CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst DY

SUBJECT: December 7, 2022 Budget and Finance Committee Meeting

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Item 1 **File 22-1123**	**Department:** Controller's Office

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would appropriate $4,711,123 from the issuance of Treasure Island Infrastructure and Revitalization Financing District (IRFD) No. 1 tax increment revenue bonds to the Mayor's Office of Housing and Community Development (MOHCD) in FY 2022-23 for affordable housing.

Key Points

- The Treasure Island/Yerba Buena Development Project (Project) is part of the Treasure Island Development Authority's (TIDA) ongoing project to transition Treasure Island and a portion of Yerba Buena Island from a former military base to a residential and commercial development. The City provides funding for certain public improvements and affordable housing through tax increment revenue bonds issued by the Treasure Island IRFD, among other funding sources.
- In April 2022, the Board of Supervisors approved the issuance and sale of one or more series of tax increment revenue bonds not to exceed $30 million. In September 2022, the Treasure Island IRFD No.1 sold two series of tax increment revenue bonds totaling $29,390,000, including $24,270,000 Series A (Facilities) and $5,120,000 Series B (Housing).
- Approximately $4,711,123 of the Series B Bond proceeds were deposited in the Housing Project Fund and are anticipated to finance a portion of the 78 Johnson Street Project (now called Star View Court), a 100% affordable housing project on Treasure Island.
- The Board of Supervisors previously approved a loan agreement between MOHCD and Mercy Housing California 82, L.P., a California limited partnership, in an amount not to exceed $33,452,317 to provide permanent gap financing for the 78 Johnson Street Project. The loan amount included a TIDA IRFD bridge loan of up to $5.0 million to be repaid by IRFD bond proceeds, when available.

Fiscal Impact

- The proposed ordinance would appropriate $4,711,123 from the issuance of Treasure Island IRFD No. 1 tax increment revenue bonds to MOHCD in FY 2022-23 for affordable housing.
- Under the City's loan agreement with Mercy Housing California 83, L.P., bond proceeds would replace a portion of the 2019 General Obligation Bond funds, which partially funded the City's $33,452,317 loan for the 78 Johnson Street project, now called Star View Court.

Recommendation

- Approve the proposed ordinance.

MANDATE STATEMENT

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

BACKGROUND

The Treasure Island/Yerba Buena Development Project (Project) is part of the Treasure Island Development Authority's (TIDA) ongoing project to transition Treasure Island and a portion of Yerba Buena Island from a former military base to a residential and commercial development. The City provides funding for certain public improvements and affordable housing through tax increment revenue bonds issued by the Treasure Island Infrastructure and Revitalization Financing District, among other funding sources.

Infrastructure and Revitalization Financing District Bonds

State Infrastructure and Revitalization Financing District (IRFD) law allows for a portion of property tax revenues to be allocated to IRFDs to pay for public improvements. In 2017, the Board of Supervisors approved the formation of the Treasure Island IRFD No. 1, adopted the Infrastructure Financing Plan, and authorized the issuance of up to $780 million in tax increment bonds to finance eligible project costs (Files 16-1120 and 16-1121).[1] Each bond issuance (of the $780 million total authorized) is subject to Board of Supervisors' approval of the terms of sale and related documents.

In April 2022, the Board of Supervisors approved the issuance and sale of one or more series of tax increment revenue bonds not to exceed $30 million. In September 2022, the Treasure Island IRFD No.1 sold two series of tax increment revenue bonds totaling $29,390,000, including $24,270,000 Series A (Facilities) and $5,120,000 Series B (Housing). Approximately $4,711,123 of the Series B Bond proceeds were deposited in the Housing Project Fund and are anticipated to finance a portion of the 78 Johnson Street Project (now called Star View Court), a 100% affordable housing project on Treasure Island. Remaining bond proceeds[2] are shown in Exhibit 1 below.

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[1] In February 2022, the Board of Supervisors approved the addition of territory to the IRFD and amendments to the Infrastructure Financing Plan (File 21-1196).

[2] Approximately $22,446,334 of the Series A Bond proceeds were deposited in the Facilities Project Fund and were used to finance or reimburse expenditures on public improvements for the project incurred by the developer, such as geotechnical work on Treasure Island. Remaining Series A and B Bond proceeds included deposits to debt service reserve accounts associated with each series and funds to cover bond issuance costs, including the Underwriters' discount, and legal and consultant fees.

Housing Bond Proceeds Requiring Appropriation

According to Bridget Katz, Development Finance Specialist at the Controller's Office of Public Finance, at the time the legislation authorizing bond issuance was approved by the Board of Supervisors, the Controller's Office was still confirming the appropriation process given that this was the City's first IRFD bond. Subsequently, the Controller's Office and TIDA determined that $4,711,123 in Housing Project funds require appropriation to the Mayor's Office of Housing and Community Development (MOHCD) for expenditure (subject to approval by the Board of Supervisors), but remaining bond proceeds (shown in Exhibit 1 below) do not require appropriation because they would be expended by the IRFD directly and not by a City department.[3]

Exhibit 1 below shows the sources and uses of the 2022 Facilities and Housing Bonds.

Exhibit 1: 2022 Facilities and Housing Bonds Sources and Uses

Sources	**2022A Facilities Bonds**	**2022B Housing Bonds**	**Total Bonds**
Principal Amount	$24,270,000	$5,120,000	$29,390,000
Premium	793,085	150,092	943,177
Total Sources	**$25,063,085**	**$5,270,092**	**$30,333,177**
Uses			
Facilities Project Fund	22,446,334		22,446,334
Housing Project Fund		4,711,123*	4,711,123
Debt Service Reserve Funds	1,579,750	334,500	1,914,250
Costs of Issuance	1,037,001	224,469	1261470
Total Uses	**$25,063,085**	**$5,270,092**	**$30,333,177**

Source: Official Statement for 2022 Facilities and Housing Bonds

*Amount requiring appropriation to MOHCD. All other uses were expended by the IRFD.

78 Johnson Street Project (now called Star View Court)

The proposed project will be a seven-story building, with 138 units, including 23 one-bedroom units, 60 two-bedroom units, 40 three-bedroom units, 14 four-bedroom units, and one manager's unit. The 137 units (excluding the manager's unit) include 71 replacement units for Catholic Charities' One Treasure Island units supported by a Continuum of Care contract, 23 non-income restricted units for existing Treasure Island residents, and 43 new affordable lottery units.

[3] According to the IRFD bond closing documents, the Director of Public Finance is the authorized party to make payments from bond proceeds on behalf of the IRFD. According to Development Finance Specialist Katz, it is the practice of the Office of Public Finance to also require the TIDA Director to counter-authorize all payments from the IRFD project fund proceeds. Disbursements from the Facilities project fund proceeds are also reviewed by an external consultant and include signatures from other relevant parties, such as the developer and the Department of Public Works. The Office of Public Finance expects that disbursements from the Housing project fund proceeds will be signed by a representative from MOHCD.

