection Program includes evaluation of materials generated at City collection locations and identifying opportunities to right-size services, reduce contamination, and to improve recovery or reduce disposal. The Auto-Migration Program recommends and implements changes to trash bin sizes and service frequencies based on data from recovery inspections (subject to SFE approval) to address locations with low recovery rates or high volumes of trash that are not responsive to Contractor efforts to improve recovery rates. The Three-Cart Pilot Program introduces a standardized three-stream collection system (trash, recyclables, compostables) at selected underperforming sites to improve resource recovery.

management solutions. Efforts will focus on improving recycling and composting at sites with recovery rates[4] below 65 percent, in collaboration with SFE.

Contamination and Overage Management

The contract includes provisions to manage contamination and overages (or refuse that exceeds the capacity of the bin volume). During a three-month phase-in period, Recology will educate City departments on proper material separation practices without assessing contamination charges. Afterward, contamination thresholds will be enforced—10 percent for recyclables, 5 percent for compostables, and 25 percent for trash. "Per occurrence" charges will apply for each instance of contamination following a notification and correction protocol. Additionally, recurring charges ranging from 50 percent to 100 percent of the regular collection rate may apply if thresholds are exceeded repeatedly at a collection location. Departments will receive notifications and opportunities to address issues before charges are imposed. Additional charges may apply for overages or bins not placed in designated pickup locations.

Local Business Enterprise Requirements

The Local Business Enterprise (LBE) subcontracting participation requirement for this contract has been waived as there are no LBEs with the necessary permits from the Department of Public Health to provide refuse collection and disposal services in the City.

Reporting Requirements and Performance Monitoring

Recology is required to submit regular reports to demonstrate compliance with the City's refuse collection goals. Monthly invoices and citywide billing reports are due within 15 days of each month's end. Quarterly, Recology must provide recovery and disposal tonnage reports, customer complaint logs, and reports on disputed charges. Annually, they must submit compost delivery reports and verify volume reductions as part of the recovery discount adjustment (described below). OCA will be responsible for overseeing the contract and SFE will be responsible for overseeing implementation of the program/scope of work.

FISCAL IMPACT

The proposed contract has a total not-to-exceed amount of $119,000,000 over a potential ten-year term, covering the initial seven-year period and the optional three-year extension. City departments will incur costs based on the volume and frequency of refuse collection services required. These costs encompass regular collection services, provision and maintenance of bins, and participation in programs supporting the City's Zero Waste goals. The proposed not to exceed amount includes a 20 percent contingency to account for potential additional costs such as contamination charges (which are not estimated in the proposed budget), overages, and changes

[4] Recovery rates reflect the share of refuse that is recycled, composted, or reused compared to the total refuse generated.

in service requirements such as collection frequency. Exhibit 2 below summarizes the not to exceed expenditure projections for the initial and extended term.

Exhibit 2: Not to Exceed Annual Expenditure Estimates

Cost Category	Year One	7-Year Total	10-Year Total
Refuse Collection Cost (collection of bins, front-load compactors, debris boxes, and ancillary charges)	$7,206,983	$60,783,324	$92,189,413
Refuse Collection Cost (Ancillary Charges)	$323,485	2,615,288	4,024,949
Compactor Lease Cost	$168,901	1,365,515	2,101,538
Overage Cost	$27,367	221,256	340,515
Subtotal	**$7,726,737**	**64,985,383**	**98,656,415**
Contingency (20%)		*12,997,077*	*19,731,283*
Total Estimated Contract Cost		**$77,982,460**	**$118,387,698**

Source: OCA

Notes: Year 1 costs include an estimated 5.99% Consumer Price Index (CPI) increase from December 2022 to June 2024. Years 2 through 10 costs include an estimated annual Water, Sewer, and Trash (WST) CPI increase of 4.77%, based on the average annual percentage change from June 2014 to June 2024.

Rates

Refuse collection costs are based on rates included in Appendix B of the proposed agreement, which vary depending on the size and frequency of refuse collections. The proposed rates for bin collection are 2-53 percent less expensive than the City's current agreement with Recology but were generally 2 percent more expensive than Recology Uniform Commercial Rates effective October 1, 2024. The proposed rates are based on Recology's bid and are not subject to Recology's residential and commercial rate setting process.

Rates may be escalated annually based on changes in the Consumer Price Index for Water and Sewer and Trash Collection Services, as published by the U.S. Department of Labor, Bureau of Labor Statistics. The contract provides for a Recovery Discount Incentive Program which applies discounts off the base collection rates based on the recovery rate (percent by volume of total materials that are recovered (e.g., recyclable and compostable materials) at each collection location). The new Recovery Discount is designed to incentivize City Departments to actively reduce landfill disposal and total waste generation. The Recovery Discount is calculated by subtracting an Adjustment Factor from the Recovery Rate. Unlike the previous contract, where a fixed Composting Credit of 20% was automatically applied (effectively reducing the adjustment from 25% to 5%), the new discount depends on meeting specific waste reduction goals. Starting at 5% in Year 1 and increasing to 25% in Year 2, the Adjustment Factor can be reduced in subsequent years if the City achieves targeted reductions in trash volume (1,000 cubic yards reduction in total monthly Trash Bin volume) and overall waste generation (2% reduction compared to the same month of the previous year). These reductions can lower the Adjustment

Factor by up to 10% each, with proportional amounts applied based on the extent to which goals are met. Therefore, the discount is directly dependent on the City's performance in decreasing waste. If the City fails to meet these targets, the Adjustment Factor remains at 25%, which is 20 percentage points higher than the effective adjustment in the previous contract. This could result in higher costs for the City compared to the previous agreement, making it essential for the City to meet its waste reduction goals to avoid increased expenses.

Exhibit 3: Recovery Discount Calculation Formula (Years 3-10)

Recovery Discount =	**(Recycling + Composting Volume) / (Recycling + Composting + Trash Volume)**	**---**	**25% - (% of Landfill Disposal Reduction Goal Met x 10%) - (% of Total Waste Goal Met x 10%)**

Source: Recology Contract

The proposed budget in Exhibit 2 includes a recovery discount based on a 45 percent recovery rate as well as the maximum possible discount in Years 3 through 10 under the Recovery Discount Incentive Program, which assumes the City reduces the volume of landfill disposal and total refuse generation in each year compared to the prior year. The most recent Citywide consolidated monthly report (September 2024) recorded the recovery rate at 44 percent. As a result, OCA proposes the current budget as an estimate, acknowledging that adjustments may be needed once the variable charges (e.g., recovery discount, contamination charges) are realized.

Sources of Funding

The contract spending will be covered by the operating budgets of individual City departments, and therefore a mix of General Fund and enterprise funds.

RECOMMENDATION

Approve the proposed resolution.

Item 17 **File 24-1060**	**Department:** Civil Service Commission (CSC), Office of Labor Standards Enforcement (OLSE)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would fix prevailing wage rates for employees of businesses having City contracts that (1) perform public works and improvement projects, (2) perform janitorial or window cleaning services, (3) work in public off-street parking lots, garages, or storage facilities for vehicles on property owned or leased by the City, (4) engage in theatrical services or technical services related to the presentation of shows on property owned or leased by the City, (5) haul solid waste, (6) perform moving services at facilities owned or leased by the City, (7) perform exhibit, display, or trade show work at special events in the City, (8) work in broadcast services on City property, (9) drive, load, or unload commercial vehicles on City property in connection with shows or special events, (10) perform security guard services, and (11) perform motor bus services.

Key Points

- The proposed resolution would establish the following changes to prevailing wage basic hourly rates: (1) construction employees would receive wage rate increases that vary by classification, ranging from $0.45 to $15.66 per hour; (2) window cleaning employees would receive wage rate increases that vary by classification, ranging from no increase to $3.00 per hour; (3) garage and parking lot employees would receive a wage rate increase depending on classification ranging from $0.72 to $1.00 per hour; (4) theatrical employees would receive a wage rate increase depending on classification ranging from $1.17 to $3.55 per hour; (5) solid waste haulers would receive a wage rate increase depending on classification ranging from $1.62 to $2.12 per hour; (6) employees performing moving services would receive a wage rate increase of $0.75 per hour; (7) employees performing trade show work would receive a wage rate increase depending on classification ranging from $1.40 to $1.54 per hour; (8) broadcast employees would receive a wage rate increase depending on classification ranging from $0.57 to $4.61 per hour; (9) loaders and unloaders would receive a wage rate increase depending on classification ranging from $1.00 to $1.25 per hour; (10) security guards would receive a wage rate increase of $0.65 per hour; and (11) motor bus drivers would receive a wage rate increase depending on classification ranging from $0.89 to $1.14 per hour.

Fiscal Impact

- Potential increased costs to the City depend on future City contractor bids and the extent to which City contractors increase the bids submitted to the City to pay for the costs of the increased prevailing wage rates. Such potential increased costs to the City cannot be estimated at this time.

Recommendation

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

MANDATE STATEMENT

Charter Section A7.204 requires contractors that have public works or construction contracts with the City to pay employees the highest general prevailing rate of wages for similar work in private employment. The Charter allows the Board of Supervisors to exempt payment of the prevailing wage for wages paid under public works or construction contracts between the City and non-profit organizations that provide workforce development services.

Administrative Code Sections 6.22(E)(3) and L.E.C. Art. 102.1 (c)(1) require the Board of Supervisors to annually set prevailing wage rates for employees of businesses having City contracts. Exhibit 1 below identifies the (a) specific Administrative Code Sections and Labor and Employment Code Section, (b) the dates each Administrative Code Section and Labor and Employment Code was last amended by the Board of Supervisors, and (c) the types of City contracts, leases, and/or operating agreements in which the businesses are required to pay prevailing wages.

Exhibit 1: List of City Contractors Required to Pay the Annual Prevailing Wage

Administrative Code and Labor and Employment Code	Date of Most Recent Amendment	Type of Contract
Section 6.22 (E)	December 22, 2015	Public works or construction
L.E.C. Art. 102.7	November 6, 2020	Motor bus services
L.E.C. Art. 102.2	May 28, 2014	Janitorial and window cleaning services
L.E.C. Art. 102.3	May 28, 2014	Public off-street parking lots, garages and vehicle storage facilities
L.E.C. Art. 102.4	February 2, 2012	Theatrical performances
L.E.C. Art. 102.5	February 2, 2012	Solid waste hauling services
L.E.C. Art. 102.6	February 2, 2012	Moving services
L.E.C. Art. 102.8	June 19, 2014	Trade show and special event work
L.E.C. Art. 102.9	February 10, 2016	Broadcast service workers on City property
L.E.C. Art. 102.10	October 14, 2016	Loading, unloading and driving commercial vehicles on City property
L.E.C. Art. 102.11	October 28, 2016	Security guard services in City contracts and for events on City property

BACKGROUND

Businesses must pay prevailing wage rates to employees if they have contracts with the City, lease City property, or have permits for or other access to temporary use of City property. "Prevailing wages" are usually based on rates specified in collective bargaining agreements for comparable classifications in the geographic area. Businesses having contracts, leases, or permits with the City must pay the prevailing wage rate, even if the employees of the specific business are not covered by a collective bargaining agreement.

Each year, the Board of Supervisors is required to establish the prevailing wage rates for workers engaged in construction, janitorial, parking, theatrical, motor bus, solid waste hauling, moving, trade show, security guard, and broadcast services, and for loading, unloading and driving commercial vehicles on City property.

Administrative Code Section 6.22, covering public works classifications, defines prevailing wage as the per diem wage rate, and rate for overtime and holidays. L.E.C. Art. 102 defines the prevailing wage rate for other classifications as the base hourly wage rate and the hourly rate for fringe benefits.

To assist the Board of Supervisors in determining the prevailing wage rates, the Civil Service Commission is required to furnish the Board of Supervisors, on or before the first Monday of November of each year, relevant prevailing wage rate data. The City Attorney's Office, on behalf of the Civil Service Commission, submitted the report to the Board of Supervisors on October 28, 2024.

Administrative Code Sections 6.22(E) and L.E.C. Art. 102.1 state that the Board of Supervisors is not limited to the data submitted by the Civil Service Commission to determine the prevailing wage rates for public works construction, but may consider other information on the subject as the Board of Supervisors deems appropriate. According to Administrative Code Section 6.22(E), if the Board of Supervisors does not adopt the prevailing wage rates for public works classifications, the wage rates established by the California Department of Industrial Relations for the year will be adopted.

The Civil Service Commission's relevant prevailing wage rate data provided to the Board of Supervisors is based on a survey by the City's Office of Labor Standards Enforcement and includes collective bargaining agreements that have recently been negotiated.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would fix prevailing wage rates for employees of private businesses having the following contracts, leases, or operating agreements with the City or perform services on City property:

1. Public works and improvement project contracts,
2. Janitorial services contracts,
3. Public off-street parking lots, garages, or storage facilities for vehicles on property owned or leased by the City,
4. Theatrical or technical services related for shows on property owned or leased by the City,
5. Hauling of solid waste generated by the City in the course of City operations,
6. Moving services under City contracts at facilities owned or leased by the City,
7. Exhibit, display or trade work show services at a special event on City-owned property,
8. Broadcast services on City property,

9. Loading, unloading, and driving of commercial vehicles on City property in connection with shows or special events,
10. Security guard services, and
11. Motor bus services.

The Administrative Code requires that the Civil Service Commission provide prevailing wage data to the Board of Supervisors that includes both the basic hourly wage rate and the hourly rate of each fringe benefit, including medical and retirement benefits.

- Prevailing wage rates for various crafts and labor classifications under public works projects are established by the California Department of Industrial Relations, usually based on collective bargaining agreements that cover the employees performing the relevant craft or type of work in San Francisco.
- Prevailing wage rates for contracts for other services and classifications covered by the Administrative Code, as recommended by the Civil Service Commission, are based on the collective bargaining agreements that cover work performed in San Francisco between employers and the respective labor unions.

Attachment I to this report provides an alphabetical list of all crafts covered by the City's prevailing wage rate requirements.

FISCAL IMPACT

Attachment II to this report, prepared by the Budget and Legislative Analyst, summarizes (a) the types of contracts, leases, or operating agreements required to pay prevailing wages, (b) the respective collective bargaining agreements and labor unions, (c) the amount of the hourly wage rate increases or decreases in 2025 as compared to 2024, (d) the amount of the hourly fringe benefit rate increases or decreases in 2025 as compared to 2024, and (e) the proposed prevailing hourly wage rates.

Potential impact on the costs of future contractor bids

Under the proposed resolution, private businesses that have contracts with the City, and perform public works construction, janitorial services, parking, theatrical, moving, solid waste hauling services, trade show work, broadcasting services, loading and unloading, security guard services, and motor bus services in San Francisco, would be required to pay their employees at least the prevailing wage rates as shown in Attachment II of the report. Increases in the prevailing wage rates could result in increased costs of future City contracts. However, any increased contract costs to the City as a result of the proposed prevailing wage rates are dependent on future City contractors' bids and the extent to which such higher wage rates result in higher bids submitted by City contractors. Therefore, such potential increased costs to the City cannot be estimated at this time.

POLICY CONSIDERATION

As noted above, the Civil Service Commission's relevant prevailing wage rate data provided to the Board of Supervisors is based on a survey by the City's Office of Labor Standards Enforcement and includes collective bargaining agreements that have recently been negotiated. Because the Board of Supervisors is not limited to the data submitted by the Civil Service Commission to determine the prevailing wage rates for public works construction but may consider other information on the subject as the Board of Supervisors deems appropriate, we consider approval of the proposed resolution to be a policy matter for the Board of Supervisors.

