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

December 1, 2017

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: December 7, 2017 Budget and Finance Committee Meeting

TABLE OF CONTENTS

TABLE OF CONTENTS (continued)

Item 1 **File 17-1077** *(Continued from November 30, 2017)*	**Department:** Law Library Real Estate Division

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize the (i) exercise of the five-year option to extend the 1145 Market Street lease between the Law Library, as tenant, and 1145 Market Street LP, as landlord, from July 1, 2018 through June 30, 2023, and (ii) increase the annual rent from $912,489.72 to $1,180,000, an increase of $267,510.28 or 29 percent, in the initial year of FY 2018-19 with 3 percent annual increases.

Key Points

- Pursuant to State Law, the 1870 Act, the City and County of San Francisco must provide a Law Library for public use. Charter Section 8.103 is consistent with the 1870 Act and states that the City must provide "suitable" and "sufficient" accommodations for the Law Library.
- In June 2013, the Board of Supervisors approved a resolution (File 13-0487) authorizing the Director of Real Estate to execute a five-year lease of up to 20,000 square feet, including the entire 4th floor and a portion of the 2nd floor at 1145 Market Street between the City as tenant, on behalf of the Law Library, and 1145 Market Street LP, as landlord, from July 1, 2013 through June 30, 2018. The lease included one five-year option to extend the term through June 30, 2023.

Fiscal Impact

- The Law Library's existing annual rent for 1145 Market Street in FY 2017-18 is $912,489.72, equal to approximately $45.62 per square foot per year for 20,000 square feet. Under the proposed lease extension, the rent would increase to an annual rent rate of $1,180,000, which is equal to approximately $59 per square foot per year.
- The proposed annual rent rate of approximately $59 per square foot (effective as of July 1, 2018) represents 90.1 percent of the current fair market rent. The annual rent increase of 3 percent per year, beginning on July 1, 2018, reflects current typical lease agreements in the commercial real estate market.

Policy Consideration

- On February 5, 2013, the Law Library filed a Writ of Mandate against the City and the County Administrator alleging that "at least 30,000 gross square feet is required for any space to be at least minimally adequate" for the Law Library. According to Deputy City Attorney Andrew Shen, the litigation between the Law Library and the City is currently pending, although there has been no activity in the case since June 2013. As the City is not aware of any concerns regarding the Law Library's current location and facilities, the City Attorney's Office anticipates that this matter will be formally dismissed in 2018.

Recommendation

- Given the 2013 litigation filed by the Law Library against the City that is currently pending, approval of the proposed resolution is a policy decision for the Board of Supervisors.

MANDATE STATEMENT

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

Administrative Code Section 23.27 requires Board of Supervisors approval of leases that are longer than one year where the City is the tenant.

BACKGROUND

Pursuant to California State Law, specifically the 1870 Act, the City and County of San Francisco must provide a Law Library for public use. The 1870 Act established the Law Library as a legal entity, separate from the City and County of San Francisco, and requires the Board of Supervisors to appropriate General Fund monies for "fuel, lights and stationary and all necessary conveniences and care, rooms convenient and accessible to the Courts, sufficient for the use and accommodation of said law library and those who have occasion for its use."

San Francisco Charter Section 8.103[1] is consistent with the 1870 Act and states that the City must provide "suitable" and "sufficient" accommodations for the Law Library, as well as free access to the legal community and the general public.

In March 2013, the Board of Supervisors approved a resolution (File 13-0227) (1) approving the finding that no greater than 20,000 net rentable square feet is suitable and sufficient for the Law Library; (2) and authorizing the Director of Property to enter into a lease agreement, which was being negotiated at the time, between the City and Van Ness Post Center, LLC for up to 20,000 net square feet at 1200 Van Ness Avenue. In the event that the lease agreement with Van Ness Post Center, LLC was not executed, the resolution authorized the Director of Property to negotiate a lease for alternative space consisting of similar size, rent, and terms, subject to final approval by the Board of Supervisors.[2]

In June 2013, the Board of Supervisors approved a resolution (File 13-0487) authorizing the Director of Real Estate to execute a five-year lease of up to 20,000 square feet, including the entire 4th floor and a portion of the 2nd floor at 1145 Market Street between the City as tenant, on behalf of the Law Library, and 1145 Market Street LP, as landlord, from July 1, 2013 through June 30, 2018. The lease included one five-year option to extend the term through June 30, 2023.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the (i) exercise of the five-year option to extend the 1145 Market Street lease between the Law Library, as tenant, and 1145 Market Street LP, as

---

[1] The Charter also requires the City to pay for the salaries of three positions in the Law Library budget including the: 1) Librarian, 2) Assistant Librarian, and 3) Bookbinder.

[2] According to John Updike, the Director of Property, the lease at 1200 Van Ness Avenue could not be executed for the Law Library because the landlord was able to negotiate higher rents and fewer tenant improvements with another tenant for the space.

landlord, from July 1, 2018 through June 30, 2023, and (ii) increase the annual rent from $912,489.72 to $1,180,000, an increase of $267,510.28 or 29 percent, in the initial year of FY 2018-19 with 3 percent annual increases. Table 1 below summarizes the terms and conditions of the current and proposed lease extension.

Table 1. Summary of Current and Proposed Lease Details

	Current Lease	Proposed Lease
Premises	20,000 square feet	20,000 square feet
Base Rent (monthly)	$76,040.81	$98,333.33
Operating Expenses (monthly)	$2,021.18 for electricity and ventilation for Saturday hours. Janitorial services, maintenance and all other operating costs to be paid by the landlord.	$2,021.18 for electricity and ventilation for Saturday hours. Janitorial services, maintenance and all other operating costs to be paid by the landlord.
Early Termination Provision	Permits early termination by City with 180 day written notice and repayment of landlord's unamortized costs.	Permits early termination by City with 180 day written notice and repayment of landlord's unamortized costs.
Base Rent Increase Date	Annually on July 1	Annually on July 1
Base Rent Increase Amount	4% (annually)	3% (annually)
Term of five year extension	July 1, 2013 to June 30, 2018	July 1, 2018 to June 30, 2023

Source: Real Estate Division

FISCAL IMPACT

The Law Library's existing annual rent for 1145 Market Street in FY 2017-18 is $912,489.72, equal to approximately $45.62 per square foot per year for 20,000 square feet. Under the proposed lease extension, the rent would increase to an annual rent rate of $1,180,000, which is equal to approximately $59 per square foot per year. As noted above, the total rent will increase from $912,489.72 in FY 2017-18 to $1,180,000 in FY 2018-19, an increase of $267,510.28 or 29 percent.

The proposed annual rent rate of approximately $59 per square foot (effective as of July 1, 2018) represents 90.1 percent of the current fair market rent established by an independent appraisal conducted by MAI appraisers Colliers International Valuation & Advisory Service[3]. According to Mr. Charles Dunn, Senior Real Property Officer at the Real Estate Division, the annual rent increase of 3 percent per year, beginning on July 1, 2018, reflects current typical lease agreements in the commercial real estate market.

As shown in Table 2 below, over the five-year term of the lease extension from July 1, 2018 through June 30, 2023, total rent to be paid by the Law Library is $6,264,780 and the total cost for utilities is estimated at $132,632, resulting in a total cost of $6,397,412 for the proposed five-year lease extension. This total cost, including utilities, would be paid from the City's General Fund, subject to Board of Supervisors appropriation approval in the Law Library's annual budget.

Table 2: Total Costs by Year under Proposed Lease Extension

Lease Year	Annual Rent	Annual Operating Costs	Total Cost
FY 2018-19	$1,180,000	$24,982	$1,204,982
FY 2019-20	1,215,400	25,731	1,241,131
FY 2020-21	1,251,862	26,503	1,278,365
FY 2021-22	1,289,418	27,298	1,316,716
FY 2022-23	1,328,100	28,117	1,356,218
Total	**$6,264,780**	**$132,632**	**$6,397,412**

Source: Real Estate Division

According to Mr. Dunn, the City would have to negotiate a new lease or relocate after the proposed five-year lease extension expires on June 30, 2023.

POLICY CONSIDERATION

Pending Litigation

On February 5, 2013, the Law Library filed a Writ of Mandate against the City and the County Administrator alleging that "at least 30,000 gross square feet is required for any space to be at least minimally adequate" for the Law Library. According to Deputy City Attorney Andrew Shen, the litigation between the Law Library and the City is currently pending, although there has been no activity in the case since June 2013. As the City is not aware of any concerns regarding

[3] Per City Charter Section 23.27, if the consideration to be paid by the City for the lease as base rent is more than $60 per square foot per year, the Director of Property, on behalf of the department concerned shall obtain an Appraisal Review for such appraisal. A Fair Market Rent appraisal by MAI appraisers Colliers International Valuation & Advisory Service established the Fair Market Rent as $65.50 per square foot (or $1,310,000 annually). 95% of that Fair Market Rent determination is $1,244,500 (or approximately $62.23 per square foot). According to Mr. Dunn, the Real Estate Division negotiated the proposed rent to be $64,500 per year less than the 95% of that Fair Market Rent. According to Mr. Dunn, pursuant to the terms of the Lease, the City exercised its option to extend the term of the Lease, subject to Board of Supervisor's approval, prior to the June 30, 2017 option notice deadline as required by the Lease. From July to September 2017, the Landlord and City negotiated the proposed $59 per square foot renewal rate.

the Law Library's current location and facilities, the City Attorney's Office anticipates that this matter will be formally dismissed in 2018.

RECOMMENDATION

Given the 2013 litigation filed by the Law Library against the City that is currently pending, approval of the proposed resolution is a policy decision for the Board of Supervisors.

Item: 5 **File: 17-1136**	**Department:** Department of Public Health (DPH)

EXECUTIVE SUMMARY

Legislative Objectives

- Resolution approving the fifth amendment to the agreement between the Department of Public Health and the San Francisco AIDS Foundation to provide HIV prevention services and to (a) extend the contract term by two years from July 1, 2018 through June 30, 2020 and (b) increase the total amount by $5,950,952 from $20,231,412 to $26,182,364.