Construction began shortly after the construction loan closed in May 2022 and is expected to be completed by March 2024 according to a November 1, 2022 Office of Public Finance memo to the Board of Supervisors.

The project's area median incomes (AMI) range from 60 percent MOHCD defined AMI up to 85 percent MOHCD AMI for the new affordable lottery units.

IRFD Bridge Loan

In April 2022, the Board of Supervisors approved a loan agreement between MOHCD and Mercy Housing California 82, L.P., a California limited partnership, in an amount not to exceed $33,452,317 to provide permanent gap financing for the project (File 22-0347). The loan amount included a TIDA IRFD bridge loan of up to $5.0 million. Under the terms of the loan agreement, IRFD bond proceeds, when available, would repay the IRFD bridge loan and replace a portion of the 2019 General Obligation Bond[4] funds, which partially funded the City loan.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would appropriate $4,711,123 from the issuance of Treasure Island IRFD No. 1 tax increment revenue bonds to MOHCD in FY 2022-23 for affordable housing.

FISCAL IMPACT

The proposed ordinance would appropriate $4,711,123 from the issuance of Treasure Island IRFD No. 1 tax increment revenue bonds to MOHCD in FY 2022-23 for affordable housing. Under the City's loan agreement with Mercy Housing California 83, L.P., bond proceeds would replace a portion of the $26,915,497 in 2019 General Obligation Bond funds, which partially funded the City's $33,452,317 loan for the 78 Johnson Street project, now called Star View Court.

RECOMMENDATION

Approve the proposed ordinance.

[4] In November 2019, San Francisco voters approved Proposition A, which provided for the issuance of up to $600 million in general obligation funds to finance the acquisition, rehabilitation, and construction of affordable housing.

Item 3 **File 22-1156**	**Department:** Department of Homelessness and Supportive Housing (HSH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would approve a lease and property management agreement between the Department of Homelessness and Supportive Housing (HSH) and Dolores Street Community Services (Dolores) to lease, operate, and maintain the City-owned property at 5630-5638 Mission Street for a term of five years from approximately March 2023 through February 2028, and one five-year option to extend, with total costs not to exceed $11,636,000, for use as permanent supportive housing.

Key Points

- In October 2021, the Board of Supervisors approved the purchase of 5630 Mission Street for use as permanent supportive housing. Under a Solicitation of Information, a joint proposal from Larkin Street Youth Services (Larkin), Dolores, and Mission Housing Development Corporation (MHDC) was deemed the highest scoring proposal.
- Dolores would be responsible for providing property management services at 5630 Mission, comprised of 50 units of permanent supportive housing. Dolores would also manage the process of property conversion to permanent supportive housing.

Fiscal Impact

- The proposed lease and property management agreement would have a total amount not to exceed $11,636,000 over the initial five-year term, including a reserve and contingency. Due to the existing reserve, the Budget and Legislative Analyst recommends reducing the contingency to 10 percent of estimated expenditures, or $774,755.

Policy Consideration

- The proposed ordinance waives Administrative Code Chapter 6 requirements. The agreement's lack of specificity regarding the City's participation in selecting real estate development contractors may present a risk to adhering to the project budget

Recommendations

- (1) Amend the proposed ordinance to reduce the not-to-exceed amount of the proposed lease and property management agreement to $9,725,609. (2) Request HSH to include a provision in the proposed lease and property management agreement detailing the Department's role in selecting real estate development contracts, including approving solicitations, participating in selecting contractors, and providing technical assistance to assess bids. (3) Approve the lease and property management agreement approval portion of the ordinance, as amended. (4) Approval of the Chapter 6 waiver portion of the ordinance is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

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

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

Administrative Code Sections 23.30 and 23.33 allows for leasing of City-owned property at less than market rate if doing so will serve a public purpose, subject to approval of the Board of Supervisors.

BACKGROUND

In November 2018, San Francisco voters approved Proposition C, a gross receipts tax to fund homeless services and housing. In July 2020, Mayor London Breed announced her Homelessness Recovery Plan, with the goal of acquiring or leasing and operating 1,500 new units of permanent supportive housing over the next two years. According to the proposed ordinance, as of June 30, 2022, the City had acquired 2,918 new units of site-based and scattered site permanent supportive housing that were active or under contract with a non-profit provider. Also in July 2020, the California Department of Housing and Community Development (HCD) announced the Homekey program, providing grants to sustain and expand housing for homeless people impacted by COVID-19. In September 2021, HCD announced a second round of Homekey grant funding.

5630-5638 Mission Street

In October 2021, the Board of Supervisors approved the purchase of the Mission Inn at 5630-5638 Mission Street for a total acquisition cost of $17,340,000 and authorized the Department of Homelessness and Supportive Housing (HSH) to apply for a Homekey grant to offset the cost of the purchase and provide a partial operating subsidy for five years (File 21-0941). In June 2022, HCD awarded HSH $16,823,000 in Homekey grant funding to support the acquisition and operations of the property.[1] The site consists of 51 usable rooms among three buildings, as well an additional room leased to AT&T to store cell tower equipment. HSH determined that the site would be used for transitional aged youth (TAY) because smaller sites are preferable for this population.

Procurement of Dolores Street Community Services

In October 2021, HSH issued a Solicitation of Information (SOI) to select property management, supportive services, and real estate development providers for three newly acquired permanent supportive housing sites, including 5630 Mission Street. HSH received three responses for 5630

[1] According to Legislative Analyst Miller, HSH anticipates introducing Board of Supervisors legislation to accept and expend the grant award in December 2022.

Mission Street and an evaluation panel scored them, as shown in Exhibit 1 below.[2] Applicants were required to have experience providing the service for which they were applying and were assessed on the service plans, organizational experience and capacity, and budget.

Exhibit 1: Proposers and Scores from SOI: 5630 Mission Street

Proposer	Score (115 Maximum Points)
Larkin Street Youth Services/Dolores Street Community Services/Mission Housing Development Corporation	103.7
Five Keys Schools and Programs / The Amin Group	99.0
Tenderloin Neighborhood Development Corporation (TNDC)	27.2

Source: HSH

Note: TNDC only applied to deliver real estate development services, not property management or supportive services. The other proposers submitted plans for property management, supportive services, and real estate development.

A joint proposal from Larkin Street Youth Services (Larkin), Dolores Street Community Services (Dolores) and Mission Housing Development Corporation (MHDC) was deemed the highest scoring proposal. In May 2022, HSH executed an interim lease and property management agreement with Dolores for a term of 10 months, from May 2022 through February 2023, and an amount not to exceed $3,239,110. HSH also executed a grant agreement with Larkin to provide support services for a term of three years and two months, from May 2022 through June 2025, with six one-year options to extend through June 2031, and an amount not to exceed $1,735,242 for the initial term. The agreement with Larkin and interim agreement with Dolores did not require Board of Supervisors approval because they did not exceed 10 years or $10 million.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would make the following actions:

1. Approve a lease and property management agreement with Dolores to lease, operate, and maintain the property at 5630-5638 Mission Street, for a term of five years from approximately March 2023 through February 2028, with one five-year option to extend, for base rent of $1 per year with no increases, and for property management and operating costs paid by the City to not exceed $11,636,000 for the initial five-year term;
2. Determine in accordance with Administrative Code Section 23.33 that the below market rent payable under the lease will serve a public purpose by providing permanent supportive housing for formerly homeless in low-income households;
3. Adopt findings that the property is “exempt surplus land” under the California Surplus Land Act;
4. Exempt the property from contracting requirements under Administrative Code Chapter 6, but require compliance with the prevailing wage and apprenticeship requirements of

[2] The evaluation panel consisted of a Housing Ladder Program Manager from HSH and a Senior Program Specialist from the Department of Children, Youth, and their Families (DCYF).