RECOMMENDATION

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

List of the Crafts Covered by Prevailing Wage Requirements

Asbestos Removal Worker (Laborer)
Asbestos Worker, Heat and Frost Insulator
Boilermaker-Blacksmith
Broadcast Services Workers
Brick Tender
Bricklayer, Blocklayer
Building/Construction Inspector
Carpenter and Related Trades
Carpet, Linoleum
Cement Mason
Dredger (Operating Engineer)
Drywall Installer (Carpenter)
Electrical Utility Lineman
Electrician
Elevator Constructor
Field Surveyor
Furniture Movers and Related Classifications
Glazier
Iron Worker
Janitorial Services Worker
Janitorial Window Cleaner Workers
Laborer
Landscape Maintenance Laborer
Light Fixture Maintenance
Loaders and Unloaders
Marble Finisher
Marble Mason
Metal Roofing Systems Installer
Modular Furniture Installer (Carpenter)
Motor Bus Driver
Moving Services
Operating Engineer
Operating Engineer (Building Construction)
Operating Engineer (Heavy and Highway Work)
Painter
Parking and Highway Improvement Painter (Painter)
Parking Lot and Garage Workers
Pile Driver (Carpenter)
Pile Driver (Operating Engineer - Building Construction)
Pile Driver (Operating Engineer - Heavy and Highway Work)
Plaster Tender
Plasterer
Plumber
Roofer
Security Guards
Sheet Metal Worker (HVAC)
Slurry Seal Worker
Solid Waste Hauling Workers
Stator Rewinder
Steel Erector and Fabricator (Operating Engineer - Heavy & Highway Work)
Steel Erector and Fabricator (Operating Engineer - Building Construction)
Teamster
Telecommunications Technician
Telephone Installation Worker
Terrazzo Finisher
Terrazzo Worker
Theatrical Workers
Tile Finisher
Tile Setter
Trade Show and Special Event Workers
Traffic Control/Lane Closure (Laborer)
Tree Maintenance (Laborer)
Tree Trimmer (High Voltage Line Clearance)
Tree Trimmer (Line Clearance)
Tunnel Worker (Laborer)
Tunnel/Underground (Operating Engineer)
Water Well Driller

Type of Contract, Lease, or Operating Agreement	Collective Bargaining Agreement and/or Labor Union	Hourly Wage Rate Increase/ Decrease in 2025 compared to 2024	Hourly Fringe Benefits Rate Increase/ Decrease in 2025 compared to 2024	Proposed Prevailing Wage Rates (Hourly Wage Rate + Hourly Fringe Benefit Rate)
Public Works and Construction	California Department of Industrial Relations	Varies by classification, ranging from an increase of $0.45 per hour for glaziers to an increase of $15.66 per hour for water well drillers and water well driller pump installers.	Varies by classification, ranging from $0.05 per hour for certain field surveyors and water well drillers to an increase of $10.65 for water well drillers and water well driller pump installers.	Varies by classification: -The low wage rate increases from $20.00 per hour to $41.71 per hour for water well driller helpers. -The high wage increases from $141.60 to $150.26 per hour for cable splicers.
Janitorial Services Contract	Collective bargaining agreement between the San Francisco Maintenance Contractors Association and the Service Employees International Union, Building Services Employees Union, Local 1877, Division 87.	No changes.	Varies by classification, from an increase of $0.34 per hour to an increase of $0.46 per hour.	Varies by classification: -The low wage increases from $27.95 per hour to $28.29 per hour. -The high wage increases from $35.36 per hour to $35.82 per hour.
Window Services Contract	San Francisco Window Cleaning Contractors Association and the Window Cleaners Union – Service Employees International Union, United Service Workers West	An increase of $3.00 per hour for the base window cleaner, and an increase of $2.50 per hour for the scaffold/bos’n chair window cleaner.	An increase of $1.55 per hour for the base window cleaner, and an increase of $1.53 per hour for the scaffold/bos’n chair window cleaner.	Varies by classification: -The low wage increases from $43.58 per hour to $48.13 per hour. -The high wage increases from $45.12 per hour to $49.15 per hour.
Public Off-Street Garage Employees	San Francisco Master Parking Agreement between the Signatory Parking Operators and Teamsters Automotive and Allied Workers, Local 665.	Varies by classification, from an increase of $0.72 per hour to an increase of $1.00 per hour.	Varies by classification, from an increase of $0.76 per hour to an increase of $0.82 per hour.	Varies by classification: -The low wage increases from $34.40 per hour to $35.88 per hour. -The high wage increases from $43.98 per hour to $45.80 per hour.

Type of Contract, Lease, or Operating Agreement	Collective Bargaining Agreement and/or Labor Union	Hourly Wage Rate Increase/ Decrease in 2025 compared to 2024	Hourly Fringe Benefits Rate Increase/ Decrease in 2025 compared to 2024	Proposed Prevailing Wage Rates (Hourly Wage Rate + Hourly Fringe Benefit Rate)
Theatrical Services	Collective Bargaining Agreement between Another Planet Entertainment and International Alliance of Theatrical Stage Employees, Local 16, Moving Picture Technicians, Artists and Allied Crafts, and Canada Local 16	Varies by classification, from an increase of $1.17 per hour to an increase of $3.55 per hour.	Varies by classification, from an increase of $0.43 per hour to an increase of $1.30 per hour.	Varies by classification: -The low wage increases from $53.32 per hour to $54.92 per hour. -The high wage increases from $121.19 per hour to $126.04 per hour.
Solid Waste Hauling	Collective Bargaining Agreement between Recology Sunset & Recology Golden Gate and Sanitary Truck Drivers and Helpers Union Local 350, IBT	Varies by classification, from an increase of $1.62 per hour to an increase of $2.12 per hour.	No change. (Does not include vacation benefits which vary based on length of employment).	Varies by classification: ·The low wage increases from $77.85 per hour to $79.47 per hour. -The high wage increases from $95.77 per hour to $98.01 per hour.
Moving Services	Collective Bargaining Agreement between the Service Westand the Northern California Regional Council of Carpenters and the Carpenters 46 Northern California Counties Conference Board.	An increase of $0.75 per hour.	An Increase of $0.68 per hour.	Varies by classification: ·The low wage increases from $39.52 per hour to $40.95 per hour. ·The high wage increases from $40.37 per hour to $41.80 per hour.
Trade Shows	Collective Bargaining Agreement, between the Freeman Expositions and Allied Trades District Council 36 on behalf of Sign Display and Allied Crafts Local Union 510	Varies by classification, from an increase of $1.40 per hour to an increase of $1.54 per hour.	Varies by classification, from an increase of $1.10 per hour to an increase of $1.11 per hour.	Varies by classification: ·The low wage increases from $77.48 per hour to $79.98 per hour. ·The high wage increases from $82.50 per hour to $85.15 per hour.
Broadcast service workers	Agreement between Purple Tally Productions, Inc., and the International Alliance of Theatrical Stage Employees, Moving Picture Technicians, Artists, and Allied Crafts, AFL-CIO, CLC, and Local 119/ Bay Area Freelance Association.	Varies by classification, from an increase of $0.57 per hour to an increase of $4.61 per hour.	Varies by classification, from an increase of $0.28 per hour to an increase of $0.74 per hour.	Varies by classification: -The low wage increases from $31.14 per hour to $31.99 per hour. -The high wage increases from $114.39 per hour to $117.74 per hour.

Type of Contract, Lease, or Operating Agreement	Collective Bargaining Agreement and/or Labor Union	Hourly Wage Rate Increase/ Decrease in 2025 compared to 2024	Hourly Fringe Benefits Rate Increase/ Decrease in 2025 compared to 2024	Proposed Prevailing Wage Rates (Hourly Wage Rate + Hourly Fringe Benefit Rate)
Loaders and Unloaders	Collective Bargaining Agreement between Freeman Exposition Inc., GES/Global Experience Specialists, Curtin Convention & Exposition Services, Inc., and all other signatory employers within the greater San Francisco Bay Area and Teamsters Local 2785, Local 287 and Local 70	Varies by classification, from an increase of $1.00 per hour to an increase of $1.25 per hour.	An increase of $1.12 per hour.	Varies by classification: -The low wage increases from $68.74 per hour to $70.86 per hour. -The high wage increases from $70.40 per hour to $72.77 per hour.
Security Guard Services	Collective Bargaining Agreement between Universal Protection Services LP, dba Allied Universal Security Services, Securitas Security Services USA, Inc., GardaWorld Security, ProGuard Security, ABC Security Services, Chenega Security California Corp., Prosegur Security, Genesis Security, PalAmerican Security and Services Employees International Union, United Services Workers West	An increase of $0.65 per hour.	An increase of $0.02 per hour.	Increases from $24.85 per hour to $25.52 per hour.
Motor Bus Services	Loop Transportation, Inc.; Wedriveu, Inc.; Storer Transit Systems, And Mosaic Global Transporation And Teamsters Local Union No. 853	Varies by classification, from an increase of $0.89 per hour to an increase of $1.14 per hour.	Varies by classification, from an increase of $0.18 per hour to an increase of $0.20 per hour.	Varies by classification: -The low wage increases from $37.75 per hour to $38.82 per hour. -The high wage increases from $45.90 per hour to $47.24 per hour.

Item 18 **File 24-1130**	**Department:** Department of Early Childhood (DEC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would retroactively approve a grant agreement between the Department of Early Childhood (DEC) and the Low Income Investment Fund (LIIF) to administer the San Francisco Child Care Facilities Fund and provide technical assistance, for a term of two years from July 1, 2024 to June 30, 2026, for a total amount not to exceed $67,715,789.

Key Points

- Under the proposed grant agreement, LIIF would continue to administer the Child Care Facilities Fund to provide grants and loans to childcare providers for capital projects. Projects can be both new childcare facilities and renovation of existing childcares facilities. LIIF would also provide technical assistance to childcare providers through training and resources about the development process, including design, permitting, and financing.

Fiscal Impact

- The proposed grant agreement would have an amount not to exceed $67,715,789 over two years. Approximately 88 percent of projected expenditures would be used for direct grants and approximately 12 percent would be used for LIIF's internal costs, including approximately 13 FTEs.

Policy Consideration

- This grant was underspent by $14,948,407 in FY 2022-23 and $20,890,290 in FY 2023-24, and the Department is proposing a similar budget for the proposed grant agreement. The Board could consider a reduction of funds in the proposed grant or in the following grant cycle if the Department continues to underspend. The proposed grant will shift focus to funding childcare centers for 0-3 year olds as the State is funding childcare for 4-5 year olds. This shift in services may result in higher spending than the prior two-year grant.
- LIIF was selected on a sole-source basis by DEC, relying on a waiver from the Office of Contract Administration. In the past, the City used competitive solicitations to procure this service, and LIIF has been the only qualified proposer.
- The Board could consider requesting the Department undertake competitive solicitation in the next cycle of the grant agreement. Our review of the prior procurement found that the minimum qualifications were highly restrictive and may have limited the pool of qualified applicants.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of $10 million or more, or (3) requires a modification of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

Child Care Facilities Fund

The City launched the Child Care Facilities Fund in 1998 with a mix of federal, state, and local funds to award as a grant to expand the quantity of licensed care options and increase the quality of childcare for families and children. The Child Care Facilities Fund was originally administered by the Human Services Agency (HSA) and is, as of 2022, administered by the Department of Early Childhood (DEC). The City has contracted with Low Income Investment Fund (LIIF), a non-profit, to manage the Child Care Facilities Fund and provide technical assistance since its inception in 1998. The program is designed to improve the facilities of licensed Early Childcare Education (ECE) facilities in San Francisco through funding and technical assistance. As of early 2024, there are approximately 1,000 San Francisco-based licensed ECE facilities of which 400 are Early Education Centers (center-based) and 600 are licensed Family Child Care (FCC) homes. LIIF serves as a centralized resource for providers to provide support for facility planning and construction. The prior grant agreement between DEC and LIIF was for a not-to-exceed amount of $85,625,200 and a term of two years, which expired June 30, 2024 with no option to extend.

Sole Source Procurement

In the past, the City has gone through the competitive solicitation process for its contracts with LIIF but there historically have not been many applicants. In 2016, LIIF was the only vendor who submitted a proposal in response to a Request for Proposals (RFP). The following cycle, in 2022, there were two proposers – one proposer was determined to not meet the minimum requirements while LIIF did. In April 2024, DEC submitted a sole source waiver to waive competitive solicitation of the grant to the Office of Contract Administration (OCA) in April 2024 and OCA granted approval in October 2024. According to OCA's Director Sailaja Kurella, OCA's Grant Consensus Committee determined DEC met the requirements of Administrative Code 21G.8(b), as DEC demonstrated it had conducted a competitive solicitation process within the last five year and there was a lack of potential grantees.

The BLA reviewed the Request for Proposal (RFP) in 2022 which stated four main minimum qualifications. Together, these might be unnecessarily restrictive and contribute to the lack of nonprofit grantees. The qualifications were: (1) a minimum of three years of experience as a Community Development Financial Institution or financial intermediary; (2) a minimum of three years of experience providing capital projects and technical assistance to licensed ECE programs; (3) three years of experience in facilities development and financing; and (4) three years working with ECEs in San Francisco. Because the ECE permitting process is arduous in California, and access to financing is such a structural issue for early learning providers, the RFP also identifies the need for a grantee to have a working knowledge about state childcare licensing requirements, San Francisco building and fire codes, and the ability to leverage other financing options for childcare operators. The proposer that did not meet the minimum qualifications in 2022 did not meet #1 or #2.

Underspending in Prior Grant Agreement

There was significant underspending under the prior grant agreement. In FY 2022-23 DEC had actual expenditures of 25,080,143 and $14,948,407 in unspent funds. In FY 2023-24, DEC had actual expenditures of $16,922,251 and $20,890,290 in unspent funds. According to DEC's Executive Director Ingrid Mezquita, new development delays have contributed to the delays in construction of new childcare facilities in FY 2023-24. Unspent funds in the grant were returned to DEC's fund balance.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would retroactively approve a grant agreement between the Department of Early Childhood (DEC) and the Low Income Investment Fund (LIIF) to administer the San Francisco Child Care Facilities Fund and provide technical assistance, for a term of two years from July 1, 2024 to June 30, 2026, and for a total not-to-exceed amount of $67,715,789, which includes a 3 percent contingency amount. The agreement would also authorize DEC to make necessary, non-material changes to the Grant Agreement before its execution in consultation with the City Attorney. Under the proposed grant agreement, LIIF would administer the Child Care Facilities Fund by providing grants and loans to childcare providers[1] for capital projects and technical assistance for facility development.

Child Care Facilities Fund

LIIF provides grants to childcare providers for construction projects, specifically for new facilities, facility renovation, expansion, and repair. LIIF also provides a small number of grants to childcare providers for outdoor play spaces. For the proposed grant, LIIF will set aside grants specifically for capital expansion and renovation for those facilities with the greatest unmet need, per DEC's Facility Needs Assessment conducted in 2023 that identified high-priority zip codes for underserved communities.

In FY 2023-24, LIIF distributed over $13 million in direct grants to 91 childcare sites, with grants ranging from $2,560 to $2,548,516 each. DEC estimates that the proposed grant will distribute grants to 146 childcare facilities each year during FY 2024-25 and FY 2025-26.

[1] Providers include center-based providers and home-based providers.

Technical Assistance

LIIF provides technical assistance to educators in the form of training, resources, and one-on-one technical assistance related to a childcare facilities' development, including the feasibility analysis, planning, architecture and design, and permitting and construction process.

In FY 2023-24 LIIF provided 1078 hours of technical assistance support to 291 childcare sites. DEC estimates the proposed grant will provide technical assistance to 250 unique sites in FY 2024-26.

Performance Monitoring

LIIF will provide grants and technical assistance to center-based providers and home-based providers. The primary performance indicators are 1) the number of grants LIIF provides childcare providers for facilities expansion, renovation, and repair, and 2) the number of providers that receive technical assistance.[2] According to the most recent program monitoring report issued in June 2024, LIIF had met or was on track to meet most of its contractual service objectives. Under the proposed grant agreement, like the prior grant agreement, LIIF will be responsible for submitting regular quarterly reports and an annual report to DEC. The grantee's ability to meet ongoing performance targets will continue to be influenced by external factors, including economic conditions and City/State permitting timelines for the childcare facilities and any related housing or office developments.