Key Points

- DPH initially entered into a contract with the San Francisco AIDS Foundation to provide HIV prevention services for a total not-to-exceed amount of $6,525,447 from September 1, 2011 through June 30, 2013, based on a competitive Request for Proposals process.
- DPH did not request Board of Supervisors approval for the first two amendments because the total contract amount did not exceed the Charter required $10 million threshold and the contract term did not exceed 10 years.
- In 2014, the Board of Supervisors approved the third amendment to the contract to (a) increase the total not-to-exceed amount by $5,227,595 from $9,429,982 to $14,657,577, and (b) to extend the contract term by two years through June 30, 2016 (File 14-0504).
- In 2016, the Board of Supervisors approved the fourth amendment to the contract to (a) increase the amount by $5,573,835 from $14,657,577 to $20,231,412, and (b) extend the term by two years through June 30, 2018 (File 16-0044).

Fiscal Impact

- The total requested not-to-exceed amount of $26,182,364 for this contract includes (a) $24,217,488 (92.5%) from the City's General Fund, (b) $1,221,798 (4.7%) from the Federal Center for Disease Control, and (c) $743,078 (2.8%) from Federal Grant Funds.
- Actual contract expenditures from FY2011-12 through FY2016-17 were $16,872,922. Budgeted and adjusted projected expenditures for FY2017-18, FY2018-19 and FY2019-20 are $9,309,442, for a contract total of $26,182,364. This total amount was adjusted down to reflect an unexpended balance of $114,447 that had accumulated from previous years.

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

Since 1993, the Department of Public Health (DPH) has contracted with the San Francisco AIDS Foundation, a non-profit organization, to obtain a variety of services for people living with HIV/AIDS and those who are at risk in San Francisco.

In 2011, based on a competitive Request for Proposals (RFP) process, DPH entered into a contract with the San Francisco AIDS Foundation to provide HIV prevention services for a total not-to-exceed amount of $6,525,447 for one year and ten months from September 1, 2011 through June 30, 2013. This initial contract included eight one-year options to extend the contract through June 30, 2021 at the City's discretion.

As summarized in Table 1 below, DPH subsequently amended the initial contract four times including (a) under Amendment No. 1 to exercise the first one-year option to extend the contract term through June 30, 2014, (b) under Amendment No. 2 to increase the total not-to-exceed amount by $2,904,535 to $9,429,982, (c) under Amendment No. 3 to extend the term by two years through June 30, 2016 and increase the total not-to-exceed amount by $5,227,595 to $14,657,577 (File 14-0504; Resolution No. 316-14), and (d) under Amendment No. 4 to extend the term by two years through June 30, 2018, and increase the total not-to-exceed amount by $5,573,835 to $20,231,412 (File 16-0044; Resolution No. 74-16).

Table 1: San Francisco AIDS Foundation Agreement and Amendments

Agreement Amendments	BOS File Number	Total Term of Contract	Effective Dates	Increase in Contract	Not-to-Exceed Contract Amount
Initial Agreement	-	1.5 Years	9/1/2011 – 6/30/2013	$6,525,447	$6,525,447
Amendment No 1	-	2.5 Years	9/1/2011 – 6/30/2014	NA	6,525,447
Amendment No 2	-	2.5 Years	9/1/2011 – 6/30/2014	2,904,535	9,429,982
Amendment No 3	14-0504	4.5 Years	9/1/2011 – 6/30/2016	5,227,595	14,657,577
Amendment No 4	16-0044	6.5 Years	9/1/2011 – 6/30/2018	5,573,835	20,231,412

DPH did not request Board of Supervisors approval for the initial agreement nor the first two amendments because the contract amount and term did not exceed the Charter mandated threshold of $10 million or ten years.

Under the existing contract, the San Francisco AIDS Foundation currently provides the following programs and services:[1]

- **Community-Based HIV Testing**: HIV Testing for a wide range of gay men, men who have sex with men, intravenous drug users, and transgender females who have sex with men in the Castro and Tenderloin, to ensure HIV testing and linkages to care;
- **Stonewall Project**: Substance abuse services for men who have sex with other men and men who have sex with other men who are also intravenous drug users, to increase status awareness, increase viral load suppression, maintain or increase levels of protected sex, and increase access to safer injection supplies;
- **African-American Prevention Initiative**: Collaboration with the STOP AIDS Project to deliver a comprehensive set of HIV prevention services to African-Americans who are either gay men or men who have sex with other men with diverse backgrounds and prevention needs; and
- **Stonewall Castro/Life Program**: Substance abuse counseling services for both gay men and men who have sex with other men in the Castro, in close coordination with HIV testing and gay men's health services available at Strut (formerly known as Magnet), a health-enhancement and wellness counseling program for people living with HIV.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a fifth amendment to the contract between the Department of Public Health (DPH) and the San Francisco AIDS Foundation to provide HIV prevention services and to (a) extend the contract term by two years from July 1, 2018 through June 30, 2020, and (b) increase the total not-to-exceed amount by $5,950,952 from $20,231,412 to $26,182,364.

The total requested not-to-exceed amount of $26,182,364 for this contract includes (a) $24,217,488 (92.5%) from the City's General Fund,[2] (b) $1,221,798 (4.7%) from the Federal Center for Disease Control, and (c) $743,078 (2.8%) from Federal Substance Abuse Prevention and Treatment Block Grant Funds. According to Ms. Michelle Ruggels, Director of DPH Business Office, DPH will request General Fund allocations in the FY 2018-19 and FY 2019-20 budgets to pay these ongoing General Fund contract costs.

The initial contract included eight one-year options to extend the contract through June 30, 2021 at the City's discretion. Ms. Ruggels advises that DPH plans to issue a RFP for these HIV

[1] The HIV Testing – STOP study was a short-term pilot project, which is now complete and no longer funded. The Syringe Access Services program was removed from this contract and developed in a separate agreement because this program was not allowed to be part of a federally funded contract. Contingency funds are assumed as General Fund sources, as these are placeholders should additional needs arise and funding become available.

[2] The Stonewall Project and Stonewall Castro/LIFE program is paid for using City General Funds. The African-American Prevention Initiative and the Community Based HIV Testing programs are funded by both the General Fund and the Center for Disease Control.

prevention services with a commencement date of July 1, 2020, when the subject fifth amendment expires.

FISCAL IMPACT

DPH is currently providing $2,659,841 in FY 2017-18 under the existing contract with the SF AIDS Foundation. The proposed request would provide an additional $66,495 to the SF AIDS Foundation for a total allocation of $2,726,336 in FY 2017-18, excluding potential contingency funds. DPH advises that the requested additional $66,495 for FY 2017-18 reflects the inflationary cost for the SF AIDS Foundation to provide ongoing services.

According to Ms. Irene Carmona, Manager of the Office of Contract Management and Compliance, because this contract was being amended at this time, DPH included the additional allocation in the proposed contract amendment. Alternatively, Ms. Carmona explains that the funds would otherwise have been deducted from the previously allocated contingency funds.

Based on data provided by DPH under the subject fifth amendment, the additional budget and contract allocations to the SF AIDS Foundation by fiscal year are shown in Table 2 below.

Table 2: Proposed FY 2017-18, FY 2018-19 and FY 2019-20 Contract Budget

Program	FY 2017-18[3]	FY2018-19	FY2019-20	Total
Stonewall Project	$9,288	$390,116	$390,116	$789,520
Community-Based HIV Testing	25,828	1,084,779	1,084,779	2,195,386
African American Prevention Initiative	14,348	602,616	602,616	1,219,580
Stonewall Castro/LIFE Project	17,031	715,322	715,322	1,447,675
Subtotal	**$66,495**	**$2,792,833**	**$2,792,833**	**$5,652,161**
Contingency (12%)	7,979	335,140	335,140	678,259
Total Budget	**$74,474**	**$3,127,973**	**$3,127,973**	**$6,330,420**
Less Unspent Contingency[4]				**($379,468)**
Total Contract Requirement				**$5,950,952**

Source: Department of Public Health

As shown in Table 3 below, actual contract expenditures from FY2011-12 through FY2016-17 were $16,872,922. Budgeted and adjusted projected expenditures for FY2017-18, FY2018-19 and FY2019-20 are $9,309,442, for a contract total of $26,182,364, as summarized in Table 3 below.

[3] Currently, DPH provides a total of $2,659,841 to the SF AIDS Foundation, Under the proposed fifth amendment, DPH would provide an additional $66,495, or a total of $2,726,336 to the SF AIDS Foundation in FY 2017-18, excluding contingency funds. With 12% contingency funds totaling $327,160, the total allocation in FY 2017-18 for the SF AIDS Foundation is $3,053,496.

[4] These unspent contingency funds, reflect the total net amount which was included in each SF AIDS Foundation contract since this contract began in 2011.

Table 3: Actual, Budgeted and Projected Expenditures

Actual Expenditures	Amount
September 1, 2011 - June 30, 2012	$3,017,037
FY 2012-13	3,570,534
FY 2013-14	2,491,046
FY 2014-15	2,565,017
FY 2015-16	2,569,447
FY 2016-17	2,659,841
Subtotal Actual Expenditures	**$16,872,922**
Budgeted and Projected Expenditures	**Amount**
FY 2017-18	$2,979,022
FY 2017-18 (Amendment 5)	74,474
FY 2018-19 (Amendment 5)	3,127,973
FY 2019-20 (Amendment 5)	3,127,973
Subtotal	**$9,309,442**
Total Requested Not-to-Exceed Amount	**$26,182,364**

Source: Department of Public Health (DPH) staff.

Ms. Ruggels advises that the amounts shown in Table 3 above were adjusted by DPH prior to submitting this request to reflect an unexpended balance of $114,447 of funds that had accumulated from previous years. Therefore, the total original DPH budget of $26,296,811 was adjusted down by $114,447 to reflect the total proposed request of $26,182,364.

RECOMMENDATION

Approve the proposed resolution.

Items 8, 9, 10, 11 and 12 **Files 17-1205, 17-1206, 17-1207, 17-1208, 17-1209**	**Department:** Recreation and Parks Department (RPD)

EXECUTIVE SUMMARY

Legislative Objectives

The five proposed resolutions related to the renovation and use of the Geneva Powerhouse and Car Barn would approve: (1) the Recreation and Park Department to accept and expend a $3,500,000 State grant (File 17-1205); (2) a Development Services Agreement between the City and CAST Powerhouse, LLC, an affiliate of the Community Arts Stabilization Trust (File 17-1206); (3) a Funding Agreement between the City and the Community Arts Stabilization Trust (File 17-1207); (4) a 55-year lease between the City and CAST Powerhouse, LLC for the Powerhouse (File 17-1208); and (5) an Indemnification Agreement (File 17-1209).