Administrative Code Section 23.61., and local business enterprise procurement requirements with Administrative Code Section 14B;

5. Authorize the Director of Property and HSH Executive Director to make certain modifications to the agreement;
6. Ratify all prior actions taken by any City employee or official with respect to the agreement; and
7. Affirm the Planning Department's determination under the California Environmental Quality Act (CEQA) and adopt the Planning Department's findings that the agreement is consistent with the General Plan and eight priority policies of Planning Code Section 101.1.

Lease and Property Management Agreement Services

Dolores would be responsible for providing property management services at 5630 Mission for 52 units, comprised of 50 units of permanent supportive housing, one office unit, and one unit leased to AT&T to store cell tower equipment. As mentioned above, Larkin would provide support services at the site. According to Bryn Miller, HSH Legislative Analyst, there were 36 residents at the building at the time of this report, and HSH anticipates that the building will be fully occupied by January 2023.

Property Management Services

Dolores' property management services include: (1) performing application reviews and executing lease agreements; (2) collecting rent and other housing-related payments from residents; (3) enforcing leases, which includes providing written notices and working to prevent evictions; (4) communicating with federal, state, and local agencies to process rental subsidies; (5) setting up and managing building utilities; (6) assuming responsibility for condition, operation, repair, and maintenance of the premises including janitorial services, garbage removal, pest control, facility maintenance and repair, building security, and preparing units for move-in and move-out; (7) conducting wellness checks and/or emergency safety checks; (8) providing means for residents to provide input through a complaint process and a written annual survey; (9) ensuring translation and interpreter services are available, (10) integrating harm reduction principles; (11) establishing and maintaining a written grievance procedure; (12) obtaining tenant income certifications and conducting re-certifications; (13) monthly inspections of interiors of residential units; (14) developing and maintaining a Disaster and Emergency Response Plan; (15) maintaining various insurance policies; and (16) front desk coverage 24 hours a day, seven days a week. The contract would fund approximately 10.38 full-time equivalent (FTE) positions.

Under the agreement, Dolores would submit an annual operating budget, an annual property management plan, and an annual preventative maintenance plan and schedule for City approval. Dolores would be able to adjust budget line items by no more than 10 percent, unless first receiving HSH pre-approval. No later than July 10 of each Operating Year, HSH would deposit 25 percent of the Annual Operating Subsidy for Dolores to pay for initial project expenses. Dolores would submit monthly invoices and any related documentation to HSH within 15 days after the month the expenditures occurred.

Real Estate Development Services

Dolores would also manage the process of property conversion to permanent supportive housing. The anticipated improvements include accessibility improvements to ground floor rooms, exterior siding and roof repair, upgrades to fire suppression systems, replacement of interior finishes in certain rooms, installation of kitchenettes in certain rooms, and repurposing a portion of the parking lot to serve as a community outdoor space. Section 34 of the proposed agreement requires Dolores to competitively procure any service contracts through an undefined competitive process in compliance with Administrative Code Section 14B, which pertains to local business enterprise utilization.

HSH preliminarily estimates that the hard costs for construction are approximately $5,175,000 excluding escalation. HSH anticipates that it would enter into a separate agreement for the final residential rehabilitation scope with Dolores to fund construction costs, which would not require Board of Supervisors approval if the amount were below $10 million, as currently estimated. Exhibit F requires Dolores to update the proposed rehabilitation scope of work and budget assumptions with actual proposal and bid costs and follow MOHCD's Underwriting Guidelines until superseded by HSH guidelines. The proposed agreement includes $1,581,688 for predevelopment work, including obtaining Planning Department entitlements, managing the procurement and overseeing architects, engineers, general contractors, and permit consultants, obtaining Department of Building Inspection permits, and overseeing tenant relocation, if necessary.

Although soft costs of approximately $1,581,688 for predevelopment are included in the property management agreement budget, construction costs are not. Actual construction costs will be determined after the pre-development work is complete. By waiving Chapter 6 of the City's Administrative Code, Dolores, as the City's lessee under this lease agreement, would be able to procure construction or related professional services for this residential rehabilitation project without going through the Department of Public Works.

Service and Outcome Objectives

The proposed lease and property management agreement include the following service and outcome objectives. The service objectives state that Dolores shall:

- Ensure that each unit is cleaned and/or repaired within 21 days of a request for service;
- Collect at least 90 percent of residents' monthly rent;
- Maintain a residential occupancy rate of at least 97 percent;
- Submit an Annual Operating Budget and provide a property management plan and a preventative maintenance plan and schedule to HSH for review and approval; and
- Submit all required asset management and program reports to HSH and other funders.

The outcome objectives state that:

- 90 percent of residents will maintain their housing for a minimum of 12 months, move to other permanent housing, or be provided with more appropriate placements;

- 85 percent of lease violations will be resolved without loss of housing to residents; and
- At least 75 percent of residents will complete an annual survey and 80 percent indicate that they are satisfied or very satisfied with property management services.

Fiscal and performance monitoring will occur annually. In addition, Dolores is required to submit monthly, quarterly, annual, and ad-hoc reports to HSH. The Department of Public Health (DPH) reviewed Dolores' financial documents as part of the FY 2021-22 Citywide Fiscal and Compliance Monitoring process and identified no findings.

FISCAL IMPACT

The proposed lease and property management agreement would have a total amount not to exceed $11,636,000 over the initial five-year term. This amount includes a $1,203,304 reserve amount to cover overages in operating costs and maintenance and repair costs, as well as a contingency of $2,685,146 (30 percent of expenses and reserves) in case overall budget costs come in higher than anticipated. The estimated sources and uses of funds are shown in Exhibit 2 below.