In FY 2023-24, LIIF did not meet its goal to increase the number of spaces in center-based childcare providers for 0–3 year-olds (37 actual new facilities versus a target of 86) and 3-5 to year olds (50 actual new spaces versus a target of 182). In addition, no new spaces were in the top five high-needs zip codes; the grant had a goal of providing grants to at least half of the new center-based childcare facilities in priority zip codes. Going forward, LIIF and DEC are revising the project eligibility criteria for center-based childcare facilities due to reduced need of 150 new childcare spaces per year for 0–5 year-olds combined (a decrease from 268 per year in the current grant agreement). According to DEC's Executive Director Ingrid Mezquita, as the state of California rolls out universal Pre-K (ages 4-5) by FY 2025-26, DEC anticipates increased need for younger students, infants and toddlers (0–3 year-olds), whose costs are generally greater than Pre-K aged children.

Financial Condition

The Office of Economic and Workforce Development (OEWD) reviewed LIIF's core financial health and governance indicators as part of the FY 2022-23 Citywide Nonprofit Monitoring and Capacity Building Program. The review resulted in no findings, indicating the organization has good financial health.

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[2] Appendix B of the Grant Agreement

FISCAL IMPACT

The proposed grant agreement would authorize the amount of $67,715,789 over a two-year period, retroactive from July 1, 2024 through June 30, 2026. Exhibit 1 below summarizes the sources and uses of the proposed contract spending.

Exhibit 1: Estimated Sources and Uses of Funds

Sources	Year 1 (FY 2024-25)	Year 2 (FY 2025-26)	Total
CalWorks[3]	$692,325	$692,325	$1,384,650
Child Care Capital[4]	$2,500,000	$2,500,000	$5,000,000
Impact Fees[5]	$3,827,243	-	$3,827,243
Prop C[6]	$27,762,860	$27,768,731	$55,531,591
Total Sources	**$34,782,428**	**$30,961,056**	**$65,743,484**

Source: DEC

Uses	Year 1 (FY 2024-25)	Year 2 (FY 2025-26)	Total
Salaries & Benefits	$1,795,490	$1,849,016	$3,644,506
Operating Expenses[7]	$304,413	$303,746	$608,159
Consultants	$1,175,000	$1,198,250	$2,373,250
Subtotal	*$3,274,903*	*$3,351,012*	*$6,625,915*
Indirect (approx 15%)	$517,960	$531,078	$1,049,038
Passthrough (Grants)	$30,989,565	$27,078,966	$58,068,531
Total Uses	**$34,782,428**	**$30,961,056**	**$65,743,484**
Contingency (3%)	$1,043,473	$928,832	$1,972,305
Total Not to Exceed	**$35,825,901**	**$31,889,888**	**$67,715,789**

Source: Appendix B of the Grant Agreement.

As shown in Exhibit 1 above, in Year 1 approximately 89 percent of projected expenditures would be used for passthrough grants and approximately 11 percent would be used for LIIF's internal costs, including salaries and benefits for 12.8 full-time equivalent positions, operating expenses, consultants, and indirect costs. In Year 2, approximately 87 percent of projected expenditures would be used for passthrough grants while 13 percent would be used for internal costs.

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[3] CalWorks Capacity Building is federal money passed through Human Services Agency (HSA) to support availability of childcare slots for CalWorks eligible families.

[4] The Child Care Capital fund is a special revenue fund derived from City development and designated for creation of new childcare sites.

[5] Child Care Development Impact fees are fees charged to developers to ensure childcare slots are available in the impacted area.

[6] Proposition C, also known as "Baby Prop C," is a commercial rent tax passed by San Francisco voters in June 2018 that allocated 85 percent of revenues to early childhood education and childcare programs and 15 percent of revenues to the City's General Fund.

[7] Operating expenses include rent, information technology, training, travel, and office supplies.

The proposed grant would cost $34,782,428 in the first year and $30,961,056 in the second year, with 3 percent contingency funding. The bulk of the decrease from Year 1 to Year 2 is due to a slight decrease in Early Education Centers (center-based provider) grants.

Reduction in Funding

The prior grant agreement with LIIF included a budget of $40.0 million in FY 2022-23 and $37.8 million in FY 2023-24. The decrease in the proposed grant agreement ($34.8 in FY 2024-25 and $31.0 in FY 2025-26) is driven by reduction in Child Care Capital revenues and uncertainty regarding availability of Commercial Rent Tax (Proposition C) revenues applied to this grant agreement. These two revenue sources are driven by development and commercial leasing, respectively, and both activities have declined due to local economic conditions. The same economic drivers, i.e., a reduction in development and commercial leasing, impact the timing for development of new childcare sites. In addition, the prior grant agreement included a $738,788 General Fund allocation, which was reduced as part of the Citywide savings request in FY 2022-23.

POLICY CONSIDERATION

Underspending

Though DEC's facilities development budget is based upon a childcare development pipeline, accessibility of financing and local economic and development conditions strongly influences project execution timelines. According to DEC, the pandemic and its impact on the local population, economy and access to funding has significantly altered the recent childcare development pipeline. This grant was underspent by $14,948,407 in FY 2022-23 and $20,890,290 in FY 2023-24, and the Department is proposing a similar budget for the proposed grant agreement. Although the proposed grant budget for FY 2024-25 is $34,782,428, the past two years of spending on this service suggests that actual spending in FY 2024-25 will be closer to $21,000,000. The proposed grant will shift focus to funding childcare centers for 0-3 year olds as the State is funding childcare for 4-5 year olds. This shift in services may result in higher spending than the prior two-year grant. LIIF has been able to scale up its spending from an average of $3,600,000 over FY 2017-18 and FY 2018-19 to an average of $21,000,000 over FY 2022-23 and FY 2023-24.

The Board could consider a reduction of funds in the proposed grant or in the following grant cycle if DEC continues to underspend this grant money. The grant is funded primarily by the fund balance generated through litigation around Proposition C, a tax on commercial rent (Proposition C), and per Business Tax & Regulations Code Article 21 Section 2112. Proposition C funds can be spent on other allowable uses, including childcare support for low-income families and teacher compensation for early childcare. [8]

[8] Article 21 Section 2112 details the allowable expenditures of monies in the Babies and Families First Fund (Prop C).

Procurement

The Department submitted and received a sole source waiver from the Office of Contract Administration for this proposed grant agreement. Our review of the prior procurement found that the minimum qualifications were highly restrictive and may have limited the pool of qualified applicants. The Board could consider requesting DEC undertake a competitive solicitation in the next cycle of the grant agreement.

RECOMMENDATION

Approve the proposed resolution.

Item 19 **File 24-0994**	**Department:** Office of Economic Workforce Development (OEWD) Department of Emergency Management (DEM)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve Amendment No. 5 to the grant agreement between the Office of Economic and Workforce Development (OEWD) and Mid-Market Foundation for management of the Mid-Market/Tenderloin Community-Based Safety Program, increasing the not-to-exceed amount by $7,761,188, for a total not to exceed $68,851,756, and authorize the OEWD Executive Director to make further immaterial amendments to the grant agreement.

Key Points

- In 2022, OEWD executed a grant agreement with Mid-Market Foundation to provide community ambassador services in the Mid-Market/Tenderloin area. The grant agreement has since been amended four times, extending the term through June 2025 and increasing the not-to-exceed amount to $61,090,570.
- Mid-Market Foundation subcontracts to Urban Alchemy, Code Tenderloin, and Next Street for ambassador staffing, the Tenderloin Community Benefits District for park maintenance, and with Urban Place Consulting for program administration. Urban Alchemy is the primary subgrantee. When the Board last reviewed this contract in July 2023, the program was expected to begin ramping down services in FY 2024-25.
- Because street conditions in the area have not improved, DEM, OEWD, and the Mayor's Office increased funding for the program in FY 2024-25 by $7,761,188. This includes: (a) $4 million for maintaining FY 2023-24 ambassador staffing, (b) $2.3 million for extending hours from 7pm to 11:30pm along Market Street, and (c) $1.4 million in additional staffing for Willow and Ellis Streets.

Fiscal Impact

- The proposed Amendment No. 5 would increase the not-to-exceed amount of the grant by $7,761,186, for a total not to exceed $68,851,756. This increase is funded by the City's General Fund ($6.6 million) and interdepartmental work orders. The program is not funded beyond FY 2024-25. OEWD and DEM have agreed to reduce the not-to-exceed amount of the grant agreement by $4,061,168, for a total not to exceed $64,790,570.

Policy Consideration

- The City intends to issue a new RFP to continue the ambassador program beyond FY 2024-25. The Mid-Market Foundation provides detailed data on the outputs of ambassador activities, but it does not track the outcomes of the program, such as crime levels and street conditions in the Mid-Market and Tenderloin areas. Prior to issuing the RFP, we recommend that the Board of Supervisors request OEWD and DEM provide objective outcome standards to determine when to ramp down the program and to include a ramp down plan in the RFP.

Recommendation

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

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of $10 million or more, or (3) requires a modification of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

In 2021, after conducting a competitive solicitation, the Office of Economic and Workforce Development (OEWD) executed a grant agreement with the Mid-Market Foundation to provide community ambassador services in the Mid-Market/Tenderloin area, for a term of one year and an amount not to exceed $4,500,000. In December 2021, OEWD amended the agreement to increase the not-to-exceed amount to $5,250,000.

In 2022, OEWD entered into a new grant agreement with Mid-Market Foundation for a term of nine months, from July 2022 through March 2023, and an amount not to exceed $9,000,000. The grant agreement has since been amended four times, as shown in Exhibit 1 below.

Exhibit 1: Mid-Market Foundation Grant Agreement Amendments

Amendment	Date	Approval	Description
Original Agreement	7/1/2022	OEWD	Term of 9 months from 7/1/2022 – 3/31/2023, amount not to exceed $9,000,000
No. 1	11/8/2022	Board of Supervisors (File 22-1058)	Extended term through 6/30/2023, increased amount to $20,490,000
No. 2	3/21/2023	Board of Supervisors (File 23-0041)	Extended term through 10/15/2023, increased amount to $33,590,570
No. 3	7/18/2023	Board of Supervisors (File 23-0681)	Extended term through 6/30/2025, increased amount to $60,590,570
No. 4	11/1/2023	OEWD	Increased amount to $61,090,570

Source: Previous contract amendments

In 2023, the Department of Emergency Management (DEM) assumed programmatic responsibility from OEWD to manage the City’s ambassador programs, including the Mid-Market Foundation agreement. DEM added a new Street Ambassador Program Coordinator (0922 Manager I) to oversee these programs. OEWD reduced its staffing for the ambassador programs from 0.30 full-time equivalent (FTE) employees to 0.15 FTE employees and has retained fiscal management of the programs.

Current Contract & Ambassador Deployment

When the Board of Supervisors last considered this contract in July 2023, the contract budget was $21.5 million for FY 2023-24 and $16 million for FY 2024-25. These amounts reflected the amount appropriated for the contract in the FY 2023-24 – FY 2024-25 budget and a planned ramp-down of ambassador services in FY 2024-25. According to DEM staff, street conditions had not improved by the end of FY 2023-24, so the Department requested additional funding to maintain the program's service levels into FY 2024-25.

The FY 2024-25 OEWD budget included a $4 million General Fund enhancement for this program, increasing the funding available for this contract from $16 million to $20 million. The purpose of this increase was to increase ambassador staffing in FY 2024-25 so that it was similar to FY 2023-24 levels, rather than ramp the program down.[1] In addition, $1.5 million of work order funding from the Department of Homelessness and Supportive Housing (HSH), Department of Public Health (DPH), and the Human Services Agency (HSA) was added to the OEWD budget for this program to increase ambassador staffing on Willow and Ellis Streets, where those departments have offices or programming. In October 2024, the Mayor's Office added $2.29 million to the OEWD budget, to extend hours of the program along Market Street from the current 7:00 am – 7:00 pm to 7:00 am – 11:30 pm. Together, these changes to the FY 2024-25 program total $7.8 million, increasing the budget for this year's grant from $16 million to $23.8 million. This increase in funding has not been added to the contract, which still includes a $16 million grant budget for the year.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Amendment No. 5 to the grant agreement between OEWD and Mid-Market Foundation for management of the Mid-Market/Tenderloin Community-Based Safety Program, increasing the grant amount by $7,761,186, for a total not to exceed $68,851,756, and authorize the OEWD Executive Director to make further immaterial amendments to the grant agreement. The term of the grant would not change and ends on June 30, 2025.

On November 25, 2024, the OEWD and DEM Executive Directors submitted a letter to the Budget and Finance Committee Chair indicating that they would accept an amendment to reduce the not-to-exceed amount of the grant agreement by $4,061,168, for a total not to exceed $64,790,570. This would allow the continuation of current service levels through April 2025.

Under the grant agreement, Mid-Market Foundation manages the Mid-Market Community-Based Safety Program, with the purpose of ensuring safety and inviting public space, overdose prevention, and to connect people to services.

Services

The Mid-Market Foundation subcontracts with several organizations that provide the following services

- Urban Alchemy: community ambassadors

[1] In addition to these expansions, the ambassador program has expanded operations in the past year at Market and Van Ness Streets, Mint Plaza, Polk and Larkin Streets, Fulton Plaza, and the 500 block of Stevenson Street (which was later reassigned to another contract).

- Code Tenderloin: outreach and street cleaning
- Next Street: outreach and street cleaning
- Tenderloin Community Benefit District: Park stewardship
- Urban Place Consulting: program administration

Urban Alchemy

Urban Alchemy's scope of work includes recruiting, training, and deploying community ambassadors to provide visitors, residents, and businesses with resource information (including emergency medical and law enforcement requests), interrupting negative behavior (such as public urination, noise, and littering), de-escalating mental health events, reversing overdoses, preventing or interrupting violence and other crimes, and light trash pick-up (including needle disposal). Exhibit 2 below shows these activities for FY 2022-23 and FY 2023-24, as reported by the Mid-Marlet Foundation. The data includes activities provided by Urban Alchemy as well as three other subcontractors: Code Tenderloin, Next Street, and Tenderloin Community Benefit District (TLCBD).

Exhibit 2: Mid-Market Community Ambassador Activities, FY 2022-23 and FY 2023-24 Monthly Averages

Activity	FY 2022-23 (Monthly Average)	FY 2023-24 (Monthly Average)
Positive Engagements	80,709	163,066
Inviting Space Interventions	20,843	52,879
De-Escalation Interventions	2,535	7,310
311 Calls	146	386
911 Calls	12	73
Overdose Reversals	8	19
Needle Removals	5,698	7,017
Trash Bags Filled	2,982	4,942
Total Ambassador Hours	**530,572**	**428,171**
Average Monthly Ambassador Hours	44,211	35,681
Blockfaces w/Ambassador Presence (Monthly Average)	78	93.25

Source: DEM and OEWD

The data shows that ambassador activities increased from FY 2022-23 to FY 2023-24 despite a reduction in monthly ambassador hours. While Mid-Market Foundation provides detailed data on the outputs of ambassador activities, it does not track the outcomes of the program, such as crime levels and street conditions in the Mid-Market and Tenderloin areas. Outcome data may be more useful than ambassador activity data in measuring the effectiveness of the ambassador program.

Urban Place Consulting

Urban Place Consulting is a private firm subcontracted by the Mid-Market Foundation to take "total responsibility" for the management, administration, and operations of the Mid-Market Foundation, including managing the Urban Alchemy contract, managing the Foundation's finances, conducting marketing and outreach for the Mid-Market Foundation and Mid-Market Business Association, and preparing invoices and periodic reports for the City.

Performance and Fiscal Monitoring

The grant agreement requires that the Mid-Market Foundation complete ongoing program evaluation, including through community surveys. In addition, the grantee provides OEWD with periodic deployment reports, which are summarized in Exhibit 2 above.

The most recent community survey was completed between July and August 2024 and included 104 respondents. Respondents were residents, employees, business owners, visitors, and students. According to the survey, 85 percent of respondents felt that the Mid-Market/Tenderloin area was cleaner or somewhat cleaner than it was six months earlier, while 15 percent felt that it was not at all cleaner. 53 percent of respondents felt that the area was much or somewhat safer than six months earlier, while 48 percent felt that the area was at the same level of safety or less safe. 61 percent of respondents felt somewhat or very safe during Urban Alchemy's program hours of 7 am to 7 pm, but 53 percent of respondents felt not safe after 7 pm.