Key Points

- The Geneva Car Barn and Powerhouse are two buildings located at Geneva and San Jose Avenues near Balboa Park BART Station. The Phase 1 Powerhouse Project consists of the design, restoration and improvement of the Powerhouse only. The City will fund and develop the Project with assistance from the non-profit Community Arts Stabilization Trust. The Community Arts Stabilization Trust created a taxable entity, the CAST Powerhouse LLC, to be the qualified low-income business, in order for the Project to qualify for the New Market and Historic Rehabilitation Tax Credits.
- The City and the Community Arts Stabilization Trust will enter into a Funding Agreement, in which the Community Arts Stabilization Trust will contribute $1 million and the City will contribute $6.8 million (and may contribute up to $9.0 million) to the Project. The City will enter into a 55-year lease with CAST Powerhouse LLC for the Powerhouse in which the rent will be abated for 15 years in consideration of the Community Arts Stabilization Trust's $1 million contribution. The City and CAST Powerhouse LLC will enter into a Development Services Agreement in which the City develops and manages the Project and is reimbursed for expenses.

Fiscal Impact

- The Project budget is $13 million, of which $8.1 million are City funds and $4.8 million are tax credit financing and Community Arts Stabilization Trust contribution.

Policy Consideration

- As the writing of this report, the City does not have a finalized Indemnification Agreement (File 17-1209) with the Community Arts Stabilization Trust, the United States Bancorp Community Development Corporation, and the San Francisco Community Investment Fund.
- The current House bill on tax reform eliminates two Federal tax credits utilized in this project: the New Markets Tax Credit and the Historical Tax Credit. In order to utilize these Federal tax credits, the lease agreement must be approved by the end of the calendar year.

Recommendations

- Approve Files 17-1205, 17-1206, 17-1207 and 17-1208.
- Approval of File 17-1209 is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

City Charter Section 9.118(c) requires Board of Supervisors approval for any lease that has an initial term of ten years or more, including options to extend, or that had anticipated revenues of $1 million or more.

City Administrative Code Section 10.170 requires Board of Supervisors to accept grants in the amount of $100,000 or more.

BACKGROUND

The Geneva Car Barn and Powerhouse are two buildings located at Geneva and San Jose Avenues across from the Balboa Park BART Station, adjacent to a vehicle storage facility owned by the San Francisco Municipal Transportation Agency (SFMTA). In 1998, the Geneva Car Barn and Powerhouse were saved from demolition by the Friends of the Geneva Car Barn and Powerhouse (Friends), a nonprofit neighborhood organization. In 2004, the SFMTA transferred jurisdiction of the vacant Geneva Car Barn and Powerhouse to the Recreation and Park Department (Department) (File No. 04-0320) at no cost, with the intent that the Department would form a partnership with the Friends to renovate the Geneva Car Barn and Powerhouse. Between 2004 and 2015, the Department and the Friends spent $3,983,000 on the Car Barn from various sources, for roof repairs, preliminary seismic stabilization, planning, design, program administration, historic preservation architect and environmental testing.

In October 2014, the Board of Supervisors approved a Lease Disposition and Development Agreement between the Recreation and Park Department and the Friends (File 14-0920) specifying the Friend's obligations to fundraise, rehabilitate and operate the Car Barn as a community center. However, the Friends were unable to meet the funding requirements and in October 2015, the Board of Supervisors terminated the Lease Disposition and Development Agreement with the Friends (File 15-0890).

When the Lease Disposition and Development Agreement terminated in October 2015, the Recreation and Park Department recommended a two-phase Geneva Car Barn and Powerhouse Project, managed by the Department.

- Phase 1: Design, restoration, and improvement of the Powerhouse building only, including installation of a modern utility system, restoration of historic features, seismic stabilization, hazardous material remediation, new circulation systems to accommodate ADA (Americans with Disabilities Act) access, streetscape improvements, improved entrances, a new roof, and a new floor plan with radiant heating; and
- Phase 2: Design, restoration, and improvement of the Car Barn building to be used as office space and completion of more extensive improvements to the Powerhouse building.

According to Ms. Nicole Avril, Recreation and Park Project Director, Phase 1 is a stand-alone project and does not depend on agreements or funding for the Phase 2 Car Barn renovation.

The Board of Supervisors appropriated $2,500,000 from the General Fund Reserve in March 2016 to partially fund the Phase 1 renovation of the Powerhouse. The Board of Supervisors placed these funds on Budget and Finance Committee Reserve pending identification of remaining funding sources for the Phase 1 Powerhouse renovation. In July 2017, the Department identified the sources and uses for Phase 1, totaling $11,863,804, and the Budget and Finance Committee approved the release of reserves.

DETAILS OF PROPOSED LEGISLATION

File 17-1205 is resolution authorizing the Recreation and Park Department to accept and expend a grant from the California Department of Parks and Recreation in the amount of $3,500,000 for the Geneva Car Barn and Powerhouse.

File 17-1206 is a resolution authorizing a Development Services Agreement between the City and CAST Powerhouse, LLC,[1] an affiliate of the Community Arts Stabilization Trust, a nonprofit public benefit corporation, for the payment of the City's construction costs and related expenses for the renovation of the Powerhouse building of the Geneva Car Barn and Powerhouse

File 17-1207 is a resolution authorizing a Funding Agreement between the City and the Community Arts Stabilization Trust to finance the renovation of the Powerhouse building of the Geneva Car Barn and Powerhouse.

File 17-1208 is a resolution authorizing a 55-year lease between the City and CAST Powerhouse, LLC, an affiliate of the Community Arts Stabilization Trust, for the Powerhouse building of the Geneva Car Barn and Powerhouse and a portion of adjacent City property; affirming the Planning Department's determination under the California Environmental Quality Act; and finding the lease is in conformance with the General Plan and the eight priority policies of Planning Code Section 101.1.

File 17-1209 is a resolution authorizing an Indemnification Agreement in favor of the parties financing the renovation of the Powerhouse building of the Geneva Car Barn and Powerhouse.

Project Overview

According to the proposed legislation, the City will fund and develop the Phase 1 Powerhouse Project with assistance from Community Arts Stabilization Trust (CAST). The Community Arts Stabilization Trust is a non-profit corporation that secures space and works with community arts organizations to develop and strengthen their financial and organizational capacity to purchase permanent facilities and navigate complex real estate issues. The City has worked with the Community Arts Stabilization Trust in the past to secure New Market Tax Credits for the community and arts space at 80 Turk Street and the art gallery at 1007 Market Street.

After the termination of the lease with the Friends of the Geneva Car Barn and Powerhouse, the Recreation and Park Department informally sought a new partner to develop the buildings.

[1] According to Mr. Manu Pradhan, Deputy City Attorney, the name of the organization in the proposed resolutions may be subject to change.

In 2015, the Office of Economic Workforce Development proposed to the Park and Recreation Department the Community Arts Stabilization Trust as a partner for the development of the Geneva Powerhouse and Car Barn. According to Ms. Avril, the General Manager approved partnering with the Community Arts Stabilization Trust due to their agreement to contribute $1,000,000 to the project, previous experience in developing tax credits, interest in becoming partners with the City and their mission in rehabilitating arts spaces. It was not a competitive process.

The Phase 1 Powerhouse Project budget is $13 million, as shown in the Table below. Funding comes from several sources, including General Fund monies previously appropriated by the Board of Supervisors, the California Department of Parks and Recreation grant (File 17-1205), other City funds, a contribution from the Community Arts Stabilization Trust (File 17-1206), and federal New Market and Historic Rehabilitation Tax Credits.

The Community Arts Stabilization Trust created a taxable entity, the CAST Powerhouse LLC, to be the qualified low-income business, in order for the Phase 1 Powerhouse Project to qualify for the New Market and Historic Rehabilitation Tax Credits.[2,3] The Phase 1 Powerhouse Project has been awarded an allocation of New Market Tax Credits by the San Francisco Community Investment Fund[4]. The Powerhouse is on the National Register of Historic Places and therefore the Phase 1 Powerhouse Project qualifies for Historic Rehabilitation Tax Credits. [5]

The City will enter into a:

- 55-year lease (File 17-1208) with the CAST Powerhouse LLC for the Powerhouse. Under the terms of the draft lease,[6] the City will construct the Phase 1 Powerhouse Project improvements, subject to reimbursement from CAST Powerhouse LLC. CAST Powerhouse LLC will sublease the Powerhouse to the taxable entity, created by the Community Arts Stabilization Trust, who will serve as the master tenant. The master tenant will in turn sublease the Powerhouse to the non-profit corporation – Performing Arts Workshop, Inc. (PAW).
- Funding Agreement (File 17-1207) with the Community Arts Stabilization Trust in which the Community Arts Stabilization Trust will allocate $1,000,000 to the Phase 1 Powerhouse Project and the City will allocate $6,800,000 to the Phase 1 Powerhouse

[2] The New Market Tax Credit program provides a tax incentive to private investors to invest in low-income communities. Under the Internal Revenue Code, New Market Tax Credits are made available to qualified active low-income community businesses or QALICB.

[3] In order to qualify for tax credits, the Community Arts and Stabilization Trust will form a (1) taxable entity that will serve as the managing member (of which the Community Arts and Stabilization Trust is the sole member) of the CAST Powerhouse LLC; and (2) a taxable entity that will serve as the master tenant for the sublease of the Powerhouse, which will be controlled by the managing member of the CAST Powerhouse LLC.

[4] San Francisco Community Investment Fund is a Community Development Entity that serves as the intermediary vehicle for allocation of New Market Tax Credits.

[5] The federal Historic Rehabilitation Tax Credit program provides a 20 percent tax credit to projects that rehabilitate certified historic structures. The federal New Market Tax Credit program provides tax credits to qualified low-income investment businesses. Historic Preservation and New Market Tax Credits require the formation of a for-profit subsidiary to qualify for the tax credits.

[6] At the time of writing this, the Budget and Legislative Analysts' Office has only been offered a draft lease.

Project (see the Table below). According to Ms. Avril, the Recreation and Park Department is submitting revised legislation to the December 7, 2017 Budget and Finance Committee that provides for the City to allocate up to $9,025,000 to the Phase 1 Powerhouse Project. According to Ms. Avril, the additional allocation would be used in the event that the project's construction costs exceed the current construction budget, including the construction contingency. Ms. Avril states that the Community Opportunity Fund has sufficient funds to meet this additional obligation if necessary.