Exhibit 2: Estimated Sources and Uses of Funds

Sources	Start-Up & Year 1 (3/2023 – 6/2024)	Year 2 (7/2024 – 6/2025)	Year 3 (7/2025 – 6/2026)	Year 4 (7/2026 – 6/2027)	Year 5 (7/2027 – 2/2028)	Total
Homekey Grant	$1,503,998	$944,002	-	-	-	$2,448,000
Proposition C	1,581,688	175,675	1,155,491	1,199,278	820,387	4,932,519
Tenant Income	70,031	81,000	81,000	81,000	54,000	367,031
Subtotal	*$3,155,717*	*$1,200,677*	*$1,236,491*	*$1,280,278*	*$874,387*	*$7,747,550*
Reserves (15.5%)						1,203,304
Contingency (30%)						2,685,146
Total Sources	**$3,155,717**	**$1,200,677**	**$1,236,491**	**$1,280,278**	**$874,387**	**$11,636,000**

Uses	Start-Up & Year 1 (3/2023 – 6/2024)	Year 2 (7/2024 – 6/2025)	Year 3 (7/2025 – 6/2026)	Year 4 (7/2026 – 6/2027)	Year 5 (7/2027 – 2/2028)	Total
Salaries & Benefits	$922,139	$712,352	$733,723	$755,734	$518,938	$3,642,886
Operating Expenses[3]	401,040	296,534	305,250	320,227	215,770	1,538,821
Indirect Costs (15%)	198,477	151,333	155,846	161,394	110,206	777,256
Other Expenses[4]	1,634,061	40,458	41,672	42,922	29,473	1,788,587
Subtotal	*$3,155,717*	*$1,200,677*	*$1,236,491*	*$1,280,278*	*$874,387*	*$7,747,550*
Reserves (15.5%)						1,203,304
Contingency (30%)						2,685,146
Total Uses	**$3,155,717**	**$1,200,677**	**$1,236,491**	**$1,280,278**	**$874,387**	**$11,636,000**

Source: Proposed Lease and Property Management Agreement

If needed, the reserves and contingency would be funded by Proposition C funds but would require prior written HSH pre-approval and in the case of any contingency, would require adequate expenditure authority. In addition to the rental income from tenants, HSH estimates that the cell tower leases will generate approximately $90,519 in annual revenue, with three percent annual escalation. However, this funding will go to HSH and not directly offset the costs of operating the property.

The reserve and contingency combine for 50 percent of estimated expenditures over the initial five-year term. Due to the existing 15.5 percent reserve for unanticipated expenses, the Budget and Legislative Analyst does not consider an additional 30 percent contingency to be necessary. The Budget and Legislative Analyst recommends reducing the contingency to 10 percent of

[3] Operating expenses include rent, utilities, office supplies and postage, maintenance supplies and repair, printing and reproduction, insurance, staff training, staff travel, rental of equipment, legal fees, household/facility supplies, taxes, licenses and fees, and consulting services.
[4] Other expenses include $1,581,688 predevelopment work in Year 1 and annual asset management and audit costs. The predevelopment amount includes an additional contingency of $285,625, or 22 percent of projected costs.

estimated expenditures, or $774,755, rather than 30 percent of total projected expenditures and reserves. This would reduce the not-to-exceed amount of the proposed agreement by $1,910,319, for a total not to exceed $9,725,609. This reduction would still allow a reserve fund of $1,203,304 to cover overages in operating costs and maintenance and repair costs. It would also still allow for a contingency of $285,625 that is embedded within projected predevelopment soft cost expenditures.

Total Costs

The total cost to purchase and renovate the property and provide property management and support services through February 2028 (the end of the initial term of the proposed lease and property management agreement) is approximately $35.9 million, excluding reserves and contingencies. The estimated sources and uses of funds are shown in Exhibit 3 below.

Exhibit 3: Total Estimated Sources and Uses of Funds, Acquisition, Rehabilitation, and Five Years of Operations

Sources	Amount
Proposition C	$16,118,114
Homekey Grant	18,823,000
General Fund	2,591,288
Tenant Income	393,031
Total Sources	**$35,925,433**

Uses	Amount
Building Purchase	$17,340,000
Construction[5]	5,525,000
Operating Costs	7,747,550
Interim Agreement[6]	2,617,288
Support Services[7]	2,625,595
Total Uses	**$35,925,433**

Sources: HSH, Proposed Lease and Property Management Agreement, Interim Dolores Agreement, Larkin Contract

The total annual cost for property management and support services is approximately $1.6 million, or approximately $32,000 per unit, excluding reserves and contingencies. This is approximately 62 percent higher than the amount of $19,800 per unit estimated by HSH and reported by the Budget and Legislative Analyst in September 2021 and included in the solicitation used to procure this agreement. According to Legislative Analyst Miller, the amount has increased due to wage increases for frontline property management staff included within HSH's

[5] Construction costs include approximately $350,000 in anticipated soft costs during the construction phase that are not funded by the proposed agreement.

[6] According to HSH, the cost of the interim agreement is $2,617,288 for the 10-month period of May 2022 through February 2023 because of one-time costs for furnishings, fixtures, and equipment (FF&E), entitlement applications, analysis and budget development for the rehabilitation scope of work, and improvements required by the Department of Building Inspection (DBI) as part of the conversion of the property.

[7] The support services contract with Larkin has total projected costs of approximately $1,446,035 over the initial four-year term, excluding contingencies. Assuming that annual costs of $468,000 continue in the extension term, the total costs through February 2028 are approximately $2,625,595.

FY 2022-24 operating budget, the FY 2022-23 service model for TAY that includes wage increases for non-profit case management workers, generally higher service levels for TAY programming, and one additional FTE employee.

POLICY CONSIDERATION

Chapter 6 Waiver

Administrative Code Chapter 6 generally requires General Fund departments to use the Department of Public Works for construction projects, which applies to the real estate development work contemplated at 5630 Mission Street. Ordinance 61-19 authorized the Department of Public Works to enter and/or amend any homelessness services contract for public works without adherence to Administrative Code Chapters 6 (public works contracting), 12B (non-discrimination), 14B (local business enterprise utilization), and the Environment Code. Ordinance 61-19 expires May 5, 2024. The proposed ordinance waives Administrative Code Chapter 6, while maintaining the prevailing wage, local hire, and apprenticeship requirements under Chapter 23, the Chapter 14B local business enterprise utilization provisions, and contains non-discrimination provisions. Given the existing waivers for homeless projects, the primary policy change of proposed ordinance's Chapter 6 waiver is to remove Public Works from the construction process to allow the non-profit master tenant to undertake rehabilitation work for the City-owned buildings.

As noted above, Section 34 and Exhibit F of the proposed agreement require the master tenant to procure development contracts using an undefined "competitive process" overseen by the Contract Monitoring Division (CMD), which ensures compliance with the City's local business enterprise requirements in Chapter 14B.

Exhibit F of the proposed agreement requires that the master tenant comply with MOHCD's Underwriting Guidelines, which provides policy guidance for real estate development project costs. Unlike an MOHCD agreement, the proposed agreement does not specify the City's participation in the procurement of contractors, such as approving solicitations, participating in selecting contractors, and providing technical assistance to assess bids. The agreement's lack of specificity regarding the City's participation in selecting real estate development contractors may present a risk to adhering to the project budget. Following a discussion with the Budget and Legislative Analyst, HSH stated that it will develop written regulations for PSH operations and real estate development, specifying the Department's role in selecting contractors.

RECOMMENDATIONS

1. Amend the proposed ordinance to reduce the not-to-exceed amount of the proposed lease and property management agreement to $9,725,609.
2. Request HSH to include a provision in the proposed lease and property management agreement detailing the Department's role in selecting real estate development contracts, including approving solicitations, participating in selecting contractors, and providing technical assistance to assess bids.