OEWD staff reviewed Mid-Market Foundation's financial documents as part of the FY 2023-24 Citywide Fiscal and Compliance Monitoring program and identified 14 findings. A follow-up letter in August 2024 found that the actions taken by Mid-Market Foundation to address the findings were satisfactory and that the foundation is now in conformance with City financial and governance standards for non-profits.

The Department of Homelessness and Supportive Housing (HSH) reviewed Urban Alchemy's financial documents as part of the FY 2023-24 Citywide Fiscal and Compliance Monitoring program. HSH identified two findings related to time tracking on timesheets and Urban Alchemy having less than 30 days of operating cash. Both findings had been identified in previous fiscal years as well.

FISCAL IMPACT

The proposed Amendment No. 5 would increase the not-to-exceed amount of the grant by $7,761,186, for a total not to exceed $68,851,756. Payments to Mid-Market Foundation are based on deliverables provided, which are typically monthly, quarterly, and semi-annual reports provided to the City. The sources and uses of funds for FY 2024-25 are shown in Exhibit 3 below.

Exhibit 3: Sources and Uses of Funds, FY 2024-25

Sources	Original Amount	Increase Amount	Total Amount
General Fund	$4,800,000	$6,299,063	$11,099,063
Opioid Settlement Funding	11,200,000	-	11,200,000
Work Order – HSH	-	785,116	785,116
Work Order – HSA	-	338,506	338,506
Work Order – DPH	-	338,500	338,500
Total Sources	**$16,000,000**	**$7,761,186**	**$23,761,186**

Uses	Original Amount	Increase Amount	Total Amount
Mid-Market Foundation & Urban Place	$850,400	0	$850,400
Ambassador Program Baseline	$14,015,600	-	$14,015,600
Urban Alchemy Field Office	384,000	-	384,000
Subgrant for Neighborhood Safety Improvements[2]	750,000	-	750,000
Increase Ambassador Staffing to FY 2023-24 Levels		4,000,000	4,000,000
Market Street Extended Hours	-	2,299,000	2,299,000
Ellis Street Expansion	-	785,120	785,120
Willow Alley Expansion	-	677,066	677,066
Total Uses	**$16,000,000**	**$7,761,186**	**$23,761,186**

Source: Proposed contract amendment, OEWD. Totals may not add due to rounding.

As noted above, OEWD and DEM have agreed to reduce the not-to-exceed amount of the grant agreement by $4,061,168, for a total not to exceed $64,790,570.

The City intends to issue a new RFP to continue the ambassador program beyond FY 2024-25. The program is not funded beyond FY 2024-25 and would require a budget appropriation to continue into FY 2025-26.

POLICY CONSIDERATION

As noted above, Mid-Market Foundation provides detailed data on the outputs of ambassador activities, but it does not track the outcomes of the program, such as crime levels and street conditions in the Mid-Market and Tenderloin areas. According to Sam Dodge, DEM Director of

[2] Subgrants may include activations, support to small businesses and filling vacancies, and pro-social programming. Funds would be programmed as sub-grants to organizations, which could include Urban Alchemy.

Street Response Coordination, preliminary data from a researcher associated with the Stanford Impact Lab shows that the Urban Alchemy ambassador program reduced crime in its implementation area by 52 percent after 12 months and reduced drug crime by 80 percent after 12 months, and that crime was not pushed to other areas. However, the analysis is unpublished and unavailable for our review.

Prior to issuing the RFP, we recommend that the Board of Supervisors request OEWD and DEM provide objective outcome standards to determine when to ramp down the program and to include a ramp down plan in the RFP. Such outcomes could include the count and severity of 911 calls, public safety incidents, public nuisance incidents (such as public drug dealing, drug use, and other disruptive street behavior), the number of visitors to Civic Center Plaza and Tenderloin Children's playground, and sales tax revenue. These outcomes should be evaluated within the Mid-Market community ambassador deployment area during program hours.

In addition, as we noted in our prior reports on this agreement, the program structure is expensive as it includes the Mid-Market Foundation, the grantee, Urban Place Consulting, a subgrantee firm that manages the Mid-Market Foundation's administrative functions, Urban Alchemy, a subgrantee which provides ambassadors but also requires funding for its supervisors and executive management, as well as subgrantees Code Tenderloin, Next Street, and Tenderloin Community Benefit District (TLCBD). By contracting directly with ambassador providers, the City could have at least $850,400 per year in administrative costs for this service.

RECOMMENDATION

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

Item 20 **File 24-0189** *(Continued from 9/4/24 meeting)*	**Department:** Recreation and Parks (REC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would amend Section 12.11 of the Park Code to increase Yacht Harbor fees, retroactive to July 1, 2024 and again on July 1, 2025. The proposed ordinance also provides a 15 percent discount for berthing fees if the boat owner is a San Francisco resident. Following FY 2025-26, fees would continue to automatically escalate by the Consumer Price Index without further Board of Supervisors action.

Key Points

- The Recreation and Parks Department operates a Yacht Harbor in the Marina neighborhood. The fees have never covered the full cost of the Yacht Harbor's operations, which has therefore required a General Fund subsidy. As we discuss in our January 2024 report, "Marina Yacht Harbor Fee Analysis," to eliminate the General Fund subsidy to the Yacht Harbor, the City needs to expand the number of revenue generating slips or increase fees.
- The proposed ordinance increases fees for berthing and harbor services by 10.2 percent, on average, in FY 2024-25 and by 14.6, on average, in FY 2025-26. As an example, a forty-foot berth in the West Harbor currently costs $9,758 per year. The proposed ordinance would increase that fee to $10,891 in FY 2024-25 and $12,600 in FY 2025-26. For San Francisco residents, the new fees for the same berth would be $9,258 in FY 2024-25 and $10,710 in FY 2025-26.

Fiscal Impact

- The FY 2024-25 – FY 2025-26 budget removed the direct General Fund subsidy and assumed passage of this fee ordinance. The proposed fee increases are sized to backfill the direct General Fund subsidy for Yacht Harbor operations. The additional revenue generated amounts to $723,000 in FY 2025-26.

Policy Consideration

- As we noted in our January 2024 report on Marina revenues, the City's Yacht Harbor had the highest berthing fees among the 36 other marinas in the Bay Area but also had a long waitlist. We do not know how the proposed fee increases will impact the Yacht Harbor's utilization.
- If the proposed fee increases are not approved, Recreation & Parks Department staff report that the Department will reduce maintenance at the Marina and Marina Green, reduce Marina services for boat tenants, and shift gardener and Park Ranger costs, which amount to approximately $433,000 per year, to the General Fund.

Recommendation

- Approve the proposed ordinance.

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

Section 12.11 of the Park Code sets berthing and services fees for the Recreation and Park Department's Yacht Harbor, which includes boat slips to the east and west of Marina Green Park. Because the fees automatically escalate each year by the Consumer Price Index, the fees in the Park Code do not reflect current rates, which are published separately by the Recreation and Parks Department (REC). The fees have never covered the full cost of the Yacht Harbor's operations, which has therefore required a General Fund subsidy. In FY 2023-24, the General Fund provided a $592,921 direct subsidy to the REC Yacht Harbor and also funded approximately $278,000 in maintenance and gardening expenses in the Yacht Harbor area.

As we discuss in our January 2024 report, "Marina Yacht Harbor Fee Analysis," to eliminate the General Fund subsidy to the Yacht Harbor, the City needs to expand the number of revenue generating slips or increase fees.[1] The Recreation and Parks Department planned to renovate the East Harbor and expand the West Harbor to increase the number of slips however in February 2024, the Board of Supervisors and the Mayor approved an ordinance prohibiting the expansion of the West Harbor by more than 150 feet from its current eastern boundary (File 23-1191). Following approval of that project control ordinance, in February 2024 REC introduced this ordinance to increase fees at the Yacht Harbor.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend Section 12.11 of the Park Code to increase Yacht Harbor fees, retroactive to July 1, 2024 and again on July 1, 2025. Exhibit 1 summarizes the average increase in each fee category. Following FY 2025-26, fees would continue to automatically escalate by the Consumer Price Index without further Board of Supervisors action.

The proposed ordinance also provides a 15 percent discount for berthing fees if the boat owner is a San Francisco resident. According to REC staff, approximately half of boat owners that berth at the Yacht Harbor are San Francisco residents. This is not reflected in Exhibit 1 below.

[1] Our report on the Marina Yacht Harbor's revenues may be accessed at:
https://sfbos.org/sites/default/files/BLA_Marina_Yacht_Harbor_Fee_Analysis_012624.pdf

Exhibit 1: Average Proposed Yacht Harbor Fee Increases, FY 2024-25 & FY 2025-26

Fee Category	FY 2024-25	FY 2025-26
West Harbor Berthing	12.8%	17.0%
East Harbor Berthing	11.6%	15.7%
Deposits	11.2%	16.1%
Guest Docking	0.0%	3.0%
Guest Parking	13.7%	14.3%
Key Purchase	13.5%	16.7%
Services	6.5%	16.1%
Transfer License	11.3%	16.0%
Storage	11.3%	16.3%
Wait List	11.5%	15.9%

Source: Proposed Ordinance

A detailed list of fee changes is included in an Appendix to this report. As an example, a forty-foot berth in the West Harbor currently costs $9,758 per year. The proposed ordinance would increase that fee to $10,891 in FY 2024-25 and $12,600 in FY 2025-26. For San Francisco residents, the new fees for the same berth would be $9,258 in FY 2024-25 and $10,710 in FY 2025-26.

FISCAL IMPACT

The FY 2024-25 – FY 2025-26 budget removed the direct General Fund subsidy and assumed passage of this fee ordinance. The proposed fee increases are sized to backfill the direct General Fund subsidy for Yacht Harbor operations. The additional revenue generated amounts to $723,000 in FY 2025-26.

If the proposed fee increases are not approved, Recreation & Parks Department staff report that the Department will reduce maintenance at the Marina and Marina Green, reduce Marina services for boat tenants, and shift gardener and Park Ranger costs, which amount to approximately $433,000 per year, to the General Fund.

POLICY CONSIDERATION

As we noted in our January 2024 report on Marina revenues, the City's Yacht Harbor had the highest berthing fees among the 36 other marinas in the Bay Area but also had a long waitlist. We do not know how the proposed fee increases will impact the Yacht Harbor's utilization.

As also discussed in that report, the City may use up to $190 million from PG&E to remediate and rebuild the Yacht Harbor. The Department is in the process of re-designing the Yacht Harbor renovation project. Expanding the West Harbor would require legislative action. However, there may be other project designs that expand the number of slips, reduce operating costs of the Yacht Harbor, or align with the policy priorities of the Board of Supervisors. The harbor renovation project could take 5-10 years to complete.

Finally, the proposed increases for berthing fees are the same for all slip sizes. The Board could consider higher increases for larger berths to generate additional revenue for Yacht Harbor maintenance needs. REC intends to propose an amendment to the ordinance to increase fees on berths of 70 feet and above, which would increase revenues by approximately $40,000 in FY 2025-26.

RECOMMENDATION

Approve the proposed ordinance.

Appendix

Current			Proposed		
	FY 2024-25	**FY 2025-26**		**FY 2024-25**	**FY 2025-26**
West Harbor			**West Harbor**		
25'	$16.53	$17.03	25'	$18.45	$21.35
30'	$16.77	$17.27	30'	$18.75	$21.66
35'	$16.77	$17.27	35'	$18.72	$21.66
40'	$20.33	$20.94	40'	$22.69	$26.25
45'	$20.33	$20.94	45'	$22.69	$26.25
50'	$20.79	$21.41	50'	$23.20	$26.84
60'	$20.79	$21.41	60'	$23.20	$26.84
70'	$21.23	$21.87	70'	$24.56	$29.48
80'	$21.23	$21.87	80'	$24.56	$29.48
90'	$21.23	$21.87	90'	$24.56	$29.48
East Harbor			**East Harbor**		
20'	$12.37	$12.74	20'	$13.80	$15.97
25'	$12.37	$12.74	25'	$13.80	$15.97
30'	$12.55	$12.93	30'	$14.00	$16.20
35'	$12.55	$12.93	35'	$14.00	$16.20
Deposits			**Deposits**		
Electrical Adapter	$525.00	$540.75	Electrical Adapter	$585.00	$677.00
Hazardous Material	$226.00	$232.78	Hazardous Material	$252.00	$292.00
Visitor Key	$76.00	$78.28	Visitor Key	$84.00	$98.00
Guest Dock			**Guest Dock**		
Short Term	$2.00	$2.06	Short Term	$2.00	$2.06
Pick Up/Drop Off	$5.00	$5.15	Pick Up/Drop Off	$5.00	$5.15
Parking			**Parking**		
Crew, per day	$13.00	$13.39	Crew, per day	$14.00	$16.00
Special Event	$12.00	$12.36	Special Event	$14.00	$16.00
Trailer/Dingy Parking	$12.00	$12.36	Trailer/Dingy Parking	$14.00	$16.00
Purchase Fees			**Purchase Fees**		
Key Purchase	$37.00	$38.11	Key Purchase	$42.00	$49.00
Services			**Services**		
Chain Fee	$78.00	$80.34	Chain Fee	$87.00	$101.00
Dock Box Cleaning	$78.00	$80.34	Dock Box Cleaning	$87.00	$101.00
Impound	$233.00	$239.99	Impound	$260.00	$302.00
Harbor Line Installation	$46.00	$47.38	Harbor Line Installation	$51.00	$59.00
Labor, per incident	$87.00	$89.61	Labor, per incident	$87.00	$101.00

Current			Proposed		
	FY 2024-25	FY 2025-26		FY 2024-25	FY 2025-26
Water Pump Out, First Incident	$130.00	$133.90	Water Pump Out, First Incident	$130.00	$151.00
Water Pump Out, Subsequent Incidents	$218.00	$224.54	Water Pump Out, Subsequent Incidents	$218.00	$254.00
Transfer Fees			**Transfer Fees**		
Administrative Fee	$76.00	$78.28	Administrative Fee	$84.00	$98.00
35'	$227.00	$233.81	35'	$253.00	$293.00
45'	$304.00	$313.12	45'	$339.00	$392.00
>50'	$491.00	$505.73	>50'	$548.00	$635.00
Storage			**Storage**		
Dock Box (additional)	$22.00	$22.66	Dock Box (additional)	$24.00	$28.00
Small Boat Rack	$115.00	$118.45	Small Boat Rack	$128.00	$149.00
Skiff	$521.00	$536.63	Skiff	$582.00	$675.00
Storage Lockers	$38.00	$39.14	Storage Lockers	$43.00	$50.00
Wait List Fees			**Wait List Fees**		
Per Year	$113.00	$116.39	Per Year	$126.00	$146.00

Item 23 **File 24-1134**	**Department:** Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve (1) an amended and restated ground lease with Case Adelante SVN Housing, L.P. for a term of 75 years, with a 24-year option to extend and an annual base rent of $15,000 and (2) a not-to-exceed $45,233,623 amended and restated loan agreement for a minimum loan term of 57 years between the City and Case Adelante SVN Housing, L.P.

Key Points

- The purpose of the proposed loans is to provide gap financing for a 168 unit low-income affordable housing rental project at 1515 South Van Ness Avenue. The project is being jointly developed by Mission Economic Development Agency (MEDA) and Chinatown Community Development Center (CCDC), which were awarded predevelopment funding by MOHCD following a 2020 competitive solicitation.
- The project will feature 167 units and one manager unit. 42 units will be reserved for families exiting homelessness (supportive housing) and 5 units will be reserved for HIV-positive households with maximum household incomes of 50% MOHCD AMI (PLUS Housing Program). The remaining 120 general affordable units are primarily designed for families with household incomes between 40% to 80% MOHCD AMI.