- Development Services Agreement (File 17-1206) with the CAST Powerhouse LLC that provides for the City to (1) serve as the Phase 1 Powerhouse Project developer; and (2) be paid a developer fee and for all project costs.
- Indemnification Agreement (File 17-1209) with Community Arts Stabilization Trust, the United States Bancorp Community Development Corporation, and the San Francisco Community Investment Fund to provide certain indemnities in order to complete the Phase 1 Powerhouse Project.

Phase 2 Option

As mentioned previously, the Department divided the Geneva Car Barn and Powerhouse project into Phase 1 and Phase 2, allowing the City to approve a proposal for a set of construction documentation, bid and permit work and construction administration for the Phase 1 Powerhouse Project from the architect and engineering consultants. The budget for Phase 2 is estimated to be $38,500,000, with construction to begin in 2020. The City has not yet identified the funds for Phase 2.

According to Ms. Avril, the City will enter into a separate Office Building Option Agreement with the Community Arts Stabilization Trust for rehabilitation of the Geneva Car Barn under Phase 2 of the project, in which the City would award the Community Arts Stabilization Trust a ten-year exclusive option to lease and develop the Car Barn building into an office space as well as space to deliver arts related classes and community services. The form of the ten-year lease has not yet been developed and is subject to future negotiation if the Community Arts Stabilization Trust exercises the option. According to Ms. Avril, the ten-year exclusive option is to incentive the Community Arts Stabilization Trust to invest $1,000,000 in Phase 1 of the project, but also desired by the Department as key to the development of Phase 2. If the Community Arts Stabilization Trust chooses not to fund the development of Phase 2 by year ten of the Phase 1 Powerhouse Project, the Department will still be able to engage with another private partner to help develop the building.

Draft lease Provisions (File 17-1208)

As noted above, the proposed draft lease is between the City and CAST Powerhouse LLC, who will sublease the Powerhouse to a master tenant created by the Community Arts Stabilization Trust.

- The lease premises consist of the approximately 3,000 square foot Powerhouse located at 2301 San Jose Avenue.
- The lease term is for 55 years from approximately January 1, 2019 (the estimated date of completion of the Phase 1 Powerhouse Project) through December 31, 2074.

- The lease sets base rent at $5,213 per month (equal to approximately $21 per square foot per year), which increases annually by the Consumer Price Index but abates rent for the first 15 years of the lease in consideration of the Community Stabilization and Trust's $1 million contribution to the project.[7] Therefore, the City does not expect to receive rent under the proposed lease for the first 15 years. The City has the one-time right to increase the rent to fair market value after any dissolution of the tax credit financing structure.

Sublease between the Master Tenant and Performing Arts Workshop

In December 2016, the Department issued a request for proposals for arts related programming. By February 2017, the Department received three responses. A panel consisting of the Director of the San Francisco Arts Commission, Recreation and Park Department Director of Permits and Property Management, and one Friends of the Geneva Car Barn and Powerhouse Board Member based on the following metrics:

1. Compatibility with the desired programming at the Powerhouse
2. Meaningful public access
3. Program feasibility
4. Financial capacity

Performing Arts Workshop[8] was selected as the highest rated non-profit and will enter into a ten-year sublease with the Powerhouse master tenant, commencing on the completion date of the Powerhouse. Performing Arts Workshop will pay rent to the master tenant, subject to approval by the Department. The amount of rent to be paid by Performing Arts Workshop is determined by a required return on equity for the Historic Rehabilitation Tax Credits to be paid to the tax credit investor, as well as possessory interest tax to the City.

Funding Agreement (File 17-1207)

The funding agreement between the City and the Community Arts Stabilization Trust provides for the City to enter into a 55-year lease for the Powerhouse and the taxable entity formed by the Community Arts Stabilization Trust, who serves as the master tenant. According to the funding agreement:

- The Community Arts Stabilization Trust will invest $1,000,000 into the Phase 1 Powerhouse Project, the contribution of which will be recognized through abatement of rent, as noted above. The $1,000,000 investment will be used exclusively for construction costs for Phase 1.
- The City will invest $6,800,000 as shown in the Table below.

[7] The rent abatement will end early if there is dissolution of the tax credit financing structure.

[8] Public Arts Workshop has worked for 40 years in the City bringing sequential arts instruction to students ages 3-18. The Workshop has been a partner, collaborator and contractor with public agencies including Department of Children, Youth & their Families (DCYF) and the County of San Francisco's First 5 Preschool for All (PFA) program for low-income families. The Workshop participates in the City's internal and external audits yearly.

As noted above, the Recreation and Park Department is submitting revised legislation to the December 7, 2017 Budget and Finance Committee that provides for the City to allocate up to $9,025,000 to the Phase 1 Powerhouse Project to be used in the event that the project's construction costs exceed the current construction budget, including the construction contingency. Ms. Avril states that available funds from the Community Opportunity Fund, previously appropriated by the Board of Supervisors, are sufficient funds to meet this additional obligation if necessary.

Development Services Agreement and Construction Project (File 17-1206)

The Development Services Agreement between the City and CAST Powerhouse LLC sets the terms for the City to develop and manage the Phase 1 Powerhouse Project. These services would include acting on behalf of the CAST Powerhouse LLC to (1) work with project funders and government agencies, (2) select project contractors and negotiate project contracts, (3) monitor and administer disbursement of project funds, and (4) oversee the project. In exchange, the City, as the developer, will be paid a developer fee and be reimbursed for all project costs, including the cost of the actual construction contract. According to Ms. Avril, the Department expects to begin construction on Phase 1 in February 2018 and complete the Powerhouse in ten months by December 2018. The Recreation and Park Commission authorized the Department to enter into the construction contract.

Indemnification Agreement (File 17-1209)

The proposed resolution approves the indemnification agreement between the City and the Community Arts Stabilization Trust, the United States Bancorp Community Development Corporation, and the San Francisco Community Investment Fund. As of the writing of this report, the Recreation and Park Department has not completed indemnification agreements in which the City will indemnify the Community Arts Stabilization Trust, the United States Bancorp Community Development Corporation, and the San Francisco Community Investment Fund against the following project risks:

1. Environmental/Construction: in the case of unknown environmental conditions at the premises and against claims of construction delays and cost over-runs.
2. Closing: in the event that the tax credit financing does not close and therefore the tax credits are not delivered. The City will reimburse only for up-front costs.
3. Recapture: in the event of the U.S. Treasury disallowing the Tax Credits due to the project falling out of compliance with Federal Law.

According to the resolution, "it is a normal business practice to provide these indemnities, which are consistent with New Market Tax Credit and Historic Rehabilitation Tax Credit transactions generally." According to Ms. Avril, these indemnities are in exchange for the indemnified parties' investment and participation in the project, and these transactions cannot proceed without the Indemnification Agreement.

As of the writing of this report, the City does not have a finalized Indemnification Agreement with the Community Arts Stabilization Trust, the United States Bancorp Community Development Corporation, and the San Francisco Community Investment Fund. Because the proposed resolution authorizes the Indemnification Agreement which has not yet been finalized, the Budget and Legislative Analyst considers approval of the proposed resolution to be a policy matter for the Board of Supervisors. The Recreation and Park Department will negotiate the Indemnification Agreement in consultation with its tax credit consultant, the City Attorney's Office and the City Risk Manager.

FISCAL IMPACT

The Phase 1 Powerhouse renovation budget is $13,003,379, as shown in the table below.

Table: Phase 1 Powerhouse Renovation Budget

Sources of Funds	
City Contribution	
California Department of Parks and Recreation Grant (File 17-1205)	$3,500,000
Previously Appropriated:	
Previously released Budget and Finance Committee Reserve	2,500,000
2000 Neighborhood Park General Obligation Bonds	838,000
Community Opportunity Funds	600,000
Recreation and Park Department FY 2015-16 Capital Budget	210,612
Neighborhood Asset Activation	306,000
Recreation and Park Department FY 2017-18 Budget	200,000
Subtotal City Contribution	$8,154,612
Other Funds	
Community Arts Stabilization Trust (CAST) (File 17-1207)	$1,000,000
Net Historic Preservation Tax Credits*	1,826,767
Net New Market Tax Credits*	2,022,000
Subtotal Other	$4,848,767
Total Sources	**$13,003,379**
Uses of Funds	
Contractor construction cost	$8,279,900
Contractor construction Contingency (10% of Construction)	827,990
Subtotal, Contractor Construction	9,107,890
Other Miscellaneous Construction	1,544,191
Planning, Permitting, Design, Engineering, Environmental	1,517,681
Other Consultant Fees	937,687
Total Uses	**$13,003,379**

*The Historic Preservation Tax Credits and New Market Tax Credits are federally required to flow through an investment fund which in turn is invested in the SCIF, which then lends funds to the qualified active low income community business (which in this case is the CAST Powerhouse, LLC). Therefore some of the proceeds of the original amount of the credit will be used to pay for these transaction fees. Only net funds are shown.

The City's total project contribution is $8,154,612, of which approximately $1,300,000 has been spent to date on planning, design, permitting and other project related-expenses. The balance of approximately $6,854,612 will meet the City's obligation under the funding agreement (File 17-1207)

The Department estimates the total cost of Phase 1 to be $13,003,379, as shown in the Table above. According to Ms. Avril, the Department only received one bid for the construction for Phase 1 on the Powerhouse. The bid, from Roebuck and Company, is $8,279,900, or $1,530,000 higher than the Department's cost estimate. The Department was able to offset some of the additional costs through additional Historic Tax Credits (File 17-1205).

POLICY CONSIDERATION

The current House bill on tax reform eliminates two Federal tax credits utilized in this project: the New Markets Tax Credit and the Historical Tax Credit. In order to utilize these Federal tax credits, the lease agreement must be approved by the end of the calendar year.

RECOMMENDATIONS

1. Approve Files 17-1205, 17-1206, 17-1207 and 17-1208.
2. Approval of File 17-1209 is a policy matter for the Board of Supervisors because the proposed resolution authorizes the Indemnification Agreement which has not yet been finalized.

Item 16 **File 17-1204**	**Department:** Mayor's Office

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution (i) approves a ground lease between the City as landlord and 1296 Shotwell Housing L.P., as tenant on City owned land at 1296 Shotwell Street for a term of 75 years with one 24 year option to extend and with an annual base rent of $15,000 in order to construct a 100 percent affordable, 94-unit multifamily rental housing development for low-income seniors and formerly homeless seniors; (ii) adopts findings that the ground lease is consistent with the California Environmental Quality Act, the General Plan, and the eight priority policies of Planning Code Section 101.1; and (iii) authorizes the Director of Property and the Director of the Mayor's Office of Housing and Community Development (MOHCD) to execute documents, make certain modifications, and take certain actions in furtherance of the resolution.