3. Approve the lease and property management agreement approval portion of the ordinance, as amended.
4. Approval of the Chapter 6 waiver portion of the ordinance is a policy matter for the Board of Supervisors.

Item 4 File 22-1157	Department: Department of Homelessness and Supportive Housing (HSH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would approve a lease and property management agreement between the Department of Homelessness and Supportive Housing (HSH) and Dolores Street Community Services (Dolores) to lease, operate, and maintain the City-owned property at 3055-3061 16th Street for a term of five years from approximately March 2023 through February 2028, and one five-year option to extend, with total costs not to exceed $7,446,000 for the initial five-year term, for use as permanent supportive housing.

Key Points

- In October 2021, the Board of Supervisors approved the purchase of 3061 16th Street for use as permanent supportive housing. Under a Solicitation of Information, a joint proposal from Larkin Street Youth Services (Larkin), for supportive services, and Dolores, for property management, was deemed the highest scoring proposal.
- Dolores would be responsible for providing property management services at 3061 16th Street, comprised of 25 units of permanent supportive housing. Dolores would also manage the process of property conversion to permanent supportive housing.

Fiscal Impact

- The proposed lease and property management agreement would have a total amount not to exceed $7,446,000 over the initial five-year term, including a reserve and contingency. Due to the existing reserve, the Budget and Legislative Analyst recommends reducing the contingency to 10 percent of estimated expenditures, or $520,588.

Policy Consideration

- The proposed ordinance waives Administrative Code Chapter 6 requirements. The agreement's lack of specificity regarding the City's participation in selecting real estate development contractors may present a risk to adhering to the project budget.

Recommendations

- (1) Amend the proposed ordinance to reduce the not-to-exceed amount of the proposed lease and property management agreement to $6,476,830. (2) Request HSH to include a provision in the proposed lease and property management agreement detailing the Department's role in selecting real estate development contractors, including approving solicitations, participating in selecting contractors, and providing technical assistance to assess bids. (3) Approve the lease and property management agreement approval portion of the ordinance, as amended. (4) Approval of the Chapter 6 waiver portion of the ordinance is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

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

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

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

BACKGROUND

In November 2018, San Francisco voters approved Proposition C, a gross receipts tax to fund homeless services and housing. In July 2020, Mayor London Breed announced her Homelessness Recovery Plan, with the goal of acquiring or leasing 1,500 new units of permanent supportive housing over the next two years. According to the proposed ordinance, as of June 30, 2022, the City had acquired 2,918 new units of site-based and scattered site permanent supportive housing that were active or under contract with a non-profit provider. Also in July 2020, the California Department of Housing and Community Development (HCD) announced the Homekey program, providing grants to sustain and expand housing for homeless people impacted by COVID-19. In September 2021, HCD announced a second round of Homekey grant funding.

3055-3061 16th Street

In October 2021, the Board of Supervisors approved the City's acquisition of the Eula Hotel at 3055-3061 16th Street for $5,600,000, plus an estimated $115,000 for closing costs, and authorized the Department of Homelessness and Supportive Housing (HSH) to apply for a Homekey grant to help fund the acquisition (File 21-0940). In March 2022, HCD notified HSH of a Homekey grant award of $7,480,000. In September 2022, the Board of Supervisors approved the acceptance and expenditure of the grant (File 22-0885). The site consists of 25 units: 20 single-room occupancy (SRO) units, five units that had been used as tourist hotel rooms, and a ground floor space that had been used as a liquor store. HSH determined that the site would be used for transitional aged youth (TAY) because smaller sites are preferable for this population.

Procurement of Dolores Street Community Services

In October 2021, HSH issued a Solicitation of Information (SOI) to select property management, supportive services, and real estate development providers for three newly acquired permanent supportive housing sites, including 3061 16th Street. HSH received four responses for 3061 16th Street and an evaluation panel scored them, as shown in Exhibit 1 below.[1] Applicants were

[1] The evaluation panel consisted of a Program Specialist from the Department of Children, Youth, and their Families (DCYF), an Asset Manager from the Mayor's Office of Housing and Community Development (MOHCD), a TAY Advisory Board Coordinator from the Department of Public Health (DPH), and a Program Manager from HSH.

required to have experience providing the service for which they were applying and were assessed on the service plans, organizational experience and capacity, and budget for services.

Exhibit 1: Proposers and Scores from SOI

Proposer	Score (140 Maximum Points)
Larkin Street Youth Services/Dolores Street Community Services	115.6
Five Keys/Amin Group	113.4
HYA/Tides DISH	99.5
WeHope/Patten Foundation	71.9

Source: HSH

A joint proposal from Larkin Street Youth Services (Larkin) and Dolores Street Community Services (Dolores) was deemed the highest scoring proposal. In May 2022, HSH executed an interim lease and property management agreement with Dolores for a term of 10 months, from May 2022 through February 2023, and an amount not to exceed $2,474,468. HSH also executed a grant agreement with Larkin to provide support services for a term of three years and two months, from May 2022 through June 2025, with six one-year options to extend through June 2031, and an amount not to exceed $892,624 for the initial term. The agreement with Larkin and interim agreement with Dolores did not require Board of Supervisors approval because they did not exceed 10 years or $10 million.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would make the following actions:

1. Approve a lease and property management agreement with Dolores to lease, operate, and maintain the property at 3055-3061 16th Street, for a term of five years from approximately March 2023 through February 2028, with one five-year option to extend, for base rent of $1 per year with no increases, and for property management and operating costs paid by the City to not exceed $7,446,000 for the initial five-year term;
2. Determine in accordance with Administrative Code Section 23.33 that the below market rent payable under the lease will serve a public purpose by providing permanent supportive housing for formerly homeless and low-income households;
3. Adopt findings that the property is “exempt surplus land” under the California Surplus Land Act;
4. Exempt the property from contracting requirements under Administrative Code Chapter 6, but require compliance with the prevailing wage and apprenticeship requirements of Administrative Code Section 23.61, and local business enterprise procurement requirements of Administrative Code Section 14B;
5. Authorize the Director of Property and HSH Executive Director to make certain modifications to the agreement;
6. Ratify all prior actions taken by any City employee or official with respect to the agreement; and

7. Affirm the Planning Department's determination under the California Environmental Quality Act (CEQA) and adopt the Planning Department's findings that the agreement is consistent with the General Plan and eight priority policies of Planning Code Section 101.1.

Lease and Property Management Agreement Services

Dolores would be responsible for providing property management services at 3061 16th Street for 25 units and ground floor support spaces. As mentioned above, Larkin would provide support services at the site. According to Bryn Miller, HSH Legislative Analyst, there 20 residents at the building at the time of this report. The other five units are being used for staff space until completion of renovations on the first floor to turn the space into a service area. HSH anticipates that the building will be fully occupied following completion of the rehabilitation work, anticipated to take place between Summer 2023 and January 2024.