Fiscal Impact

- The total development costs for the Project are estimated at $167,689,658, of which the City is funding up to $45,233,623. Other major development sources include a $37,930,397 State Multi-Family Housing Program (MHP) loan, $78,930,397 in tax credits, and a $3,956,000 permanent loan from Housing Trust Silicon Valley. The City's subsidy per unit is $269,247.
- The City's $45,233,623 million in loans is funded by 2015 and 2019 General Obligation Bond Funds, Housing Trust Funds, Eastern Neighborhood Funds and Low and Moderate Income Housing Asset Funds.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of $10 million or more, or (3) any such contract that requires a modification of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

1515 South Van Ness

The proposed affordable housing project at 1515 South Van Ness will be a nine story, 168-unit housing development for low-income and formerly homeless individuals and families. The site was purchased by City for $19 million in 2019 (File 19-0733) and was used as an HSH Safe Sleeping site through December 2023. The project will also include two non-residential tenants: (1) an early care and education center for approximately 46 low-income children (age 0-5), operated by Wu Yee, and (2) space for a community serving non-profit. In July 2024, the Board of Supervisors approved a ground lease with the developers so that they could begin demolishing the vacant buildings on the site and prepare for construction (File 24-0704).

The project is being co-developed by the Chinatown Community Development Center (CCDC) and Mission Economic Development Agency (MEDA), which formed Case Adelante SVN Housing L.P., the developer and operator for the project. CCDC & MEDA were awarded funding following a 2020 Request for Qualifications, which solicited proposals from affordable housing developers for nine City-owned sites. As shown below, an evaluation panel[1] scored two proposals based on qualifications (40 points) and project characteristics (60 points), with CCDC & MEDA achieving the highest score.

Exhibit 1: 2020 Multi-Site Request For Qualifications: 1515 South Van Ness Responses

Developer	Score (out of 100)
Mission Economic Development Agency (MEDA), Chinatown Community Development Center (CCDC), Catholic Charities	90
Bernal Heights Neighborhood Center/Bernal Heights Housing Corp, The John Stewart Co	89

Source: MOHCD

[1] The evaluation panel included 2 community representatives, 4 MOCHD staff, 1 OCII staff, 2 OEWD staff, 3 HSH staff, and 1 HSA staff.

MOHCD provided $7,180,991 million predevelopment funding to Case Adelante South Van Ness. The proposed resolution would approve an amended and restated loan agreement to provide permanent financing for the project and an amended and restated ground lease for the site.

Construction is expected to begin in February 2025 and lease up is expected to be complete by October 2027.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would:

1. Approve an amended and restated ground lease with Case Adelante SVN Housing, L.P. for a term of 75 years, with a 24-year option to extend and an annual base rent of $15,000;
2. Approve a not-to-exceed $45,233,623 amended and restated loan agreement for a minimum loan term of 57 years between the City and Case Adelante SVN Housing, L.P.;
3. Find that the 1515 South Van Ness Avenue property is exempt from the California Surplus Land Act;
4. Determine that the below market rate rent of the ground lease serves a public purpose by providing affordable housing for low-income households in need;

The proposed resolution would also find that the project and related transactions are consistent with the City's General Plan and the priority policies of the Planning Code and authorize the Director of MOHCD to amend the agreements provided the amendments do not increase the obligations or liabilities to the City.

Affordability Restrictions

Affordability restrictions to preserve the affordability of the housing units in the proposed development are included in the loan agreements between the City and the affordable housing operator and will be included in a Declaration of Restrictions recorded on the deed of the property. The unit mix is shown in Exhibit 2 below.

Exhibit 2: Unit Mix

Unit Mix	Total Units
Studio	15
1 Bedroom	32
2 Bedroom	77
3 Bedroom	44
Total	**168**

Source: Proposed Loan Agreement

Of the units above, 42 units (or 25 percent of the total units) will be for families exiting homelessness and 5 units will be part of MOHCD's PLUS programs, which provides affordable housing to people with HIV who make less than 50 percent area median income. The remaining

120 units will be for households making between 40% and 80% area median income. One of the two-bedrooms units is a manager's unit.

Loan Agreement

The $7.1 predevelopment funding for this project included $4 million awarded in December 2021 and $3.1 million awarded in July 2024 to demolish and secure the site, which had been subject to graffiti and vandalism.

MOHCD proposes to amend the loan agreement to increase the loan amount by $38 million for permanent financing. The loan may only be used to fund development costs related to 1515 South Van Ness project described above. The loan amount includes a $1.6 million bridge loan to the developers which must be repaid if they successfully obtain a Federal Home Loan Bank of San Francisco, estimated to occur in 2025 or 2026. This portion of the loan will not accrue interest.

The loan terms are similar to other MOHCD gap financing loans. The loan has a 57-year term and is repaid during the term by net project income and full payment is due at the end of the term. Excluding the $1.6 million bridge loan, the remaining loan amount will have a 1.55% percent interest rate.

Ground Lease

The City will retain landownership and lease the site to the developer/operator. The proposed amended and restated ground lease replaces the ground lease approved by the Board of Superiors in July 2024. The key terms remain the same: the initial term is 75 years, with an option to extend an additional 24 years (total possible lease term of 99 years). The lease has a base rent of $15,000 per year, which may be increased up to $860,000 (or ten percent of the site's appraised value) if the project generates sufficient net income. The proposed ground lease updates the schedule of performance to require the developer to (1) commence construction by February 26, 2025, (2) complete construction by September 1, 2027, and (3) achieve 95 percent occupancy by April 1, 2028.

Sponsor Performance

According to the MOHCD loan evaluation, there are no performance improvement plans for CCDC. However MOHCD staff note that MEDA is late in providing asset management reports for 37 City-funded properties, which provide information on the financial condition of each property. While MOHCD works to bring MEDA into compliance with MOHCD reporting requirements, MOHCD does not believe the issue will impact operations at 1515 South Van Ness because MEDA's operating role is limited to the commercial spaces.

FISCAL IMPACT

Total Development Costs

The total development costs for the Project are estimated at $167.7 million, as shown below.

Exhibit 3: Total Development Costs

Sources	Amount
MOHCD Gap Loan	$43,633,623
MOHCD Deferred Interest	1,045,833
Private Loan	3,956,000
Tax Credit Equity	78,523,805
HCD Multifamily Housing Program Loan	37,930,397
FHLB Affordable Housing Program Loan	1,600,000
Developer Equity	500,000
Deferred Developer Fee	500,000
Total	**$167,689,658**
Uses	
Acquisition Costs	$30,000
Hard Costs	$135,388,265
Soft Costs	27,741,335
Reserves	1,030,058
Developer Fees	3,500,000
Total	**$167,689,658**

Source: MOHCD
Note: Acquisition costs shown above refer only to holding costs. The City's cost of purchasing the site in 2019 was $19 million.

The proposed resolution approves a $45,233,623 loan agreement, which includes the $43,633,623 gap loan and a $1,600,000 bridge loan. The amount is consistent with the $45 million in gap financing estimated by MOCHD is 2019 when the Board approved the purchase of the site. Total development costs shown above include partial buildout of the child care and non-profit tenant spaces.[2]

Funding Sources for City Loan

Exhibit 4 below shows the sources of the proposed City loan.

[2] Consistent with MOHCD's Commercial Space Underwriting Guidelines, the City is funding construction of the commercial spaces to "warm shell" condition. Tenant improvements will be paid for by tenants.

Exhibit 4: Funding Sources for Proposed Loan

2019 GO Bonds	36,552,632
Eastern Neighborhoods Development Impact Fees	3,000,000
2015 GO Bonds	3,000,000
Low & Moderate Income Housing Funds	1,500,000
Housing Trust Fund	1,000,000
Inclusionary Housing Fees	180,991
Total	**45,233,623**

Source: Proposed Amended and Restated Loan Agreement

Costs Per Unit

As shown below, total development cost per unit is $998,153, of which the City is funding $269,248 per unit. This is eight percent higher than the $250,000 maximum City subsidy included in the 2020 solicitation used to fund this project.

Exhibit 5: City Subsidy for Affordable Housing Units

Number of Units	168
Total residential area (sq. ft.)	200,343
Development Cost	$167,689,658
Total City subsidy	$45,233,623
Development Cost per unit	$998,152
Development Cost per sq. ft.	$837
City Subsidy per unit	$269,247
City Subsidy per sq. ft.	$226

Source: MOHCD

If the $19,000,000 acquisition costs are included in the figures above, the total development cost is $186,689,658 ($1,111,248 per unit), of which the City is funding $64,233,623 ($382,343 per unit).

Operating Budget

According to MOHCD's 20-year cash flow analysis for the project, the project will have sufficient revenues to cover operating expenses, reserves, management fees, and debt service on the private loans and make payments on the proposed City loans. Project revenues consist of tenant rents and, for the 42 homeless units, the City's Local Operating Subsidy Funding, a General Fund cost. LOSP funding in Year 1 is $726,532. A portion of net income after operating expenses (residual receipts) will be used to repay the MOHCD loan.

In addition, HSH will fund support services for the homeless units with an annual cost starting at $530,000. Support services for other tenants will be provided by the project sponsor and paid for by project income. According to MOHCD staff, the child care center will be self-supporting and not require an operating subsidy from the City.

RECOMMENDATION

Approve the proposed resolution.

Item 26 **File 24-1140**	**Department:** Real Estate Division (RED)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize the Director of Property to execute a lease with MacLean Properties, LLC and 101 New Montgomery Street LP, as landlord for approximately 15,445 square feet of office space and 2,000 square feet of storage space at 101 New Montgomery Street (also known as 617 Mission Street), for a seven-year term from January 1, 2025 through December 31, 2032, with one five-year extension option. The initial annual base rent would be $580,020 with three percent annual escalation.

Key Points

- The San Francisco Department of Child Support Services (DCSS) has leased office space at 101 New Montgomery Street since 1995. DCSS manages their state-funded child support program at the location. The current lease is for 33,988 square feet with rent of $1,903,888 per year ($158,657 per month or approximately $56 per square foot per year) and is expiring on December 31, 2024 (File 18-0477).
- The proposed new lease for the premises has been reduced from 33,988 square feet to 15,445 square feet of office space plus 2,000 square feet of storage space because DCSS has consolidated their offices and reduced its operations during the current lease term. 60 FTE staff from DCSS will occupy the first and second floors of the premises.

Fiscal Impact

- The proposed lease would have an initial annual rent of $580,020 ($36 per square foot for 15,445 square feet of office space and $12 per square foot for 2,000 square feet of basement storage space), with three percent annual escalation. This is a decrease of $20 per square foot per year, or approximately 36 percent, for office space in comparison to the rent under the current lease, which is approximately $56 per square foot per year.
- The base rent of the proposed lease is at or below the fair market value in the area, as determined by comps based on building square footage, location, and building class. An appraisal was not required under Administrative Code Section 23.27 because the proposed rent is less than $45 per square foot.
- Over the seven-year term of the lease, DCSS would pay $4,444,381 in total rent. If an option to extend the term is exercised, the rent for the extended term would be set at 95 percent of appraised fair market rent at that time.
- Costs would be fully funded by the California Department of Child Support Services (CDCSS).

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Administrative Code Section 23.27 states that any lease with a term of one year or longer and where the City is the tenant is subject to Board of Supervisors approval by resolution.

BACKGROUND

The San Francisco Department of Child Support Services (DCSS) has leased office space at 101 New Montgomery Street (also known as 617 Mission Street) since 1995. The current lease is for 33,988 square feet with rent of $1,903,888 per year ($158,657 per month or approximately $56 per square foot per year) and is expiring on December 31, 2024 (File 18-0477). DCSS manages their state-funded child support program at the location and has consolidated their offices and reduced its operations[1] during the current lease term. In addition, the Department of Public Health's IT staff, which shared the premises with DCSS, has moved out of the building. Consequently, the proposed new lease for the premises has been reduced from 33,988 square feet to 15,445 square feet of office space plus 2,000 square feet of storage space.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the Director of Property, on behalf of DCSS, to execute a lease with MacLean Properties, LLC and 101 New Montgomery Street LP, as landlord for approximately 15,445 square feet of office space and 2,000 square feet of storage space at 101 New Montgomery Street (also known as 617 Mission Street), for a seven-year term from January 1, 2025 through December 31, 2032, with one five-year extension option. The initial annual base rent would be $580,020 with three percent annual escalation. The proposed resolution would also authorize the Director of Property to make further immaterial amendments to the lease.

The key terms of the proposed lease are shown in Exhibit 1 below.

[1] According to RED, this was primarily driven by the need to support increased costs of salary and fringe benefits, as well as a reduction in staffing levels because of attrition and a decrease in caseload.

Exhibit 1: Key Terms of Proposed Lease

Premises	15,445 square feet on floors 1 (5,296 square feet) and 2 (10,149 square feet), as well as 2,000 square feet of basement storage space
Term	7 years, from January 2025 through December 2032
Options to Extend	One 5-year option to extend through December 2037 Rent reset to 95% market value.
Annual Base Rent	$580,020 ($36 per square foot for 15,445 square feet of office space and $12 per square foot for 2,000 square feet of basement storage space)
Rent Escalation	3% annually
Tenant Improvement Allowance	Landlord will pay $5 per square foot towards tenant improvements, up to a maximum of $77,225. Improvements will likely be used for paint and carpet in the lobby area.
Utilities	Landlord pays all utilities except for electricity. Separately metered electricity estimated to cost on average $3,081 per month
Operating Costs	City pays percentage share of increase in operating costs over base year (2025). Operating costs include heat, water, HVAC, janitorial services, and security.
City's Percentage Share	25.66%

Source: Proposed Lease

The proposed draft lease in the legislative file states that the building address is 109 New Montgomery; however, this is an error. The proposed resolution correctly states that the building address is 101 New Montgomery. According to RED, the fully executed lease will be revised to reflect the correct building address.

Building Usage

According to RED, 60 FTE staff from DCSS will occupy the first and second floors of the premises. In FY 2022-23, DCSS served 7,999 child support cases representing 7,033 children.

FISCAL IMPACT

The proposed lease would have an initial annual rent of $580,020 ($36 per square foot for 15,445 square feet of office space and $12 per square foot for 2,000 square feet of basement storage space), with three percent annual escalation. This is a decrease of $20 per square foot per year, or approximately 36 percent, for office space in comparison to the rent under the current lease, which is approximately $56 per square foot per year. According to RED, the initial base rent of the proposed lease is at or below the fair market value in the area, as determined by comps based on building square footage, location, and building class. An appraisal was not required under Administrative Code Section 23.27 because the proposed rent is less than $45 per square foot. Over the seven-year term of the lease, DCSS would pay $4,444,381 in total rent. If an option to extend the term is exercised, the rent for the extended term would be set at 95 percent of appraised fair market rent at that time.

Under the lease, DCSS would pay its percentage share (25.66 percent) of the increase in the building's operating expenses over the base year. The base year would be calendar year 2025, so DCSS would begin paying operating costs in 2026. RED estimates the projected monthly operating costs would be approximately $612. DCSS would also pay electrical costs, which RED estimates would cost on average approximately $3,081 per month.

Costs would be fully funded by the California Department of Child Support Services (CDCSS).

RECOMMENDATION

Approve the proposed resolution.

Item 27 **File 24-1075**	**Department:** Homelessness and Supportive Housing

EXECUTIVE SUMMARY

Legislative Objectives

- The Urgent Accommodation Vouchers (UAV) Program provides emergency short-term hotel stays and supportive services for families and pregnant people. The proposed resolution would approve the second amendment to the agreement between Compass Family Services and the Department of Homelessness and Supportive Housing to extend the grant term for UAV by another 18 months, from December 31, 2024 to June 30, 2026, and would increase the not-to-exceed amount by $9,660,200 for a total not to exceed $17,801,570.

Key Points

- This proposed amendment reflects an increase of 115 families served at any given time compared to FY 2023-24 (when 15 families were initially served at any given time, until voucher slots were increased by 35 beginning May 1, 2024). Of the 130 households to be served in FY 2024-25, at least 80 voucher slots will be used for longer-term stays that align with other family shelter time limits, according to HSH.
- Based on the program monitoring assessment, Compass met five out of the nine objectives for the 18-day period the program was operational in FY 2022-23. The Department reported that Compass met all service and outcome objectives in FY 2023-24.

Fiscal Impact

- The actual amounts spent in FY 2022-23 and FY 2023-24 were significantly less than the amount budgeted. In FY 2022-23, the total expenditures of $309,897 represented just 24 percent of the total budget of $1,265,144. The following fiscal year, FY 2023-24, the total expenditure of $1,219,771 was 52 percent of the total budget of $2,338,598.
- The Department reported that underspending in FY 2022-23 was driven by delays in hiring, lower operational expenses, and lower direct client funding. In FY 2023-24, underspending was driven by Compass staff vacancies, unused funds from a DPH work order, and a $1 million budget augmentation that could not be fully spent.