Key Points

- In May 2013, the Board of Supervisors approved the transfer of 1294-8 Shotwell Street to the MOHCD; Oyster Development, LLC purchased and transferred the Shotwell Street property to MOHCD to satisfy the affordable housing requirement for the New Mission Theatre Project at 2558 Mission Street.
- In July 2015, MOHCD issued a Request for Proposals (RFP) to develop affordable senior housing on the Shotwell site. Nonprofit housing developers Mission Economic Development Agency and Chinatown Community Development Center issued a joint response to the RFP and were deemed to be the only qualified bidder. The two nonprofit organizations were selected to develop the property and jointly established 1296 Shotwell Housing, L.P.
- 1296 Shotwell Housing, L.P. will demolish the 10,700 square foot, one-story industrial building currently on site and construct a new nine-story, 85-foot-tall multi-unit housing building with 93 affordable units for low-income seniors and one manager's unit. Total development costs for the senior housing at 1296 Shotwell Street are $41 million, funded by federal Low Income Housing Tax Credits, loans and grants from the State of California, developer equity, MOHCD gap financing, and other sources.

Fiscal Impact

- Annual base rent paid to the City by 1296 Shotwell Housing, L.P. over the 75-year term of the lease is $15,000. If the rental property generates net revenues, 1296 Shotwell Housing, L.P. will pay annual residual rent up to $1,002,500m equal to 10 percent of the appraised value of $10,175,000. However, MOHCD does not expect to receive residual rent in the foreseeable future.

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

In May 2013, the Board of Supervisors approved the transfer of 1294-8 Shotwell Street from Thomas and Martina Murphy to the Mayor's Office of Housing and Community Development (MOHCD) (File 13-0420, Resolution 153-13). Oyster Development, LLC, the developer of the New Mission Theatre Project at 2558 Mission Street, had agreed to purchase and transfer the Shotwell property to the City to satisfy its inclusionary affordable housing requirements.

In July 2015, MOHCD issued a Request for Proposals (RFP) to develop affordable senior housing on the Shotwell site. Nonprofit housing developers Mission Economic Development Agency and Chinatown Community Development Center issued a joint response to the RFP and were deemed to be the only qualified bidder.[1] The two nonprofit organizations were selected to develop the property and jointly established 1296 Shotwell Housing, L.P.

In October 2017, Hamilton, Ricci & Associates appraised the fair market value of the property at $10,175,000.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would:

(1) Approve and authorize a 75-year ground lease, with one 24-year option to extend, between the City as landlord and 1296 Shotwell Housing L.P. as tenant for $15,000 annual base rent to construct 94 units of multifamily rental housing for low-income seniors, including formerly homeless seniors, at 1296 Shotwell Street;

(2) Adopt findings that the Ground Lease is consistent with the California Environmental Quality Act (CEQA), the General Plan, and the eight priority policies of Planning Code Section 101.1; and

(3) Authorize the Director of Property and the Director of MOHCD to execute documents, make certain modifications, and take certain actions in furtherance of the resolution, as defined therein.

1296 Shotwell Housing, L.P. will demolish the 10,700 square foot, one-story industrial building currently on site and construct a new nine-story, 85-foot-tall multi-unit housing building with 93 affordable units for low-income seniors and one manager's unit. The mix of units would include six studios and 13 one-bedroom units for formerly homeless seniors at or below 20

[1] John Stewart Company and Mission Housing Development Corporation also issued a joint response to the RFP, but was deemed incomplete after failing to demonstrate adequate development experience, ownership experience, and property management experience.

percent Area Median Income (AMI) and 18 studios and 56 one-bedroom units for seniors at or below 50 percent AMI.[2] There will be one two bedroom unit for the onsite property manager.

Total development costs for the senior housing at 1296 Shotwell Street are $41 million, funded by federal Low Income Housing Tax Credits, loans and grants from the State of California, developer equity, MOHCD gap financing, and other sources.

The key provisions of the Ground Lease are shown in Table 1 below.

Table 1: Key Provisions of Ground Lease

Lease Terms: 1296 Shotwell Street	
Size of Property	11,664 square feet (.27 acres)
Lease Period	75 years (approximately January 2018 through January 2093)
Options to extend lease	Tenant has one 24-year option to extend the lease through 2117 for a total lease term of 99 years
Base rent	$15,000 per year
Adjustments to base rent	None
Residual rent	Up to $1,002,500 per year
Adjustments to residual rent	10 percent of fair market value on the 15th anniversary of the first rent payment and every 15 years thereafter
Taxes, insurance, maintenance, utilities	Paid by tenant

In June 2014, the Planning Commission determined that the project was consistent with the Eastern Neighborhoods Area Plan EIR and exempt from environmental review. In February 2017, the Board of Supervisors determined that the project is eligible for streamlined environmental review under CEQA, due to it being an infill project (File 17-0025). The Planning Department has determined that the project is consistent with the General Plan and the eight priority policies of Planning Code Section 101.1.

FISCAL IMPACT

The City would receive $15,000 annually in base rent, not adjusted for inflation, from 1296 Shotwell Housing, L.P. Over the 75 year term of the lease, the City would receive $1,125,000 in total base rent. Should the tenant agree to extend the lease for an additional 24 years, the City would receive an additional $360,000.

Should surplus cash be available from the tenant after payment of all operating expenses, the City may receive residual rent. Annual residual rent is up to 10 percent of the appraised fair market value of the property, minus the base rent. As the current appraised value of the property is $10,175,000, and the base rent is $15,000, the current residual rent is up to $1,002,500 per year. The residual rent would be amended every 15 years to reflect the updated fair market value of the company. Should the tenant not have surplus cash to pay residual rent in a given year, it would need to provide written documentation to the City to verify the

[2] 20 percent AMI for San Francisco in 2017 is $16,150 for a one person household and $18,450 for a two person household. 50 percent AMI is $40,350 for a one person household and $46,150 for a two person household.

insufficiency. According to Ms. Sara Amaral, MOHCD Project Manager, MOHCD does not expect to receive residual rent in the foreseeable future. This is due to the number of units occupied by formerly homeless seniors at or below 20 percent AMI who would be paying well below market rent. In the first year of occupancy, MOHCD anticipates subsidizing the operations of the housing project by $352,270 through its Local Operating Subsidy Program.

RECOMMENDATION

Approve the proposed resolution.

Item 17 **File 17-1199**	**Department:** San Francisco Municipal Transportation Agency (SFMTA)

EXECUTIVE SUMMARY

Legislative Objectives

- Resolution to (i) authorize an Airspace Lease for 63,747 square feet under Highway 280 at Cesar Chavez and Indiana Streets (Lease Parcel) for the Islais Creek Motor Coach Operation and Maintenance Facility (Bus Facility) with the State of California acting by and through its Department of Transportation (Caltrans) at an initial term of 50 years with two 15-year extensions for an initial annual rent of $191,240 with 3% annual increases and subject to fair market rent adjustments; (ii) authorize an Indiana Street Access License Agreement (License Agreement) for Caltrans' access over the Bus Facility from Indiana Street to the Lease Parcel during the Airspace Lease term; (iii) authorize a Cesar Chavez Access Easement Agreement (Easement Agreement) for Caltrans access over a 2,098 square foot portion of the Bus Facility from Cesar Chavez Street to the Lease Parcel after the License Agreement terminates; (iv) affirm the Planning Department's determination under the California Environmental Quality Act; and (v) find the Airspace Lease, Easement Agreement and License Agreement are in conformance with the General Plan and the eight priority policies of Planning Code Section 101.1.

Key Points

- The SFMTA's Islais Creek Bus Facility totals approximately 8.47 acres. The SFMTA currently owns 5.84 acres. The remaining 2.63 acres are owned by Caltrans. On September 19, 2017, SFMTA approved purchasing 48,177 square feet (1.11 acres) of property from Caltrans for $1,150,000, which is not subject to Board of Supervisors approval.

Fiscal Impact

- Based on $0.25 per square foot per month, the monthly rent will be $15,937 or $191,241 the first year. Over the initial ten-year term, SFMTA will pay Caltrans $2,192,364.
- SFMTA will also make a one-time payment to Caltrans for SFMTA's use of the lease parcels from January 31, 2007 through the commencement of this lease on January 1, 2018 for an estimated total one-time cost of $2,193,006, including interest.

Recommendations

- Amend the proposed resolution as requested by the SFMTA on page 1, lines 2 and 9 and page 2, line 15 from $191,240 to $191,241, to be consistent with the lease.
- Amend the proposed resolution on page 2, line 21 to change the $2,191,080 total cost if the commencement date is December 1, 2017 to an estimated $2,193,006 based on an estimated commencement date of January 1, 2018.
- Amend the proposed resolution on page 3, line 16 to change $1,328,185 if the closing is December 1, 2017 to $1,318,931 based on a closing date of December 31, 2017.
- Authorizing the SFMTA Director of Transportation (on page 6, lines 5 and 6) to have approval of the two 15-year lease extensions, rather than making such lease extensions subject to Board of Supervisors approval, is a policy decision for the Board of Supervisors.
- Approve the proposed resolution, as amended.

MANDATE STATEMENT

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

Under City Administrative Code Section 23.27, if a lease requires Board of Supervisors approval where the City is the tenant, the Director of Property shall determine the market rent of the lease based on a review of available and relevant data, before adoption.

BACKGROUND

In April 1990, the Board of Supervisors approved the acquisition of property and construction of the Municipal Railway's (Muni) Islais Creek Motor Coach Operation and Maintenance Facility (Islais Creek Bus Facility) at the intersection of Cesar Chavez and Indiana Streets (Resolution No. 243-90). As shown in Table 1 below, the City, through Muni, acquired a total of 254,470 square feet (5.84 acres) of property from the Granex Corporation, San Francisco Public Utilities Commission (SFPUC) and San Francisco Port (SF Port) from 1990 to 2007 for a total cost of $5,164,205.