Property Management Services

Dolores' property management services include: (1) performing application reviews and executing lease agreements; (2) collecting rent and other housing-related payments from residents; (3) enforcing leases, which includes providing written notices and working to prevent evictions; (4) communicating with federal, state, and local agencies to process rental subsidies; (5) setting up and managing building utilities; (6) assuming responsibility for condition, operation, repair, and maintenance of the premises including janitorial services, garbage removal, pest control, facility maintenance and repair, building security, and preparing units for move-in and move-out; (7) conducting wellness checks and/or emergency safety checks; (8) providing means for residents to provide input through a complaint process and a written annual survey; (9) ensuring translation and interpreter services are available, (10) integrating harm reduction principles; (11) establishing and maintaining a written grievance procedure; (12) obtaining tenant income certifications and conducting re-certifications; (13) monthly inspections of interiors of residential units; (14) developing and maintaining a Disaster and Emergency Response Plan; (15) maintaining various insurance policies; and (16) front desk coverage as can be funded in the annual budget, as approved by HSH. The contract would fund approximately 8.5 full-time equivalent (FTE) positions.

Under the agreement, Dolores would submit an annual operating budget, an annual property management plan, and an annual preventative maintenance plan and schedule for City approval. Dolores would be able to adjust budget line items by no more than 10 percent, unless first receiving HSH pre-approval. No later than July 10 of each Operating Year, HSH would deposit 25 percent of the Annual Operating Subsidy for Dolores to pay for initial project expenses. Dolores should submit monthly invoices and any related documentation to HSH within 15 days after the month the expenditures occurred.

Real Estate Development Services

Dolores would also manage the process of property conversion to permanent supportive housing. The only anticipated improvements are to convert the ground floor liquor store into support spaces for residents, including offices, counseling rooms, and a resident lounge. Section 34 of the proposed agreement requires Dolores to competitively procure any service contracts through an undefined competitive process in compliance with Administrative Code Section 14B, which pertains to local business enterprise utilization.

HSH preliminarily estimates that the hard costs for construction are approximately $1,700,820 excluding escalation. HSH anticipates that it would enter into a separate agreement with Dolores to fund construction costs, which would not require Board of Supervisors approval if the amount were below $10 million, as currently estimated. Exhibit F requires Dolores to update the proposed rehabilitation scope of work and budget assumptions with actual proposal and bid costs and follow MOHCD's Underwriting Guidelines until superseded by HSH guidelines. The proposed agreement includes $658,857 for predevelopment work, including obtaining Planning Department entitlements, managing the procurement and overseeing architects, engineers, general contractors, and permit consultants, obtaining Department of Building Inspection permits, and overseeing tenant relocation, if necessary.

Although soft costs of approximately $658,857 for predevelopment are included in the property management agreement budget, construction costs are not. Actual construction costs will be determined after the pre-development work is complete. By waiving Chapter 6 of the City's Administrative Code, Dolores, as the City's lessee under this lease agreement, would be able to procure construction or related professional services without going through the Department of Public Works.

Service and Outcome Objectives

The proposed lease and property management agreement include the following service and outcome objectives. The service objectives state that Dolores shall:

- Ensure that each unit is cleaned and/or repaired within 21 days of a request for service;
- Collect at least 90 percent of residents' monthly rent;
- Maintain a residential occupancy rate of at least 97 percent;
- Submit an Annual Operating Budget and provide a property management plan and a preventative maintenance plan and schedule to HSH for review and approval; and
- Submit all required asset management and program reports to HSH and other funders.

The outcome objectives state that:

- 90 percent of residents will maintain their housing for a minimum of 12 months, move to other permanent housing, or be provided with more appropriate placements;
- 85 percent of lease violations will be resolved without loss of housing to residents; and
- At least 75 percent of residents will complete an annual survey and 80 percent indicate that they are satisfied or very satisfied with property management services.

Fiscal and performance monitoring will occur annually. In addition, Dolores is required to submit monthly, quarterly, annual, and ad-hoc reports to HSH. The Department of Public Health (DPH) reviewed Dolores' financial documents as part of the FY 2021-22 Citywide Fiscal and Compliance Monitoring process and identified no findings.

FISCAL IMPACT

The proposed lease and property management agreement would have a total amount not to exceed $7,446,000 over the initial five-year term. This amount includes a $750,357 reserve account to cover overages in operating costs and maintenance and repair costs, as well as a contingency of $1,489,758 (25 percent of expenses and reserves) in case overall budget costs come in higher than anticipated. The estimated sources and uses of funds are shown in Exhibit 2 below.

Exhibit 2: Estimated Sources and Uses of Funds

Sources	Start-Up & Year 1 (3/2023 – 6/2024)	Year 2 (7/2024 – 6/2025)	Year 3 (7/2025 – 6/2026)	Year 4 (7/2026 – 6/2027)	Year 5 (7/2027 – 2/2028)	Total
Homekey Grant	$1,122,639	$94,161	-	-	-	$1,216,800
Proposition C	658,687	750,687	871,201	905,245	617,674	3,803,494
Tenant Income	37,091	40,500	40,500	40,500	27,000	185,591
Subtotal	*$1,818,417*	*$885,348*	*$911,701*	*$945,745*	*$644,674*	*$5,205,885*
Reserves (14.4%)						750,357
Contingency (25%)						1,489,758
Total Sources	**$1,818,417**	**$885,348**	**$911,701**	**$945,745**	**$644,674**	**$7,446,000**

Uses	Start-Up & Year 1 (3/2023 – 6/2024)	Year 2 (7/2024 – 6/2025)	Year 3 (7/2025 – 6/2026)	Year 4 (7/2026 – 6/2027)	Year 5 (7/2027 – 2/2028)	Total
Salaries & Benefits	$758,874	$586,230	$603,817	$621,932	$427,060	$2,997,914
Operating Expenses[2]	204,045	143,978	148,117	158,381	104,635	759,155
Indirect Costs (15%)	144,438	109,531	112,790	117,047	79,754	563,560
Other Expenses[3]	711,060	45,608	46,977	48,386	33,225	885,256
Subtotal	*$1,818,417*	*$885,348*	*$911,701*	*$945,745*	*$644,674*	*$5,205,885*
Reserves (14.4%)						750,357
Contingency (25%)						1,489,758
Total Uses	**$1,818,417**	**$885,348**	**$911,701**	**$945,745**	**$644,674**	**$7,446,000**

Source: Proposed Lease and Property Management Agreement

If needed, the reserves and contingency would be funded by Proposition C funds but would require prior written HSH pre-approval and in the case of any contingency, would require adequate expenditure authority.

[2] Operating expenses include rent, utilities, office supplies and postage, maintenance supplies and repair, printing and reproduction, insurance, staff training, staff travel, rental of equipment, legal fees, household/facility supplies, taxes, licenses and fees, and consulting services.

[3] Other expenses include $658,687 in predevelopment work in Year 1 and annual asset management and audit costs. The predevelopment amount includes an additional contingency of $53,550, or nine percent of projected costs.