Policy Consideration

- In FY 2024-25, the voucher slots will expand from 50 to 130 and the scope of the program will change with 80 of the 130 slots intended for longer-term stays that align with family shelter time limits. Actual expenditures moving forward may be closer to the proposed budget.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of $10 million or more, or (3) requires a modification of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

The Urgent Accommodation Vouchers Program provides emergency short-term hotel stays and supportive services for three program populations: (1) families and pregnant people, (2) survivors of violence, and (3) transitional age youth (TAY) experiencing homelessness, so these populations can achieve their housing goals.

According to the May 2022 informal solicitation from the Department of Homelessness and Supportive Housing (HSH), the provider is responsible for coordinating program operations and providing linkages to existing programs such as Coordinated Entry, harm reduction services, public benefits, health services, and behavioral health.

The grant agreement was procured pursuant to Administrative Code Chapter 21B, which allows selection of homeless service providers without competitive solicitations. Compass Family Services was the only provider to respond to the informal solicitation, which allowed the Department to evaluate its proposed program model and budget. In February 2023, HSH entered into a grant agreement with Compass Family Services to administer the Urgent Accommodation Vouchers Program for families and pregnant people for a term beginning February 1, 2023 through June 30, 2024 in an amount not to exceed $2,674,346. In FY 2023-24, the program served 228 families, according to HSH.[1] The Department entered into its first amendment in July 2024 to extend the agreement term by six months to December 31, 2024 and increase the not-to-exceed amount by $5,465,024 for a total not to exceed $8,141,370.

Safer Families Plan

The Safer Families Plan, announced by Mayor London Breed and Supervisors Hillary Ronen and Myrna Melgar, in May 2024, proposed one-time funding in the FY 2024-26 biennial budget to provide new emergency shelter and rapid rehousing subsidies to serve the increased number of families experiencing homelessness in San Francisco. The Urgent Accommodation Vouchers Program is part of the Safer Families Plan.

[1] Initially, 15 voucher slots were provided until May 1, 2024, when 35 additional voucher slots were funded—with the majority becoming operational at the beginning of the current fiscal year, FY 2024-25.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the second amendment to the agreement between Compass Family Services and HSH to extend the grant term by another 18 months, from December 31, 2024 to June 30, 2026, and would increase the not-to-exceed amount by $9,660,200 for a total not to exceed $17,801,570. The proposed resolution would also authorize HSH to enter into immaterial amendments to the contract.

Services Provided

Under the amended agreement, Compass would continue providing Urgent Accommodation Vouchers to families, including families who are formerly homeless or at-risk of homelessness and income-eligible family households with an adult and at least one natural, adoptive and/or foster child under age 18. This may include a pregnant person, with or without a partner. According to the proposed amended agreement, the Grantee will source program referrals from the City's required referral systems—Coordinated Entry, Homeless Outreach Team(s), City partner agencies, HSH-approved community partners, and self-referral methods. Specifically, the agreement stipulates that the Grantee shall provide emergency placements, temporary shelter placements, and Support Services to up to 130 families at any given time in FY 2024-25 and FY 2025-26, as described below. This reflects an increase of 115 families served at any given time compared to FY 2023-24 (when 15 families were initially served, until voucher slots were increased by 35 beginning May 1, 2024). Of the 130 households to be served beginning in FY 2024-25, at least 80 voucher slots will be used for longer-term stays that align with other family shelter time limits[2], according to HSH; the Department expects the total of 130 vouchers to serve about 600 families. Services include:

- **Emergency Hotel Placement and Temporary Shelter Placement Operations**, including hotel site identification for an appropriate standard of care, referral and screening, hotel reservations, communication with hotel management regarding maintenance needs, vouchers for emergency meals and/or groceries, room inspections, guest entry and exit, and on-call services for guest emergencies.
- **Support Services** will be provided at hotel sites Monday through Sunday 8 a.m. to midnight, including outreach to households about available support services, intake and assessment as well as development of a Family Success Plan[3], problem-solving conversations, case management, benefits advocacy and assistance, referrals and coordination of services, wellness and emergency safety checks, on-site services and/or referrals to guests who display instability, and exit planning support.

[2] The Department reports that it is currently in the process of developing family shelter time limits post-COVID.
[3] The Family Success Plan is a case management tool that involves setting collaborative goals that the family and case manager will work on together to address barriers to housing while providing necessary support and resources.

Performance Monitoring

The agreement specifies six service objectives and three outcome objectives, as shown in Exhibit 1. HSH completed a program monitoring assessment for FY 2022-23 in June 2023. However, the program was only operational for 18 days of the July 1, 2022 to March 31, 2023 program monitoring reporting period for Temporary Shelter and Outreach, as the program opened on March 13, 2023. Based on the program monitoring assessment, Compass met five out of the nine objectives for the 18-day period. The FY 2023-24 program monitoring report was completed on November 7, 2024 and is currently under review by HSH leadership, according to HSH staff. The Department reported that Compass met all service and outcome objectives in FY 2023-24; however, the report specifics were not made available for our review. The Department provided the following information related to the four objectives that were not met in the FY 2022-23 program monitoring report:

- For service objective #1 related to offering 90 percent of guests a Family Success Plan, the Department reports that it will meet monthly with the Grantee to provide guidance and share resources on addressing instances in which families with high barriers experience challenges reaching their goals.
- For service objective #6 on administering a quarterly satisfaction survey, the Department has requested that the survey be administered monthly or upon families' exit from the program in order to ensure it is completed.
- For outcome objective #1 seeking 75 percent of voucher recipients exiting to a destination other than the street, the Department says that the data for FY 2022-23 was not collected in the final quarter—when families were exiting the program. The Department expects to capture this data and report better outcomes in subsequent program monitoring reports, and the objective was met for FY 2023-24.
- For outcome objective #3 on a minimum of 75 percent of guests participating in a satisfaction survey rating services as good or excellent, the Department expects to meet this goal when surveys are administered more frequently. HSH staff report that this objective was met for FY 2023-24.

Exhibit 1: Compass Family Services Objectives (Goals and Actuals) for FY 2022-23

Service Objective	Goal	Actual	Achieved (Y/N)
1. Grantee shall offer at least 90 percent of guests a Family Success Plan that includes clear goals, objectives, and identified barriers within three business days of receiving an Urgent Accommodation Voucher	90%	20%	N
2. Grantee shall ensure at least 90 percent of guests are referred to problem-solving and/or assessment via Coordinated Entry within three business days of receiving a**n** Urgent Accommodation Voucher, unless there is an active assessment in the ONE System	90%	100%	Y
3. Grantee shall assist at least 90 percent of guests with case management and referral needs to access program benefits,	90%	100%	Y

Service Objective	Goal	Actual	Achieved (Y/N)
employment services, health services, and related transportation support, if needed			
4. Grantee shall offer Support Services to 100 percent of all guests who showed stay instability at least once per incident	100%	100%	Y
5. Grantee shall outreach to 100 percent of households with planned exits from the program to engage in comprehensive discharge planning, that includes referrals for case management, housing, food, clothing, medical treatment, detox, and/or other services as necessary and appropriate	100%	100%	Y
6. Grantee shall administer a quarterly satisfaction survey and achieve at least a 50 percent response rate for families enrolled in the program	50%	0%	N
Outcome Objectives			
1. A minimum of 75 percent of Urgent Accommodation Voucher participants will exit to a destination other than the street	75%	0%	N
2. A minimum of 75 percent of families shall have a completed shelter and/or housing CE assessment	75%	100%	Y
3. A minimum of 75 percent of guests participating in a Satisfaction Survey will rate the Urgent Accommodation Voucher program services as good or excellent	75%	0%	N

Source: HSH

Fiscal and Compliance Monitoring

In August 2023, the Office of Economic and Workforce Development conducted fiscal and compliance monitoring of Compass Family Services, and there were no unresolved findings. The agency was granted a waiver from monitoring in FY 2023-24.

FISCAL IMPACT

The proposed resolution would increase the not-to-exceed amount by $9,660,200 to $17,801,570. The addition of funds includes a one-time $600,605 carryforward of unspent funds from FY 2023-24 as well as $75,000 from a Department of Public Health (DPH) work order for the Black Infant Health Initiative in FY 2024-25.[4] Exhibit 2 below summarizes the expenditures of the proposed amended grant agreement. According to the Department, the $9,660,200 is a one-time augmentation that will be used to increase the number of voucher slots from 50 to 130 and the number of families served from 228 to about 600 until funds are exhausted. The Department expects the enhanced funding to be exhausted by the final quarter of FY 2025-26.

[4] According to its website, the San Francisco Black Infant Health Program focuses on empowering Black and African American women by connecting them with vital care and support needed to promote healthy behaviors during pregnancy and after birth.

Exhibit 2: Compass Family Services Expenditures for Urgent Accommodation Vouchers Program

Expenditure Category	FY 2022-23 Actual	FY 2023-24 Actual	FY 2024-25 Proposed	FY 2025-26 Proposed	Total Proposed
Salaries & Benefits	$130,898	$654,714	$857,375	$1,306,984	**$2,949,971**
Operating Expense	201,208	87,645	197,126	197,126	**683,105**
Indirect Cost (15%)	49,816	111,354	158,175	225,617	**544,962**
Other Expenses (Not Subject to Indirect %)	-72,024[1]	366,059	6,286,535	5,093,880	**11,674,450**
Total Expenditures	**$309,897**	**$1,219,771**	**$7,499,211**	**$6,823,607**	**$15,852,488**
				Contingency (20% on increase of $9,660,200)	**$1,949,084**
				Total Not-To-Exceed Amount	**$17,801,572[2]**

Source: Appendix B of the amended agreement

[1]Note: Negative amounts denote year-end adjustments to reflect the actual amount spent.

[2]Note: Amount is higher by $2 due to rounding.

Contract Underspending

The actual amounts spent in FY 2022-23 and FY 2023-24 were significantly less than the amount budgeted. In FY 2022-23, the total expenditures of $309,897 represented just 24 percent of the total budget of $1,265,144. The total underspending in FY 2022-23 of $955,247 is driven by three factors:

(1) Compass delays in hiring resulted in $115,231 in savings. In particular, the Department reports that Compass experienced challenges in hiring a bilingual case manager as well as an after-hours bilingual case manager, which is a harder to fill part-time on-call position.

(2) Operating expenses of $264,121 were unspent because there were no hotel room repairs and lower operating line items, such as rent, IT services, and staff travel.

(3) Direct client funding of $575,895 was unspent primarily because hotel room costs were lower during the spring months when the program started.

The following fiscal year, FY 2023-24, the total expenditure of $1,219,771 was 52 percent of the total budget of $2,338,598. The total underspending in FY 2023-24 of $1,118,827 is driven by three factors:

(1) Compass staff vacancies led to $232,219 of underspending. (The Department reports that Compass has hired 60 percent of its vacant positions as of October 11, 2024 and is on track to meet full staffing by year-end.)

(2) A budget augmentation of $1 million was provided, effective May 1, 2024, to increase the number of available vouchers from 15 to 50; however, Compass was only able to spend

$399,395, leaving the remaining $600,605 to be carried forward into FY 2024-25 through this proposed second amendment.

(3) The DPH work order funding of $286,003 went unspent (out of a total of $300,000) because of a low number of referrals from DPH via the Black Infant Health Initiative in FY 2023-24. This funding source is reduced to $75,000 in FY 2024-25 and eliminated in FY 2025-26.

Proposed Staffing and Hotel Room Expenses

While the contract was funded for 7.65 full-time equivalent (FTE) positions in FY 2023-24, that amount will nearly double to 14.20 FTE by FY 2025-26, with the addition of 4.00 FTE Bilingual Case Managers, 2.00 FTE After Hours Coordinators, and 1.00 FTE Assistant Program Director. The FTE increases to 9.03 in FY 2024-25 to reflect a pro-rated increase to allow time for hiring.

The Department estimates that the cost per household per night is $186, inclusive of the hotel room rate of $128 as well as operations and services. Hotel room expenses decline from $6.1 million in FY 2024-25 to $5.0 million in FY 2025-26 because the increased voucher slots are only funded for nine months of FY 2025-26.

Funding Source

The funding sources for FY 2024-25 and FY 2025-26 are as follows: 75 percent from Our City, Our Home (Proposition C), 25 percent from the General Fund, and a fraction from the DPH work order.

POLICY CONSIDERATION

As noted, Compass significantly underspent its budget in FY 2022-23 and FY 2023-24. In FY 2024-25, the voucher slots will expand from 50 to 130 and the scope of the program will change with 80 of the 130 slots intended for longer-term stays that align with family shelter time limits—currently under development by HSH. Actual expenditures moving forward may be closer to the proposed budget.

RECOMMENDATION

Approve the proposed resolution.

Item 28 **File 24-1041**	**Department:** Department of Homelessness and Supportive Housing (HSH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the Fourth Amendment to the grant agreement for the 5th and Harrison Transitional Living Program for Transitional Aged Youth (TAY) between the Department of Homelessness and Supportive Housing (HSH) and Community Housing Partnership dba HomeRise, extending the term by six months through December 2025, and increasing the not-to-exceed amount by $2,948,804, for a total not to exceed $12,942,074.

Key Points

- In 2013, the City opened the 5th and Harrison Transitional Living Program for Transitional Aged Youth (TAY, ages 18-24). The building includes 44 units and provides transitional housing to young adults who are homeless or at risk of becoming homeless with supportive services linking them to employment, education, and independent living skills. In 2019, after a competitive solicitation, HSH issued a grant agreement to HomeRise to continue operating the program.
- Under the grant agreement, HomeRise provides transitional housing and supportive services at the 5th and Harrison location. The grant agreement funds approximately 12.05 full-time equivalent (FTE) employees.

Fiscal Impact

- The proposed Fourth Amendment would increase the not-to-exceed amount of the grant agreement by $2,948,804, for a total not to exceed $12,942,074. The Budget and Legislative Analyst recommends reducing the not-to-exceed amount of the grant agreement by $242,074, for a total not to exceed $12,700,000, to reduce unallocated expenses that are unnecessary and can be covered by contingency funds.

Policy Consideration

- HomeRise has not been in compliance with the City's financial and governance standards, which led the Controller's Office to place it in "Elevated Concern" status, which was escalated to "Red Flag" status after an audit was released in April 2024. HSH is planning to issue a competitive solicitation in Spring 2025 for TAY services, which may result in a new provider for this program.

Recommendations

- (1) Amend the proposed resolution to reduce the not-to-exceed amount of the grant agreement by $242,074, for a total not to exceed $12,700,000. (2) Amend the proposed resolution to state that the grant agreement will not be extended beyond December 2025. (3) Approval of the resolution, as amended, is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of $10 million or more, or (3) requires a modification of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

In 2013, the City opened the 5th and Harrison Transitional Living Program for Transitional Aged Youth (TAY, ages 18-24). The building includes 44 units and provides transitional housing to young adults who are homeless or at risk of becoming homeless with supportive services linking them to employment, education, and independent living skills. HomeRise has operated the program since it started.

In January 2019, the Department of Homelessness and Supportive Housing (HSH) issued a Request for Proposals (RFP) for homeless youth housing and services for multiple sites. The RFP included five service categories, including transitional housing. Within that category, HSH received two proposals and an evaluation panel scored them, as shown in Exhibit 1 below.[1]

Exhibit 1: Proposals and Scores from RFP

Proposer	Organizational Capability & Experience (out of 48 Points)	Program Plan (out of 40 Points)	Budget & Budget Narrative (out of 12 points)	Total Score (out of 100 points)
Larkin Street Youth Services	42.3	31.3	7.7	**81.3**
Community Housing Partnership dba HomeRise	27.7	25.3	9.0	**62.0**

Source: HSH. Scores shown are the averages across three panelists.

Larkin Street Youth Services and HomeRise were both deemed to meet the minimum requirements of the RFP and were awarded grant agreements. Due to HomeRise's experience operating the 5th and Harrison Transitional Living Program, HSH awarded HomeRise a grant agreement to continue operating the program.