Table 1: Acquisition of Properties for Islais Creek Bus Facility

Acquired From	Purchase Date	Area in Square Feet/(Acres)[1]	Purchase Price
Granex Corporation	May, 1990	170,170/(3.90)	$4,761,150
SFPUC	February, 1998	61,775/(1.42)	207,775[2]
SFPUC	March, 2005	14,925/(0.34)	195,280
SF Port	August, 2007	7,600/(0.17)	N/A[3]
Total		**254,470/(5.84)**	**$5,164,205**

However, the Islais Creek Bus Facility totals approximately 8.47 acres. As summarized in Table 1 above, the City, through the San Francisco Municipal Transportation Agency (SFMTA), currently owns 5.84 acres (254,470 square feet). The remaining approximately 2.63 acres (114,515 square feet), which includes 2.44 acres of bus parking and 0.18 acres of open space, are currently owned by the California Department of Transportation (Caltrans). A map of the Islais Creek Bus Facility is shown on the following page.

In 1999, the SFMTA began negotiations with Caltrans, which was reluctant to sell or lease their adjacent parcels. After many years of appraisals and negotiations, in January 31, 2007, Caltrans granted the SFMTA a no-fee Right of Entry to allow SFMTA to commence construction of the

[1] One acre equals 43,560 square feet.

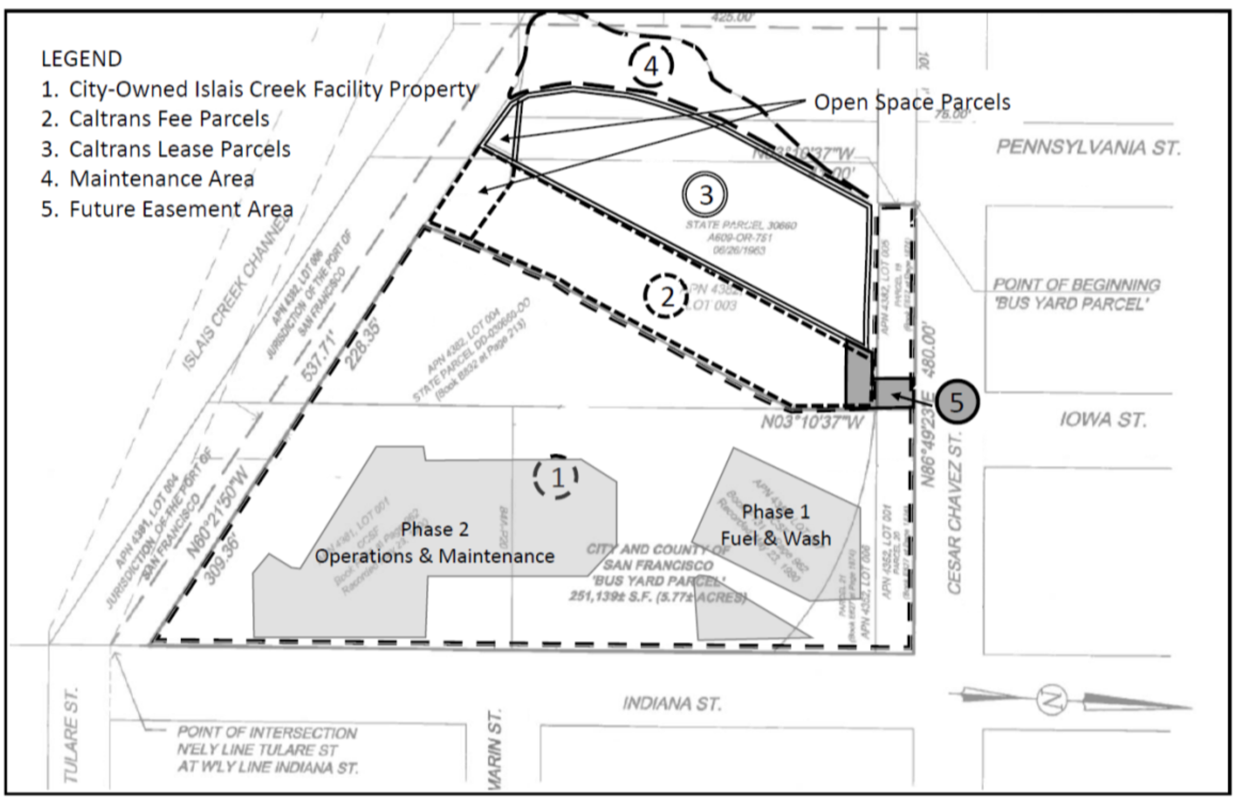
[2] Purchase price based on historic cost to SFPUC from December 1973 for 51,600 square feet and from June 1988 for 10, 175 square feet.

[3] Based on SFMTA-Port MOU #14383, for SFMTA to install and maintain improvements on Port property.

Islais Creek Bus Facility[4], subject to both parties good faith obligation to negotiate final acquisition and lease of the property. Caltrans was not willing to sell their portion of the property under State Highway 280, which required easement access to maintain the freeway.[5]

Phase I construction of the Islais Creek Bus Facility occurred from February 2011 through October 2013 and currently includes a bus coach fuel and wash building and an administrative annex building at 1301 Cesar Chavez Street. Phase II construction of a new 65,000 square foot maintenance and operations building will include bus maintenance bays, parts storage, offices, showers, locker rooms, training space and a community room. Phase II construction began February 2014 and is anticipated to be open for service in June 2018. The Islais Creek Bus Facility will have a capacity of 104 60-foot and 20 40-foot hybrid motor coaches.

Map: Islais Creek Bus Facility



---

[4] In 2004, the Board of Supervisors authorized the City Attorney to commence eminent domain proceedings against Caltrans for the subject property (Resolution 04-048). Ultimately, the City dropped the eminent domain proceedings and Caltrans granted the SFMTA a Right of Entry to allow construction to proceed.

[5] In 1962, the Western Pacific Railroad Company and Caltrans entered into an easement agreement to provide access for Caltrans for freeway maintenance purposes on approximately 17,197 square feet on the northern boundary of this property. In 1988 the City acquired this strip of land from Western Pacific Railroad Company, subject to the 1962 easement, which is now under SFMTA's jurisdiction. This SFMTA acquisition is included in Table 1 above, as part of the SFMTA's acquisition of the SFPUC's property.

On September 19, 2017, the SFMTA Board approved the purchase of approximately 48,177 (1.11 acres) square feet of property from Caltrans to SFMTA (Agreement for Purchase and Sale of Real Estate and Grant of Access Easement and Access License) for $1,150,000, including additional retroactive interest from January 31, 2007, as provided by the Right of Entry agreement (SFMTA Resolution No. 170919-117). This purchase includes the Open Space Parcels shown on the map for $1, for public access purposes. This purchase and sale agreement is not subject to Board of Supervisors approval because in accordance with Section 8.A.102 of the City's Charter, SFMTA has exclusive authority over acquisition, construction, management, supervision, maintenance, operation and use of all its property and assets and the subject acquisition is less than the Board of Supervisors Charter mandated threshold of $10 million.

However, this purchase and sale agreement requires approval of a (a) Lease Agreement for the adjacent parcel of land under Highway 280, (b) License Agreement, to permit Caltrans to access a portion of this property from Indiana Street to the lease parcel during the proposed lease term, and an (c) Easement Agreement, to grant Caltrans a permanent easement to access a portion of this property from Cesar Chavez Street to the lease parcel after the License Agreement expires. The Lease, License and Easement Agreements are subject to Board of Supervisors approval because they will extend for longer than ten years.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the following:

(i) **Airspace Lease** for approximately 63,747 square feet of land under the Highway 280 freeway structure near Cesar Chavez and Indiana Streets (Lease Parcel) for the Islais Creek Motor Coach Operation and Maintenance Facility (Islais Creek Bus Facility) with the State of California acting by and through its Department of Transportation (Caltrans) at an initial term of 50 years with two 15-year extension options and an initial annual rent of $191,240[6] with 3% annual increases and subject to certain fair market rent adjustments;

(ii) **Indiana Street Access License Agreement** for Caltrans' access over the Bus Facility from Indiana Street to the Lease Parcel during the Airspace Lease term or any later date allowed under the License Agreement;

(iii) **Cesar Chavez Access Easement Agreement** for Caltrans' access over a 2,098 square foot portion of the Bus Facility from Cesar Chavez Street to the Lease Parcel after the License Agreement terminates;

(iv) **Planning Department's determination** under the California Environmental Quality Act (CEQA); and

(v) Conformance with the **General Plan** and the eight priority policies of **Planning Code** Section 101.1.

[6] The proposed lease between the SFMTA and Caltrans specifies an initial annual rent of $191,241. Therefore, the SFMTA requests that the proposed resolution be amended on page 1, lines 2 and 9 and page 2, line 15 from $191,240 to $191,241, to be consistent with the lease.

Airspace Lease

As summarized in Table 2 below, the proposed lease between Caltrans, as the landlord, and SFMTA, as the tenant, would extend for 50 years, with two 15-year extension options, or a total of up to 80 years. Under the proposed resolution on page 6, lines 5 and 6, the Board of Supervisors would authorize the SFMTA Director of Transportation to exercise both 15-year lease extensions, which would otherwise be subject to Board of Supervisors approval. Approval of this authorization to the SFMTA Director of Transportation is a policy decision for the Board of Supervisors.

This approximately 63,747 square foot parcel to be leased is located under Highway 280, near Indiana and Cesar Chavez Streets and would be used to park and store public transportation and related vehicles. Based on $0.25 per square foot per month, the minimum monthly rent will be $15,937 or $191,241 the first year. Included in both the purchase and lease is the $1 Open Space Parcels.

Table 2: Summary of Proposed Airspace Lease

Premises	63,747 square feet
Term	50 years, commencing January 1, 2018[7]
Options to Extend	Two, 15-Year options
One-time Retroactive Payment	$2,193,006[8]
Initial Annual Rent (rate psf)	$191,241 ($3.00 psf)
Annual Rent Increases	3% annually
Fair Market Rent Adjustments	No more than every ten years
Public Access	2,591 square feet at $1 per year
Maintenance Requirements	SFMTA to maintain/repair 2,594 sf bike path and 20,925 sf of adjoining open space

Source: Proposed Resolution and Caltrans Airspace Lease

[7] Currently, the proposed resolution assumes a December 1, 2017 start date, which will be amended.

[8] This amount assumes a rate of $.25 per square foot per month for SFMTA's use of the lease parcel from January 31, 2007 through December 31, 2017 (rather than November 30, 2017), with the interest calculated at a rate equal to the California Surplus Money Investment Fund, as specified in the Right of Entry agreement.