The reserve and contingency combine for 43 percent of estimated operating expenditures over the initial five-year term. Due to the existing 15.5 percent reserve for unanticipated expenses, the Budget and Legislative Analyst does not consider an additional 30 percent contingency to be necessary. The Budget and Legislative Analyst recommends reducing the contingency to 10 percent of estimated expenditures, or $520,588, rather than 25 percent of total projected expenditures and reserves. This would reduce the not-to-exceed amount of the proposed agreement by $969,170, for a total not to exceed amount of $6,476,830. This reduction would still allow a reserve fund of $750,357 to cover overages in operating costs and maintenance and repair costs. It would also still allow for a contingency of $53,550 that is embedded within projected predevelopment soft cost expenditures.

Total Costs

The total cost to purchase and renovate the property and provide property management and support services through February 2028 (the end of the initial term of the proposed lease and property management agreement) is approximately $16.1 million, excluding reserves and contingencies. The estimated sources and uses of funds are shown in Exhibit 3 below.

Exhibit 3: Total Estimated Sources and Uses of Funds: Acquisition, Rehabilitation, and Operating Costs for Five Years

Sources	Amount
Proposition C	$8,444,999
Homekey Grant	7,480,000
Tenant Income	185,591
Total Sources	**$16,110,590**

Uses	Amount
Building Purchase	$5,715,000
Construction[4]	1,700,820
Operating Costs	5,205,885
Interim Agreement[5]	2,144,282
Support Services[6]	1,344,603
Total Uses	**$16,110,590**

Sources: HSH, Proposed Lease and Property Management Agreement, Interim Dolores Agreement, Larkin Contract

The total annual cost for property management and support services is approximately $1.1 million, or approximately $44,414 per unit, excluding reserves and contingencies. This is

[4] Construction costs do not include an unknown amount in anticipated soft costs during the construction phase that are not funded by the proposed agreement.

[5] According to Legislative Analyst Miller, the cost of the interim agreement is $2,144,282 for the 10-month period of May 2022 through February 2023 because of one-time costs for furnishings, fixtures, and equipment (FF&E), entitlement applications, analysis and budget development for the rehabilitation scope of work, and improvements required by the Department of Building Inspection (DBI) as part of the conversion of the property.

[6] The support services contract with Larkin has total projected costs of approximately $743,853 over the initial three-year and two-month term, excluding contingencies. Assuming that annual costs of $225,000 continue in the extension term, the total costs through February 2028 are approximately $1,344,603.

approximately 124 percent higher than the amount of $19,800 per unit estimated by HSH and reported by the Budget and Legislative Analyst in September 2021 and included in the solicitation used to procure this agreement, and approximately 48 percent higher than the revised estimate provided by HSH and reported by the Budget and Legislative Analyst in September 2022. According to Legislative Analyst Miller, the amount has increased due to wage increases for frontline property management staff included within HSH's FY 2022-24 operating budget, the FY 2022-23 service model for TAY that includes wage increases for non-profit case management workers, generally higher service levels for TAY programming, three additional FTE employees, and a lack of economies of scale in a smaller building.

POLICY CONSIDERATION

Chapter 6 Waiver

Administrative Code Chapter 6 generally requires General Fund Departments to use the Department of Public Works for construction projects, which applies to the real estate development work contemplated at 3061 16th Street. Ordinance 61-19 authorized the Department of Public Works to enter and/or amend any homelessness services contract for public works without adherence to Administrative Code Chapters 6 (public works contracting), 12B (non-discrimination), 14B (local business enterprise utilization), and the Environment Code. Ordinance 61-19 expires May 5, 2024. The proposed ordinance waives Administrative Code Chapter 6, while maintaining the prevailing wage and apprenticeship requirements under Chapter 23, the Chapter 14B local business enterprise utilization provisions and contains non-discrimination provisions. Given the existing waivers for homeless projects, the primary policy change of proposed ordinance's Chapter 6 waiver is to remove Public Works from the construction process to allow the non-profit master tenant to undertake rehabilitation work for the City-owned buildings.

As noted above, Section 34 and Exhibit F of the proposed agreement require Dolores to procure development contracts using an undefined "competitive process" overseen by the Contract Monitoring Division, which ensures compliance with the City's local business enterprise requirements in Chapter 14B.

Exhibit F of the proposed agreement requires that the master tenant comply with MOHCD's Underwriting Guidelines, which provides policy guidance for real estate development project costs. Unlike an MOHCD agreement, the proposed agreement does not specify the City's participation in the procurement of contractors, such as approving solicitations, participating in selecting contractors, and providing technical assistance to assess bids. The agreement's lack of specificity regarding the City's participation in selecting real estate development contractors may present a risk to adhering to the project budget. Following a discussion with the Budget and Legislative Analyst, HSH stated that it will develop written regulations for PSH operations and real estate development, specifying the Department's role in selecting contractors.

RECOMMENDATIONS

1. Amend the proposed ordinance to reduce the not-to-exceed amount of the proposed lease and property management agreement to $6,476,830.
2. Request HSH to include a provision in the proposed lease and property management agreement detailing the Department's role in selecting real estate development contracts, including approving solicitations, participating in selecting contractors, and providing technical assistance to assess bids.
3. Approve the lease and property management agreement approval portion of the ordinance, as amended.
4. Approval of the Chapter 6 waiver portion of the ordinance is a policy matter for the Board of Supervisors.

Item 5 File 22-1158	Department: Homelessness & Supportive Housing (HSH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would approve a lease and property management agreement between the Department of Homelessness and Supportive Housing (HSH) and Five Keys Schools & Programs (Five Key) to lease, operate, and maintain the City-owned property at 835 Turk Street for a term of five years from approximately March 2023 through February 2028, and one five-year option to extend, with total costs not to exceed $16,682,200, for use as permanent supportive housing.

Key Points

- In February 2022, the Board of Supervisors approved the purchase of 835 Turk Street for use as permanent supportive housing. Under a Solicitation of Information, a proposal from Five Keys was deemed the highest scoring proposal.
- Five Keys would be responsible for providing property management services at 835 Turk Street comprised of 114 single room occupancy (SRO) units. Five Keys would also manage the process of property conversion to permanent supportive housing.

Fiscal Impact

- The proposed lease and property management agreement would have a total amount not to exceed $16,682,200 over the initial five-year term, including a reserve and contingency. Due to the existing reserve, the Budget and Legislative Analyst recommends reducing the contingency to 10 percent of estimated expenditures, or $1,221,370.

Policy Consideration

- The proposed ordinance waives Administrative Code Chapter 6 requirements. The agreement's lack of specificity regarding the City's participation in selecting real estate development contractors may present a risk to adhering to the project budget.
- The current estimated building rehabilitation budget is $17.85 million, an approximately 96% increase from the $9.1 million preliminary estimate.

Recommendations

- (1) Amend the proposed ordinance to reduce the not-to-exceed amount of the proposed lease and property management agreement to $15,121,661. (2) Request HSH to include a provision in the proposed lease and property management agreement detailing the Department's role in selecting real estate development contracts, including approving solicitations, participating in selecting contractors, and providing technical assistance to assess bids. (3) Approve the lease and property management agreement approval portion of the ordinance, as amended. (4) Approval of the Chapter 6 waiver portion of the ordinance is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

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

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

Administrative Code Sections 23.30 and 23.33 allows for leasing of City-owned property at less than market rate if doing so will serve a public purpose, subject to approval of the Board of Supervisors.