In May 2019, HSH executed a grant agreement with HomeRise to operate the 5th and Harrison Transitional Housing Program for a term of three years from July 2019 through June 2022 and an amount not to exceed $5,671,303. In July 2022, HSH executed the First Amendment to the grant agreement, extending the term by one year through June 2023 and increasing the not-to exceed amount by $3,327,983, for a total not to exceed $8,999,286. In July 2023, HSH executed the Second Amendment to the grant agreement, extending the term by one year through June 2024, and increasing the not-to-exceed amount by $993,984, for a total not to exceed $9,993,270. In

[1] The evaluation panel included a Program Manager from HSH, a Supervisor from the Human Services Agency (HSA), and a Program Coordinator from the San Francisco State University (SFSU) Guardian Scholars Program.

July 2024, HSH executed the Third Amendment to the grant agreement, extending the term by one year through June 2025, with no change to the not-to-exceed amount.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the Fourth Amendment to the grant agreement for the TAY 5th and Harrison Transitional Living Program between HSH and HomeRise, extending the term by six months through December 2025, and increasing the not-to-exceed amount by $2,948,804, for a total not to exceed $12,942,074. The proposed resolution would also authorize HSH to enter into further immaterial amendments to the grant agreement.

HSH plans to release a procurement for TAY transitional housing services in spring of 2025, that includes standardized service objectives to better measure performance and align with Home by the Bay, the City's 5-year strategic plan to prevent and end homelessness. The short-term extension will allow HSH to continue services at the site until the procurement process is completed.

Scope of Services

Under the grant agreement, HomeRise provides transitional housing and supportive services at the 5th and Harrison location. Transitional housing services include operating the 44-unit facility, such as providing janitorial services in common areas, and maintenance and repairs. Supportive services include outreach, intake and assessment, individualized service plans, case management, document readiness, employment, transitional housing stability support, life skills training, benefits advocacy and assistance, referrals and coordination of services, transportation, accommodations and transfers, de-escalation and conflict resolution, room checks, wellness checks, and/or emergency safety checks, support groups, social events, and activities, and exit planning and after-care services. The hours of service are not specified, although the grant agreement, however HSH reports that nonprofit staff is onsite 24/7, with support services and residential services being provided 40 hours a week.

The grant agreement funds approximately 12.05 full-time equivalent (FTE) employees.

Performance Monitoring

FY 2023-24 performance monitoring showed that HomeRise generally met its service objectives and five out of seven outcome objectives, including placing clients into longer term housing when they exit the program. However, only 66 percent of participants were engaged in education or employment activities in the program (short of the 90 percent goal), and only 41 percent of participants were employed or enrolled in post-secondary education upon exiting the program, short of the 80 percent goal. An HSH site visit identified five findings and recommendations related to comprehensive service plans for each guest, comprehensive case notes for each guest, timely updating the computer system with client information, minimizing vacant rooms, and reducing room turnover time. The HomeRise Leadership Team submitted a response letter to HSH for FY 23-24 Program Monitoring by the due date of November 10, 2024. In the letter, HomeRise confirmed they had carefully reviewed all findings and provided a summary of proposed and ongoing action steps to address all findings in a timely manner.

Red Flag Status

HSH and the Mayor's Office of Housing and Community Development (MOHCD) both had concerns about HomeRise's organizational management and financial operations. In 2022, HSH and MOHCD requested the City Services Auditor to audit HomeRise due to many noted deficiencies and concerns. In June 2022, MOHCD issued a notice of default on one of HomeRise's properties, and in December 2022, the Controller's Office placed HomeRise in "Elevated Concern" status due to risk of instability.

In April 2024, the Controller's Office issued an audit of HomeRise with the following findings:

1. HomeRise mismanaged some of its property financial activities, which led to reduced revenues and improper costs that may have adversely affected subsidies from the City and loan repayment to the City;
2. HomeRise did not comply with City grant fiscal provisions given its wasteful, uncontrolled, and questionable spending;
3. HomeRise's inadequate financial environment and controls contributed to its noncompliance with City agreements;
4. Certain HomeRise financial decisions and practices exacerbated its cash flow problems and impacted its adherence to City agreements; and
5. Insufficient oversight by past executive leadership and the board amplified HomeRise's noncompliance and fiscal issues.

Following this audit, the Controller's Office placed HomeRise on "Red Flag" status, now referred to Tier 3 status. The Controller's Office, HSH, and MOHCD have developed an action plan for HomeRise to address the findings and get into compliance. According to Wendy Lee, Controller's Office City Performance Unit Project Manager, HomeRise has implemented some audit recommendations and is receiving technical assistance from City departments. HSH, MOHCD, and Controller's Office staff meets every other week with HomeRise leadership to review the status of the action plan items. HSH is now requesting a six-month extension of the grant agreement to allow services to continue while HomeRise works to reach compliance.

FISCAL IMPACT

The proposed Fourth Amendment would increase the not-to-exceed amount of the grant agreement by $2,948,804, for a total not to exceed $12,942,074. Actual and projected grant expenditures by year are shown in Exhibit 2 below.

Exhibit 2: Actual and Projected Expenditures by Year

Year	Expenditures
FY 2019-20 (Actual)	$1,689,994
FY 2020-21 (Actual)	1,566,676
FY 2021-22 (Actual)	1,942,344
FY 2022-23 (Actual)	1,829,863
FY 2023-24 (Actual)	1,865,007
FY 2024-25 (Projected)	2,346,776
FY 2025-26 (Projected, 6 Months)	1,173,388
Subtotal, Actual & Projected Expenditures	*$12,414,049*
Contingency (15% of Projected Expenditures)	528,025
Total Not-to-Exceed	**$12,942,074**

Source: Proposed grant amendment

A 15 percent contingency is included to account for escalation, new services, and/or expansions of services. The breakdown of FY 2024-25 expenditures is shown in Exhibit 3 below.

Exhibit 3: Breakdown of FY 2024-25 Grant Expenditures

Expenditures	Amount
Salaries & Benefits	$984,159
Operating Expenses[2]	245,146
Subtotal	*$1,229,305*
Indirect Cost (15%)	184,396
Other Expenses[3]	933,075
Total Expenditures	**$2,346,776**

Source: Proposed grant agreement

The "Other Expenses" category includes $326,480 in FY 2024-25 and $163,240 in unallocated expenses, totaling $489,720. According to HSH staff, this amount still has not been allocated, but is intended to cover cost of doing business (CODB) increases, as well as funds recaptured from Indirect Costs when rent was moved from Operating Costs to Other Expenses. Due to the availability of contingency funds, as well as HomeRise generally underspending its budget in each of the first five years of the grant agreement, we believe this amount is unnecessary. The Budget and Legislative Analyst recommends reducing the not-to-exceed amount of the grant agreement by $242,074, for a total not to exceed $12,700,000.

The grant is fully funded by the City's General Fund.

POLICY CONSIDERATION

As noted above, HomeRise has not been in compliance with the City's financial and governance standards that led the Controller's Office to place it in "Elevated Concern" status, which was

[2] Operating expenses include utilities, office supplies and IT, building maintenance and repair, insurance, staff training, equipment rentals, tenant program supplies, dues and subscriptions, pest control, temporary desk clerks and security, and janitorial services.

[3] Other expenses include property rent and unallocated funds.

escalated to "Red Flag" status after an audit was released in April 2024. City departments are working with HomeRise to address the audit findings and reach compliance. Given the severity of the audit findings and the fact that very few City nonprofits are placed under Red Flag status, we believe that other service providers could operate this program as effectively as HomeRise with less risk to HSH. As noted above, HSH plans to release a procurement for TAY transitional housing services in spring of 2025, with a new grant agreement in place by January 1, 2026. To ensure that this occurs, and to allow services to continue uninterrupted, we recommend that the Board of Supervisors amend the proposed resolution to state that the grant agreement will not be extended beyond December 31, 2025.

RECOMMENDATIONS

1. Amend the proposed resolution to reduce the not-to-exceed amount of the grant agreement by $242,074, for a total not to exceed $12,700,000.
2. Amend the proposed resolution to state that the grant agreement will not be extended beyond December 31, 2025.
3. Approval of the proposed resolution, as amended, is a policy matter for the Board of Supervisors.

Item 29 **File 24-1042**	**Department:** Department of Homelessness and Supportive Housing (HSH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the Sixth Amendment to the Department of Homelessness and Supportive Housing's (HSH) grant agreement with St. Vincent de Paul Society of San Francsico to provide shelter operations at the Multi-Service Center South (MSC South), extending the grant agreement by three years through June 2028, and increasing the not-to-exceed amount by $40,669,501, for a total not to exceed $66,607,849.

Key Points

- St. Vincent de Paul has operated the MSC South site at 525 5th Street since 1989. The site provides emergency shelter and support and case management services for homeless people. In 2021, HSH selected St. Vincent de Paul, a non-profit, to operate MSC South, relying on its streamlined procurement authority provided in Administrative Code Chapter 21B. The grant has since been amended five times, with a term through June 2025 and an amount not to exceed $25,938,348.
- Under the grant agreement, St. Vincent de Paul provides shelter operations and support services at MSC South. Shelter operations include facility maintenance, referrals and reservations, accommodations, meals, pet accommodations, storage, entry and exit monitoring, and providing notice to guests of any issues that may affect their stay. Support services include intake, assessment and individual service plans, engagement, case management, benefits navigation, safety and de-escalation, wellness checks, support groups, social events, and activities, referrals and coordination of services, and exit planning. The shelter has a capacity of up to 329 guests. The grant funds approximately 94.20 to 99.95 full-time equivalent (FTE) employees, depending on the fiscal year.

Fiscal Impact

- The proposed Sixth Amendment would increase the not-to-exceed amount of the grant agreement by $40,669,501, for a total not to exceed $66,607,849. HSH has informed the Budget and Legislative Analyst that it plans to introduce an amended resolution that only extends the grant term by one year through June 2026 for a total amount not to exceed $43,519,178.
- The extension to the grant agreement is funded by the City's General Fund.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of $10 million or more, or (3) requires a modification of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

St. Vincent de Paul has operated the Multi Service Center South (MSC South) site at 525 5th Street since 1989. The site provides emergency shelter and support and case management services for homeless people. In 2021, HSH selected St. Vincent de Paul, a non-profit, to continue to operate MSC South, relying on its streamlined procurement authority provided in Administrative Code Chapter 21B. The grant has since been amended five times, as shown in Exhibit 1 below.

Exhibit 1: Previous Amendments to Grant Agreement

Amendment	Date	Approval	Description
Original Grant	7/1/2021	HSH	Term of 1 year from July 2021 through June 2022, term of $9,596,285
1	8/5/2021	HSH	Shifted $50,000 in funding from City's General Fund to a U.S. Department of Housing and Urban Development (HUD) Emergency Solutions Grant (ESG)
2	4/19/2022	HSH	Extended term through August 2022 and increased not-to-exceed amount to $9,999,935
3	6/28/2022	HSH	Extended term through September 2022 and reduced not-to-exceed amount to $8,951,766
4	9/6/2022	Board of Supervisors (File 22-0882)	Extended term through June 2024 and increased not-to-exceed amount to $25,938,348
5	7/1/2024	HSH	Extended term through June 2025

Source: Previous grant amendments

HSH and St. Vincent DePaul have agreed to extend the grant agreement to continue operations at the MSC South facility.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the Sixth Amendment to the grant agreement between HSH and St. Vincent de Paul, extending the term by three years through June 2028 and increasing the not-to-exceed amount by $40,669,501, for a total not to exceed $66,607,849. The proposed resolution would also authorize HSH to make further immaterial amendments to the grant agreement.

HSH has informed the Budget and Legislative Analyst that it plans to introduce an amended resolution that only extends the grant term by one year through June 2026 for a total amount not to exceed $43,519,178.

Services Provided

Under the grant agreement, St. Vincent de Paul provides shelter operations and support services at MSC South. Shelter operations include facility maintenance, referrals and reservations, accommodations, meals, pet accommodations, storage, entry and exit monitoring, and providing notice to guests of any issues that may affect their stay. Support services include intake, assessment and individual service plans, engagement, case management, benefits navigation, safety and de-escalation, wellness checks, support groups, social events, and activities, referrals and coordination of services, and exit planning. Shelter operations are provided 24 hours per day, seven days per week, and support services are provided Monday through Friday. The shelter has a capacity of up to 329 guests. The grant funds approximately 94.20 to 99.95 full-time equivalent (FTE) employees, depending on the fiscal year.

HSH is planning to renovate the MSC South facility starting in January 2025, for a period of approximately 14 months. The project includes remodeling the men's restrooms on the second floor, women's and men's restrooms on the first floor, and minor updates to staff restrooms to meet Americans with Disability Act (ADA) requirements. During construction, shelter capacity will be reduced by 30 beds, which HSH reports will be made up at other shelter sites for the duration of the renovation. The construction budget is approximately $12.7 million and is funded by 2016 Health and Safety General Obligation Bonds and the City's General Fund.

Performance and Fiscal Monitoring

FY 2023-24 performance monitoring found that St. Vincent de Paul met its contracted units of service and service and outcome objectives. HSH noted two findings related to staff not taking mandatory trainings and made 11 recommendations that needed to be implemented by August 31, 2024. A follow-up letter on September 5, 2024 found that all recommendations had been implemented and that FY 2023-24 monitoring was closed. The grant budget was underspent in by 8% FY 2021-22, 6% in FY 2022-23, and 12% in FY 2023-24 due to staff vacancies. However, HSH added funding in FY 2022-23 to enhance staff wages and reports that the program is expected to fill all vacant positions in FY 2024-25.

HSH staff reviewed St. Vincent de Paul's financial documents as part of the FY 2023-24 Citywide Fiscal and Compliance Monitoring Program and identified no findings.

FISCAL IMPACT

The proposed Sixth Amendment would increase the not-to-exceed amount of the grant agreement by $40,669,501, for a total not to exceed $66,607,849. The actual and projected expenditures by year are shown in Exhibit 2 below.

Exhibit 2: Actual and Projected Expenditures by Year

Year	Expenditures
Year 1 (FY 2021-22, Actual)	$6,540,805
Year 2 (FY 2022-23, Actual)	6,671,506
Year 3 (FY 2023-24, Actual)	8,671,340
Year 4 (FY 2024-25, Projected)	9,657,771
Year 5 (FY 2025-26, Projected)	9,450,071
Year 6 (FY 2026-27, Projected)	10,038,553
Year 7 (FY 2027-28, Projected)	10,038,553
Subtotal, Actual and Projected Expenditures	*$61,014,597*
Contingency (14.3% of Projected Expenditures)	5,593,249
Total Not-to-Exceed	**$66,607,849**

Source: Proposed grant amendment

A 14.3 percent contingency is included to account for escalation, new services, and/or expansions of services. HSH has informed the Budget and Legislative Analyst that it plans to introduce an amended resolution that only extends the grant term by one year through June 2026 for a total amount not to exceed $43,519,178.

The estimated contract budget for FY 2024-25 is shown in Exhibit 3 below.

Exhibit 3: FY 2024-25 Estimated Grant Budget

Expenditures	Amount
Salaries & Benefits	$6,362,367
Operating Expenses[1]	1,394,876
Subtotal	*$7,757,243*
Indirect Cost (15%)	1,163,587
Other Expenses[2]	736,941
Total	**9,450,071**

Source: Proposed grant amendment

The extension to the grant agreement is funded by the City's General Fund.

RECOMMENDATION

Approve the proposed resolution.

[1] Operating expenses include utilities, office supplies, building maintenance supplies and repair, insurance, staff training and travel, equipment rental, cleaning and janitorial, phones, staff recruitment and advertising, vehicle expenses, client services, supplies, and food, software, temporary staffing, and security (first $25,000).

[2] Other expenses include security and laptops.