Indiana Street Access License Agreement

Under the previously executed 1962 Easement, Caltrans currently has a 41' wide access easement along the length of the northern boundary from Cesar Chavez Street to the subject lease parcels for highway maintenance purposes. Both the previous 1962 Easement and a Floating Easement[9] will terminate if the City approves the subject License Agreement and Easement Agreement. The Caltrans parcel being purchased by the City does not connect to a public street. With the sale of their parcels to SFMTA and a new lease, Caltrans feared losing access between these parcels and the public street for various highway maintenance purposes. The proposed non-exclusive license agreement would provide Caltrans with access to the lease parcels from Indiana Street during the term of the lease, or up to 80 years.

As specified in the access license agreement, Caltrans is limited to a path designated by the SFMTA Islais Creek Facility Superintendent. This License Agreement terminates when the lease terminates. There are no costs or fees associated with this license agreement.

Cesar Chavez Access Easement Agreement

When the Caltrans-SFMTA lease expires, the above-noted Indiana Street Access License Agreement will also expire. Then, the subject Cesar Chavez Access Easement Agreement will go into effect to allow Caltrans access to the highlighted Future Easement Area shown on the above map. This Easement Agreement will then extend in perpetuity, unless both parties agree to terminate it. This non-exclusive Easement Agreement prevents Caltrans from using this Future Easement Area until the Indiana Street Access License Agreement expires. Under these agreements, SFMTA can use the Future Easement Area for any purpose, provided that SFMTA removes any improvements installed on the Future Easement Area if it interferes with Caltrans' easement rights. There are no costs or fees associated with this easement agreement.

CEQA and Planning Department determinations

On August 15, 2017, SFMTA's Environmental Review Team determined that the findings in the final negative declaration adopted by the City Planning Commission in June 1989 and Board of Supervisors in April 1990 (Resolution No. 243-90) for the acquisition of the subject property and construction of Municipal Railway (Muni) Bus Facility were sufficient such that no new circumstances require additional environmental review. On October 11, 2017, the City's Planning Department determined the subject Airspace Lease, License Agreement and Easement Agreement are in conformity with the City's General Plan and the eight priority policies under Planning Code Section 101.1.

[9] A Floating Easement, which is an access easement without a fixed location, is included in the purchase and sale agreement for the adjacent Caltrans property. If the subject Indiana Street Access License Agreement is approved, which establishes a fixed access easement over a smaller portion of the Islais Creek bus yard, the Floating Easement will terminate.

FISCAL IMPACT

According to Mr. John Updike, the Director of Property, neither a fair market value determination was required for the subject Easement Agreement nor a Market Rent determination was required for the subject License Agreement, because these are being granted as a condition of the Caltrans' sale of the adjacent property and in consideration of terminating the 1962 Easement and Floating Easement.

Appraisal of Fair Market Value

In May 2014, David Tattersall & Co. prepared an appraisal report to estimate the market value and market rental value of the subject Islais Creek property to be leased based on its highest and best use. This 2014 appraisal reflected market rental values of $0.18 to $0.25 per square foot per month for the subject parcel. According to the SFMTA, recent comparable lease rental rates on nearby Port and Caltrans properties were also analyzed by two licensed real estate brokers in SFMTA's Real Estate Division. The SFMTA negotiated a proposed rental rate beginning at $0.25 per square foot per month based on these comparable leases. Mr. Updike confirms that the proposed rate is not greater than the current fair market rate, based on his analysis of the 2014 appraisal, Port lease rates and other comparable rentals.

Ongoing Lease Costs

As shown in Table 3 below, based on an initial rate of $0.25 per square foot per month and increasing at three percent annually, SFMTA will pay Caltrans $2,192,364 in rent over the initial ten-year term of the lease.

Table 3: First Ten-Year Costs by Year under Proposed Lease

Contract Year	Square Foot/ Month	Monthly Rent	Annual Rent
1	$0.2500	$15,937	$191,241
2	0.2575	16,415	196.978
3	0.2652	16,908	202.888
4	0.2732	17,415	208,974
5	0.2814	17,937	215,243
6	0.2898	18,475	221,701
7	0.2985	19,030	228,352
8	0.3075	19,601	235,202
9	0.3167	20,189	242,258
10	0.3262	20,794	249,526
Total			**$2,192,364**

The proposed lease would extend for 50 years, with two 15-year extension options, or a total of up to 80 years. Under the proposed lease terms, Caltrans would have the right to readjust the rent to appraised fair market value not more than once very ten years, after the initial ten year term. Therefore, the total amount of rent to be paid by SFMTA to Caltrans over the life of the lease cannot be determined at this time.

Additional One-Time Payment to Caltrans

In addition, SFMTA would make a one-time payment to Caltrans for SFMTA's use of the lease parcels from January 31, 2007, when SFMTA gained access to the parcels under the Right of Entry agreement, through the commencement date of the subject lease at a rate of $0.25 per square foot per month plus interest[10]. The SFMTA advises that paying this lease rate and interest dating back to January 31, 2007 was based on a negotiated settlement with Caltrans. The proposed resolution could be approved by the Board of Supervisors in December 2017, such that the subject lease could commence on January 1, 2018. However, the proposed resolution on page 2, line 21 estimates a commencement date of December 1, 2017 for an estimated total cost of $2,191,080. Page 2, line 21 of the proposed resolution should be amended to reflect a projected commencement date of January 1, 2018 for an estimated total one-time fee and interest expense of $2,193,006[11].

In addition, the proposed resolution on page 3, line 16 assumes an estimated total fee parcel amount of $1,328,185 based on an estimated closing date of December 1, 2017. This should be amended to reflect an estimated closing date of December 31, 2017 and an estimated total fee parcel amount of $1,318,931[12].

The $2,193,006 rent past due and interest expense plus the $95,620 initial six months of this lease from January 1, 2017 through June 30, 2018, for a total cost of $2,288,626 would be funded by the Islais Creek Facility capital project budget. The SFMTA recently approved purchasing an adjacent parcel from Caltrans for $1,150,000, which will also be funded from the Islais Creek Facility capital project budget, for total expenditures of $3,607,557 ($1,318,931 + $2,288,626). The SFMTA currently has $4,000,000 budgeted in the Islais Creek Facility capital project budget. Future year lease expenses would be funded through the SFMTA's annual operating budget.

POLICY CONSIDERATION

On October 31, 2007, the Dogpatch Neighborhood Association sent a letter to Supervisor Malia Cohen requesting the Board of Supervisors assistance in securing SFMTA's obligation to the Dogpatch/Potrero Hill community regarding a public park and community facilities at Islais Creek. Specifically, the Dogpatch Neighborhood Association requested that SFMTA (1) fulfill its obligation for funding a public use community room and second floor viewing area, (2) restore and care for the adjacent public park, (3) provide signage and public parking for cars and bicycles. The SFMTA advises that an Islais Creek Space Planning Working Group will meet to discuss these issues. However, SFMTA also advises that the public use community room and viewing area will be reviewed in relation to the SFMTA's need for security and safety at the Islais Creek Bus Facility, which must operate and maintain bus services 24 hours a day.

[10] Interest is calculated at a rate equal to the California Surplus Money Investment Fund.
[11] This amount includes total rent of $2,103,651 for ten years, plus estimated interest expense of $89,355.
[12] This amount includes the purchase price of $1,150,000 and estimated interest expense of $168,931.

RECOMMENDATIONS

1. Amend the proposed resolution as requested by the SFMTA on page 1, lines 2 and 9 and page 2, line 15 from $191,240 to $191,241 to be consistent with the lease.
2. Amend the proposed resolution on page 2, line 21 to change the $2,191,080 total cost if the commencement date is December 1, 2017 to an estimated $2,193,006 based on an estimated commencement date of January 1, 2018.
3. Amend the proposed resolution on page 3, line 16 to change $1,328,185 if the closing is December 1, 2017 to $1,318,931 based on a closing date of December 31, 2017.
4. Authorizing the SFMTA Director of Transportation (on page 6, lines 5 and 6) to have approval of the two 15-year lease extensions, rather than making such lease extensions subject to Board of Supervisors approval, is a policy decision for the Board of Supervisors.
5. Approve the proposed resolution, as amended.

Item 22 **File 17-1250**	**Department:** Mayor's Office

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance appropriates $9,559,117 in FY 2017-18 from the State and Federal Contingency Reserve.

Key Points

- $8,800,000 would be appropriated to the Human Services Agency (HSA) to pay increased In-Home Supportive Services (IHSS) program costs. 56 percent of IHSS funding is federal; the State and counties share the nonfederal portion. In FY 2017-18, the State budget increased the counties' share of costs. While HSA's FY 2017-18 budget included $11.1 million for the increased share of costs, the State subsequently informed HSA of additional cost sharing, for total increased share of costs of $19.9 million, or $8.8 million more than the budget.
- $638,503 would be appropriated to the Department of Public Health (DPH) to backfill the reduction in federal Centers for Disease Control and Prevention (CDC) funding to the HIV/AIDS program. DPH's FY 2017-18 budget included $6.4 million in CDC grant funds for HIV/AIDS programs based on the prior year's grant. DPH was notified in November that the CDC grant for calendar year 2018 is $5.0 million or $1.4 million less than the budget. The appropriation of $686,503 would backfill the reduction in the CDC grant for the six-month period from January 2018 to June 2018.
- $72,614 would be appropriated to the Office of Civic Engagement and Immigrant Affairs (OCEIA) to reimburse OCEIA for grants to 142 Deferred Action for Childhood Arrival (DACA) beneficiaries in order for these beneficiaries to pay DACA application fees prior to the October 5, 2017 deadline set by the current presidential administration. OCEIA and the community based organizations paid 100 percent of fees to eligible DACA beneficiaries.

Fiscal Impact

- The Board of Supervisors appropriated $10 million to the Federal and State Contingency Reserve in FY 2017-18 budget as a hedge against federal and state policy changes that would negatively impact San Francisco. The proposed ordinance appropriates $9,559,117, leaving an unappropriated balance of $440,883

Recommendation

- Approve the proposed ordinance.

MANDATE STATEMENT

City Charter Section 9.105 states that the Board of Supervisors may adopt amendments to the Annual Appropriation Ordinance in the same manner as other ordinances, subject to certification by the Controller of the availability of funds.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance appropriates $9,559,117 in FY 2017-18 from the State and Federal Contingency Reserve as follows:

- $8,800,000 to the Human Services Agency (HSA) to pay increased In-Home Supportive Services (IHSS) Maintenance of Effort costs and backfill the reduction in State revenue to the IHSS program;
- $686,503 to the Department of Public Health (DPH) to backfill the reduction in federal Centers for Disease Control and Prevention (CDC) funding to the HIV/AIDS program; and
- $72,614 to the Department of Administrative Services to support recipients of the Deferred Action for Childhood Arrival (DACA) program.

State and Federal Contingency Reserve

The Board of Supervisors appropriated $10 million in the FY 2017-18 budget as a hedge against federal and state policy changes that would negatively impact San Francisco. To date, no funds have been appropriated from this reserve.

In-Home Supportive Services

The IHSS program provides in-home personal care as well as domestic and related services for senior and disabled adults. IHSS is a benefit of the Medicaid program (known as Medi-Cal in California) and is administered by county social services agencies. Approximately 56 percent of IHSS service costs are paid for by federal Medicaid funds. The nonfederal costs of the IHSS program (the remaining 44 percent) are shared by the State and counties. Historically, the State paid for 65 percent and counties paid for the remaining 35 percent of nonfederal program costs.[1]

The State's Budget Act of 2011 established the Coordinated Care Initiative to better integrate services to senior and disabled adults. The Coordinated Care Initiative[2] applied a new Maintenance of Effort cost sharing formula to all California counties, in which the counties were to maintain their FY 2011-12 expenditure levels for IHSS, which increased annually by 3.5 percent plus the local share of any increases to IHSS wages and benefits negotiated at the county level. The State's general fund paid the balance of the counties' nonfederal costs for

[1] San Francisco pays an additional share of IHSS program costs to support wages and benefits for IHSS workers exceeding the State cap of $12.10 per hour.

[2] The Coordinated Care Initiative made program changes in seven demonstration counties (which did not include San Francisco) but applied funding formula changes to all 58 counties in California.

IHSS, including costs of voter-approved minimum wage increases and contract mode[3] cost increases.

The Coordinated Care Initiative was intended to result in net general fund savings to the State. If the Coordinated Care Initiative failed to achieve the savings, all components of the Coordinated Care Initiative, including Maintenance of Effort cost sharing, were to be discontinued. In January 2017, the California Department of Finance Director determined that the Coordinated Care Initiative's costs exceeded savings to the State's general fund by $42 million, which would result in the termination of Maintenance of Effort cost sharing between the State and the counties. Under Maintenance of Effort cost sharing, the counties' share of IHSS nonfederal costs had declined from 35 percent in FY 2011-12 to 24 percent in FY 2016-17. Termination of the Maintenance of Effort would return the counties' share of nonfederal costs to 35 percent in FY 2017-18.

The Governor's May revision to the FY 2017-18 State Budget established a revised Maintenance of Effort cost-share baseline, which would increase by 5 percent in FY 2018-19 and by 7 percent in future years. The State Legislature approved an additional State general fund allocation to reduce the counties' Maintenance of Effort. The revision also mandated adjustments to a county's Maintenance of Effort for the non-federal share of voter-approved minimum wage increases and contract mode cost increases.

CDC Funding for HIV/AIDS Programs

The federal Center for Disease Control and Prevention provides funding to the Department of Public Health (DPH) to fund positions and contracts for the following programs:

- HIV testing and referral to services in the jails and City Clinic;
- Technical assistance to improve quality of services and capacity for community based providers who provide HIV and Hepatitis C testing and referral to services primarily to African American and Latino clients;
- Service referrals for HIV positive clients;
- Certification training for HIV testing counselors;
- Integration of sexually-transmitted disease and HIV services in community settings; and
- Oversight and management of the system of community-based HIV prevention, and fiscal and contract management of the grant.

A portion of the CDC funding is allocated to HIV surveillance, including epidemiology work, follow up with existing clients, and monitoring of HIV data.

[3] Counties can choose different modes of IHSS service delivery. Under the contract mode, the county contracts with an agency that employs IHSS caregivers. The Board of Supervisors approved a contract between the City and Homebridge, a nonprofit agency, in April 2017 to provide services to IHSS clients (File 17-0231)

DACA Fee Waivers

The Office of Civic Engagement and Immigrant Affairs (OCEIA) funded community based organizations in FY 2016-17 and FY 2017-18 to provide immigrant fee assistance, primarily for DACA and Citizenship application fees. OCEIA awarded grants to two community based organizations – Legal Services for Children and the Mission Asset Fund – to provide fee assistance, ranging from 50 percent to 100 percent of the fee amount.

The current presidential administration announced the cancellation of the DACA program, allowing certain DACA beneficiaries to renew their status by October 5, 2017. The DACA program will be phased out in six months. In order to help as many DACA beneficiaries as possible prior to the October 5, 2017 deadline, OCEIA and the community based organizations paid 100 percent of fees to eligible DACA beneficiaries.

FISCAL IMPACT

The proposed ordinance appropriates $9,559,117 from the Federal and State Contingency Reserve, leaving an unappropriated balance of $440,883. The sources and uses of funds are shown in Table 1 below.

Table 1: Sources and Uses of Funds

Source of Funds	
Federal and State Contingency Reserve	$9,559,117
Uses of Funds	
IHSS Revenue Loss	$4,450,000
IHSS Maintenance of Effort	4,350,000
Subtotal IHSS	8,800,000
Loss of CDC Grant Funds	686,503
Additional DACA Fee Waivers	72,614
Total Uses	**$9,559,117**

IHSS Revenue Loss and Maintenance of Effort: $8,800,000

The IHSS budget in FY 2017-18 is $188.4 million, an increase of $22.3 million from the FY 2016-17 budget of $166.1 million, as shown in Table 2 below. [4] The budget for Maintenance of Effort in FY 2017-18 is $94.6 million, an increase of $13.9 million form the FY 2016-17 budget of $80.7 million.

[4] The full wages paid to independent IHSS providers are paid directly to the providers by the State; therefore, these wage costs are not included in HSA's budget.

Table 2: FY 2016-17 and FY 2017-18 IHSS Budgeted Expenditures

	FY 2016-17	FY 2017-18	Increase
State and Federal Funds			
IHSS Contract	25,756,268	29,235,744	3,479,476
IHSS Public Authority	60,892,744	64,643,926	3,751,182
HSA Staff and Other Expenditures	17,629,226	19,306,121	1,676,895
Recoveries	(18,874,691)	(19,436,159)	(561,468)
Subtotal, State and Federal	*85,403,547*	*93,749,632*	*8,346,085*
IHSS Maintenance of Effort	80,724,565	94,649,924	13,925,359
Total	166,128,112	188,180,889	22,271,444

Source: FY 2017-18 HSA Budget

San Francisco's Maintenance of Effort in FY 2016-17 was $80.7 million. Because the State's original Maintenance of Effort formula provided for a 3.5 percent annual increase, San Francisco's base budget in FY 2017-18 for Maintenance of Effort was $83.5 million. Due to the State's revised Maintenance of Effort formula in May 2017, HSA's FY 2017-18 budget for IHSS increased the Maintenance of Effort to $94.6 million, an increase of $11.1 million compared to the base budget.

Subsequent to the adoption by the Board of Supervisors of the FY 2017-18 budget, the State has provided additional information to the City on the impact of the State's revised Maintenance of Effort formula, including increases to the City's share of costs for (1) wage increases for IHSS providers, (2) services provided through the IHSS contract[5], and (3) administrative expenditures. HSA estimates that total increase to the City in FY 2017-18 for implementing the new provisions of the IHSS Maintenance of Effort to be $19.9 million, an increase of $8.8 million, as shown in Table 3 below.

Table 3: Increase in the City's Share of IHSS Program Costs in FY 2017-18

Local Cost Share	Projected Cost
FY 2017-18 Increase in Maintenance of Effort	$10,000,000
Local Share of Increase in Minimum Wage from $13/hr. to $14/hr.	3,700,000
Local Share of Increased Contract Mode Rate	2,500,000
Local Share of Administrative Cap Reductions	3,700,000
Total Increase	19,900,000
FY 2017-18 Budgeted Increase	(11,100,000)
Total Supplemental Need	**$8,800,000**

HSA anticipates additional increases in the City's Maintenance of Effort in FY 2018-19 due to the State's 5 percent inflation factor in calculating the Maintenance of Effort, a reduction in State General Fund allocation, and the increase in the City's minimum wage.

[5] The Board of Supervisors approved a new contract between the City and Homebridge in April 2017 to provide services to IHSS clients (File 17-0231).

CDC Grant Fund Replacement: $686,503

The DPH FY 2017-18 budget for HIV prevention and surveillance is $22.3 million, of which $12.9 million is City General Fund and $9.4 million are grant funds. According to Ms. Jenny Louie, DPH Budget Manager, the FY 2017-18 budget included $6.4 million in CDC grants, based on the prior year's grant award.

CDC grants are awarded to DPH on a calendar year basis. The CDC grant to DPH in calendar year 2018 for HIV prevention and surveillance is $5.0 million or $1.4 million less than the $6.4 million award in calendar year 2017, as shown in Table 4 below. According to Ms. Louie, DPH was not notified of the reduction in CDC grant funding for 2018 until November 2017. The requested appropriation of $686,503 accounts for the funding shortfall from January 2018 to June 2018, or one half of the calendar year.

Table 4: Reduction in CDC Grant Funding in CY 2017 Compared to CY 2018

	2018 Award	2017 Award	Reduction
HIV Prevention	$4,199,083	$5,087,919	$888,836
Surveillance	809,296	1,291,776	482,480
Total	$5,008,379	$6,379,695	$1,371,316

According to Ms. Louie, the CDC grant amount is expected to be $5.0 million per year over the five-year period from 2018 to 2012. Increased General Fund support to HIV prevention and surveillance programs in FY 2018-19 to offset the reduction in CDC grant funds will be subject to Board of Supervisors approval.

DACA Fee Waivers: $72,614

The Board of Supervisors previously appropriated $210,000 to DACA fee waivers in FY 2016-17 and FY 2017-18. As noted above, in order to help as many DACA beneficiaries as possible prior to the October 5, 2017 deadline to renew DACA status, OCEIA paid 100 percent of fees to eligible DACA beneficiaries. According to Mr. Adam Nguyen, Department of Administrative Services Finance and Planning Director, in addition to the previously appropriated $210,000, the Department allocated $70,290 to 142 DACA applicants to pay the costs of the DACA application fee, and $2,234 to the costs for DACA renewal workshops, totaling $72,614.

RECOMMENDATION

Approve the proposed ordinance.