Items 30 & 31 **Files 24-0847 & 24-0848** *(Continued from 10/9/24 meeting)*	**Department:** Homelessness and Supportive Housing

EXECUTIVE SUMMARY

Legislative Objectives

- **File 24-0847** is a proposed resolution that approves a ground lease with Abode Property Management (Abode) for the City-owned property located at 1174-1178 Folsom Street and 663 Clementina Street for the purpose of operating the property as permanent supportive housing. The lease has a total rent of $1 and an initial term of five years, from approximately November 1, 2024, to October 31, 2029, and has ten automatic extensions of the lease term for an additional period of five years each, for a maximum term of 55 years.
- **File 24-0848** is a proposed resolution that approves a grant agreement between HSH and Abode for property management services with a term of November 1, 2024, through June 30, 2029 (four years and nine months) and a not-to-exceed amount of $14,177,264.

Key Points

- In July 2023, the Board of Supervisors approved the purchase of property located at 1174-1178 Folsom Street and 663 Clementina Street for use as permanent supportive housing for a total amount of $27,225,000. In November 2023, the City acquired the 42-unit studio apartment building with Proposition C funds. Under the proposed grant agreement, Abode will be responsible for property management and a different vendor will provide supportive services.
- Ownership rights to the building are transferred to Abode during the lease term, and the City regains ownership upon expiration of the lease. This limits the City's liability and risk for the site and reduces the administrative burden for the Department of Homelessness and Supportive Housing (HSH) to monitor operations at the site. If Abode underperformed on the related grant agreement and the grant was terminated, HSH could terminate the proposed ground lease.

Fiscal Impact

- The total rent for the lease is set at $1, with Abode assuming responsibility for all operational, maintenance, and tax-related costs. The annual cost for property management and supportive services is estimated at $2.59 million, or approximately $63,284 per unit.
- The not to exceed grant amount of $14,177,264 includes $1,135,000 in reserves and a 20 percent contingency. The proposed grant agreement is funded by Proposition C revenues and the General Fund, which supports the SOMA ambassadors and additional security.

Recommendation

- Approve the proposed resolutions.

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of $10 million or more, or (3) requires a modification of more than $500,000 is subject to Board of Supervisors approval.

Administrative Code Section 23.1 authorizes the Director of Property to enter into leases of City-owned property for a term of one year or less. Longer term leases require Board of Supervisors approval.

Administrative Code Section 23.30 allows for leasing of City-owned property at less than market rate if doing so will serve a public purpose, subject to approval of the Board of Supervisors.

BACKGROUND

In November 2018, the voters of the City approved Proposition C, which created an additional tax on individuals and businesses that receive more than $50 million in gross income in San Francisco. This Homelessness Gross Receipts Tax revenue is deposited into the Our City, Our Home Fund (OCOH) to finance homelessness services and housing.

In April 2023, the San Francisco Department of Homelessness and Supportive Housing (HSH) released its citywide five-year strategic plan, *Home by the Bay*, in partnership with multiple departments. The plan establishes goals for the City and County of San Francisco including supporting at least 30,000 people to move from homelessness into permanent housing and to add 3,250 new units of housing, including site-based and scattered-site permanent supportive housing, rapid rehousing, and other subsidies, to the homelessness response system by 2028.

1174-1178 Folsom Street and 663 Clementina Street

In July 2023, the Board of Supervisors approved the purchase of property located at 1174-1178 Folsom Street and 663 Clementina Street for $27,150,000 plus an estimated $75,000 in closing cost for a total amount of $27,225,000 (File 23-0740). On November 30, 2023, the City acquired the 42-unit studio apartment building with office, commercial, and community spaces located in SOMA. Acquisition of the property was funded by Homelessness Gross Receipts Tax.

The Board of Supervisors previously authorized HSH to apply for a Homekey grant from the California Department of Housing and Community Development (HCD) to help fund the acquisition (File 23-0506). According to HSH staff, the grant application was submitted May 31, 2023, for the maximum amount allowed under Homekey ($14,720,000), but the property did not receive an award.

Selection of Provider: Abode Property Management

In November 2023, HSH began the procurement process by issuing a Request for Qualifications for master lease and property management services and supportive services for transitional-aged youth (TAY) ages 18 to 29 experiencing homelessness at the permanent supportive housing site.

However, HSH did not receive any responses to the solicitation for the master lease and property management component of the RFQ.

In February 2024, HSH selected Abode Property Management (Abode) property management services pursuant to the San Francisco Administrative Code Section 21.6, which authorizes the City to purchase services directly when there is a lack of responsive offers as there were no responses received to the solicitation.

Additionally, HSH selected a different vendor to provide TAY supportive services. However, since the total contract amount is less than $10 million, the contract does not require Board of Supervisors' approval.

Ground Lease Model Transition

The proposed long-term ground lease model represents a shift in how HSH administers City-owned permanent supportive housing to align with affordable housing ownership and operating structures used by the Mayor's Office of Housing and Community Development (MOHCD). For the City's initial PSH building acquisitions, HSH entered into a combined master lease and property management agreement with a maximum term of ten years. According to HSH staff, this short-term lease model is administratively burdensome for the City to serve as owner and landlord of residential property overseeing day-to-day operations, rather than HSH's defined role to fund and monitor performance at PSH sites. The proposed long-term (55 year) ground lease allows for automatic renewals every five years if the provider is not in default. The ground lease clarifies ownership rights for the nonprofit provider during the lease term, while the City regains ownership upon expiration of the lease. During the lease term, the nonprofit entity will own the building and improvements. This limits the City's liability and risk for the site but also enables the nonprofit entity to own an asset that, with the City's permission, could be used to finance future rehabilitation costs over the long-term. As a result, maintenance and repair work completed by the nonprofit provider are not considered a public work and are not subject to Administrative Code Chapter 6 requirements.

DETAILS OF PROPOSED LEGISLATION

File 24-0847 is a proposed resolution that would approve a ground lease with Abode Property Management for the City-owned property located at 1174-1178 Folsom Street and 663 Clementina Street for the purpose of operating the property as permanent supportive housing. The lease has a total rent of $1 and an initial term of five years, and has ten automatic extensions of the lease term for an additional period of five years each, for a maximum term of 55 years. The resolution also:

- determines that the below market rent will serve a public purpose by providing permanent supportive housing for low-income and formerly homeless households in accordance with Administrative Code Section 23.33;

- adopts findings declaring that the property is “exempt surplus land” under the California Surplus Land Act;
- adopts the Planning Department’s determination under the California Environmental Quality Act and findings that the transaction is consistent with the General Plan and policy priorities of the Planning Code Section 101.1; and
- authorizes the Director of Property and the HSH Executive Director to make certain changes to the ground lease and take related actions.

File 24-0848 is a proposed resolution that approves a grant agreement between HSH and Abode for property management services with a term of November 1, 2024, through June 30, 2029 (four years and nine months) and a not-to-exceed amount of $14,177,264. The resolution also authorizes HSH to make immaterial changes to the agreement.

Ownership Structure

Under the proposed ground lease, ownership of the building will be transferred to Abode for the term of the agreement. When the agreement expires, ownership of the building will return to the City. The City maintains ownership of the land and leases the land to Abode during the term of the agreement.

Ground Lease Extensions

As mentioned above, the proposed ground lease provides for ten automatic five-year lease extensions. Abode may decline an extension by providing written notice to HSH no later than 180 days before the lease expiration date. If Abode does not decline the extension and is not in default under the terms of the lease, the lease will automatically continue for the extension term. Breach of material provisions of other agreements related to the property (including the proposed operations funding grant) is considered an event of default in addition to breach of terms under the proposed ground lease. If Abode underperformed on the related grant agreement and the grant was terminated, HSH could terminate the proposed ground lease.

Prevailing Wage Requirements

The property and any future maintenance and repair work completed by Abode will not be considered a public work or improvement. Therefore, contracts entered into by Abode to complete maintenance and repair work will not be subject to Administrative Code Chapter 6 requirements. The proposed ground lease requires Abode to comply with Administrative Code Chapter 23.6 requirements, including prevailing wage and apprenticeship and local hiring requirements.

Property Management Services

Under the proposed operating grant agreement and ground lease, Abode will be responsible for the ongoing management and maintenance for 41 units of permanent supportive housing for TAY and one additional unit dedicated to onsite property management. This includes the following activities: conducting wellness checks, managing tenant lease agreements, collecting rent from residents, maintaining the building’s common areas, turning over units, ensuring that translation and interpreter services are available to residents as needed, as well as preventive and general maintenance.

Predevelopment Services

Under the proposed grant agreement, Abode will also be responsible for predevelopment activities associated with tenant improvements at the permanent supportive housing site, including conversion of commercial space on the second floor to permanent supportive housing, property management and support services offices, and community areas for residents. Predevelopment activities include management and oversight of entitlements, design, and permitting, development of proposed scope of work and budget for tenant improvements for HSH approval, procurement of professional services related to predevelopment, oversight of predevelopment subcontractors, and development of tenant relocation plans (if needed) to be approved by HSH.

The predevelopment activities are to be completed within nine months of the effective date of the agreement. HSH anticipates entering into a separate agreement with Abode to complete and fund the tenant improvements.

Project Reserves

The proposed grant budget includes annual funding for project reserves. The City would hold any required project reserves and Abode must receive written approval from the City before incurring any costs against reserves listed. The City would approve uses of the reserves in two general categories: (1) operating reserve and (2) replacement reserve. The operating reserve may be used to alleviate cash shortages from inability to collect rent, increases to utility costs, unbudgeted maintenance expenses, abnormally high vacancies, and other project expenses. The replacement reserve may be used for relocation costs because of an unanticipated emergency, unusual replacement and repairs, or the replacement of furniture, fixtures, or equipment required.

HSH Good Neighbor Policy

Both agreements also require the Abode to maintain a good relationship with the neighborhood in accordance with HSH's Good Neighbor Policy. Abode must collaborate with neighbors and City agencies to ensure that neighborhood concerns, such as security and street cleaning, are heard and addressed.

Expansion of Public Safety Services

In addition to standard property management roles, the grant agreement provides funding for expanded safety services around the property. Specifically, HSH is funding an expansion of the SOMA West Community Benefits District (CBD) ambassador program through the agreement with $438,000 in annual funding to provide 24/7 public safety support in the area from 6th Street to 8th Street, and Howard to Harrison. This expanded coverage includes 1174-1178 Folsom Street, 663 Clementina Street, SOMA Rise, and the Sanctuary shelter. A subcontract with SOMA West CBD is currently being finalized, and HSH staff anticipate that the CBD will staff up within 30 days once the contract is completed. This initiative was funded with the General Fund by the

Mayor's Office in response to community and Board of Supervisors' concerns regarding the potential impact of new homeless services in the area.

Private security services have been in place at the property for 8 hours per day since April 2024 according to HSH. Initially, the plan was to scale back these services once the property is fully leased and operational in March 2025. However, based on further discussions, HSH has agreed to extend security services on an ongoing basis, with initial $150,000 in funding in year 1, which HSH will update based on usage for the remainder of the term.

Performance Monitoring

Established through the ground lease, Abode is required to ensure the physical and financial health of the premises. This includes providing an updated capital needs assessment for HSH review every five years following the agreement effective date. Additionally, Abode must implement any HSH-approved capital improvement plans for the premises, develop a preventative maintenance plan, and respond promptly to any property financial performance or compliance reports requested by the City under applicable agreements.

The proposed grant agreement for property management services includes the following service objectives for Abode:

- Ensure that each unit is clean and/or repaired within 21 days of turnover
- Ensure that move-ins of new tenants occur within 30 days of referral
- Collect at least 90 percent of tenant portions of monthly rent
- Maintain an occupancy rate of at least 93 percent
- Submit a preventative maintenance schedule to HSH for review and approval annually
- Provide a property management plan within 90 days of the agreement start date
- Submit required asset management reports to HSH and external funders, timely

Outcome objectives include the following:

- At least 90 percent of tenants will maintain housing for at least 12 months, move to other permanent housing or be provided with more appropriate placements
- At least 85 percent of tenant lease violations will be resolved without loss of housing to residents
- At least 65 percent of tenants will complete an annual satisfaction survey, of which 80 percent will be satisfied or very satisfied with property management services

Fiscal and Compliance Monitoring

HSH completed fiscal and compliance monitoring of Abode Services for FY 2023-24 and identified no findings. Abode Services will be doing business as Abode Property Management under the proposed agreements.

FISCAL IMPACT

Ground Lease

Total rent under the proposed ground lease will be $1. Abode will be responsible for all costs, charges, taxes, and other obligations related to the property.

Operating Funding Agreement

File 24-0848 would approve a total not to exceed amount of $14,177,264, which includes $1,135,000 in reserves and $2,362,877 in contingency funding at a rate of approximately 20 percent of the term budget and the reserves. Exhibit 1 below shows the proposed budget for the five-year period.

Exhibit 1: Proposed Grant Budget and Not to Exceed Amount

Sources and Uses	FY 2024-25 (8 months)	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	Total
Sources						
Prop C	$1,124,254	$1,675,422	$1,720,350	$1,766,629	$1,814,296	$8,100,951
Prop C (One-time)	1,519,436					1,519,436
General Fund	442,000	438,000	438,000	438,000	438,000	2,194,000
Subtotal, City Sources	*3,085,690*	*2,113,422*	*2,158,350*	*2,204,629*	*2,252,296*	*11,814,387*
Tenant Income	13,250	53,000	53,000	53,000	53,000	225,250
Total Sources	**$3,098,940**	**$2,166,422**	**$2,211,350**	**$2,257,629**	**$2,305,296**	**$12,039,637**
Uses						
Salaries & Benefits	285,233	545,628	561,997	578,857	596,222	2,567,936
Operating Expense	493,051	595,178	612,283	629,901	648,049	2,978,462
Indirect Cost (15%)	116,742	171,121	176,142	181,314	186,641	831,960
Other Expenses (Not subject to indirect %)	596,864	619,049	625,229	631,597	638,155	3,110,894
Capital Expenditure	1,380,050	8,446	8,699	8,960	9,229	1,415,384
Total Uses	2,871,940	1,939,422	1,984,350	2,030,629	2,078,296	10,904,635
Reserves	227,000	227,000	227,000	227,000	227,000	1,135,000
Total Uses & Reserves	**$3,098,940**	**$2,166,422**	**$2,211,350**	**$2,257,629**	**$2,305,296**	**$12,039,635**
City Sources						11,814,387
Contingency (20%)						2,362,877
Total Not to Exceed Amount						**$14,177,264**

Source: Proposed Grant Agreement

The proposed grant agreement funds 6.25 full-time equivalent (FTE) positions. The staff will consist of a Property Supervisor (0.25 FTE), a Property Manager, an Assistant Property Manager, two rotating Desk Clerks, a Maintenance Technician II, and a Janitor. In addition, the agreement provides funding for contracted security desk services, bookkeeping/accounting services, asset management, and audit services. There are also budgeted expenditures for multiple SOMA Ambassadors ($2,044,000 for 5 years).

The FY 2024-25 budget includes one-time funding of $1,375,950 for capital expenditures, including $376,800 for temporary office setup and $300,000 for predevelopment associated with tenant improvements. Other capital expenditures include camera installation, furniture, fixtures and equipment for unit turnovers, IT setup, repair of guard rails and replacement of balcony fencing, and ADA unit expenditures.

Sources of Funds

The 5-year term budget (not including contingency funds) for the Grant Agreement, including both Prop C (Homelessness Gross Receipts Tax) and General Fund monies, totals $11,814,387. Prop C generates $9,620,387 of that funding, while $2,194,000 comes from the General Fund to support the SOMA ambassadors and additional security in Year 1 of the agreement with additional funding years to be allocated after the first year of operations subject to budget appropriations.

Annual Operating and Supportive Services Costs

The total annual cost for property management and supportive services, which is under a separate contract, is $2,594,662, or approximately $63,284 per unit in FY 2025-26, excluding reserves and contingencies. This is approximately 95 percent greater than the $32,381 per unit per year estimated by HSH and reported by the Budget and Legislative Analyst at the time of the acquisition in July 2023. According to HSH, the estimate from July was based on an average PSH building and services model. This final budget included the addition of public safety services, reflects the increased costs for property insurance for PSH operators, and additional services for the PSH TAY population including on-site health and wellness, on-site behavioral health and other medical care services.

RECOMMENDATION

Approve the proposed resolutions.