BACKGROUND

In November 2018, San Francisco voters approved Proposition C, a gross receipts tax to fund homeless services and housing. In July 2020, Mayor London Breed announced her Homelessness Recovery Plan, with the goal of acquiring and operating 1,500 new units of permanent supportive housing over the next two years. As of June 30, 2022, the City had added 2,918 new units of site-based and scattered site Permanent Supportive Housing (PSH) that were active or under contract with a non-profit provider.

835 Turk Street

In February 2022, the Board of Supervisors approved HSH's purchase of 835 Turk Street at a total acquisition cost of $25.7 million and application for a Homekey Grant to purchase the property (File 22-0015). According to HSH staff, the Department has not applied for a Homekey Grant for 835 Turk Street, at the time of this writing. HSH staff stated that this property was not competitive for Homekey but did not elaborate on why. On March 16, 2022, the City acquired 835 Turk Street to provide PSH to formerly homeless adults. 835 Turk is approximately 7,000 square feet of land with 114 single room occupancy (SRO) units, a lobby, garage, and other buildings and structures. The property is in the Fillmore District on Turk Street between Gough Street and Franklin Street. According to HSH, the building rehabilitation conducted at the site to date has been minor repairs to update the units and support initial resident occupancy.

Also in February 2022, the Board of Supervisors approved an Agreement of Purchase and Sale for the property from VSSF Associates, LLC, which included an interim property management fee not to exceed $5,000 per month, plus reasonable expenses for the property, to be paid to VSSF until the City selected an operator for the Property (File 22-0015). According to HSH staff, the Department spent $144,600, on the VSSF interim property management contract during FY 2021-22. The expenditures included property management staff, utilities, building maintenance and repair, and insurance costs.

Procurement of Five Keys Property Management and Support Services for 835 Turk Street

HSH issued a Solicitation of Information (SOI) in January 2022 to select an operator for 835 Turk Street. The services required for this SOI were support services, property management, and real estate development management. Three proposals were received for this SOI, including a proposal from Five Keys Schools and Programs. Three evaluation panelists scored the proposals amongst three categories: Plan, Organizational Experience & Capacity, and Budget. The Five Keys proposal received an average score of 102.5 out of 115 possible points and was awarded the contract. Exhibit 1 below shows the score record for each of the three proposals.

Exhibit 1: Proposers and Scores from SOI: 835 Turk Street

Proposer	Score (Maximum 115 Points)
Five Keys Schools & Programs	102.5
HomeRise	95.0
THC & TNDC	92.1

Source: HSH

Current Agreements with Five Keys

Following the 835 Turk Street SOI, HSH entered two agreements with Five Keys: (1) an interim property management agreement in May 2022 and (2) an interim support services and support services grant agreement in June 2022. Both agreements are funded by Homelessness Gross Receipt Tax (Proposition C) revenues. Exhibit 2 below provides details on the two current agreements.

Exhibit 2: Details of Current Agreements Between HSH and Five Keys, 835 Turk Street

	Duration of Term	Not-To-Exceed Amount	Term Budget	Contingency	FTEs Provided
Interim Property Management Agreement	05/16/22-02/28/23	$3,187,140	$2,655,950	$531,190 (20%)	12.25 FTE
Support Services and Support Services Grant Agreement	06/01/22-06/30/25	$2,836,435	$2,363,696	$472,739 (20%)	1.08 FTE (Y1) 6.50 FTE (Y2-Y4)

Source: Contracts Received by HSH

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance approves a lease and property management agreement with Five Keys to lease, operate, and maintain the real property and residential improvements at 835 Turk Street. The agreement includes:

- A five-year term with an option to extend for up to an additional five years and a base rent of $1.00 per year with no annual rent increases.

- A not-to-exceed amount of $16,682,200 for the City to pay the net property management and operating costs for the initial five-year term.

The proposed legislation would also make the following findings and actions:

- The below market rent payable under the agreement will serve a public purpose by providing Permanent Supportive Housing for formerly homeless and low-income households in need, in accordance with Section 23.33 of the Administrative Code;
- Adopt findings declaring that the property is "exempt surplus land" under the California Surplus Lands Act;
- Exempt the property from contracting requirements in Administrative Code, Chapter 6, but require compliance with the prevailing wage and apprenticeship requirements of Administrative Code 23.61 and competitive procurement requirements of Administrative Code Chapter 14B;
- Authorize the Director of Property and HSH Executive Director to make certain modifications to the agreement;
- Ratify all prior actions taken by any City employee or official with respect to the agreement; and
- Affirm the Planning Department's determination under the California Environmental Quality Act (CEQA) and adopt the Planning Department's findings that the agreement is consistent with the General Plan and eight priority policies of Planning Code Section 101.1.

Lease and Property Management Agreement Services

Five Keys would be responsible for providing property management services at 835 Turk Street for 114 SRO units, comprised of 112 units of permanent supportive housing, one unit to provide social services to tenants, and one property management office unit. The agreement term is from March 1, 2023- February 29, 2028, with an option to extend for up to an additional five years. As mentioned above, Five Keys would also provide support services at the site as part of a separate grant agreement. According to HSH staff, there were 97 residents at the building at the time of this report, and HSH anticipates that the building will be fully occupied by the end of 2022.

Property Management Services

Five Key's property management services include: (1) performing application reviews and executing lease agreements; (2) collecting rent and other housing-related payments from residents; (3) enforcing leases, which includes providing written notices and working to prevent evictions; (4) communicating with federal, state, and local agencies to process rental subsidies; (5) setting up and managing building utilities; (6) assuming responsibility for condition, operation, repair, and maintenance of the premises including janitorial services, garbage removal, pest control, facility maintenance and repair, building security, and preparing units for move-in and move-out; (7) conducting wellness checks and/or emergency safety checks; (8) providing means for residents to provide input through a complaint process and a written annual survey; (9) ensuring translation and interpreter services are available, (10) integrating harm reduction principles; (11) establishing and maintaining a written grievance procedure; (12) obtaining tenant income certifications and conducting re-certifications; (13) monthly inspections of interiors of residential units; (14) developing and maintaining a Disaster and Emergency Response Plan; (15) maintaining various insurance policies; and (16) front desk coverage 24 hours a day, seven days a week.

Service and Outcome Objectives

The proposed lease and property management agreement include the following service and outcome objectives. The service objectives state that Five Keys shall:

- Ensure that each unit is cleaned and/or repaired within 21 days of a request for service;
- Collect at least 90 percent of residents' monthly rent;
- Maintain a residential occupancy rate of at least 97 percent;
- Submit an Annual Operating Budget and provide a property management plan and a preventative maintenance plan and schedule to HSH for review and approval; and
- Submit all required asset management and program reports to HSH and other funders.

The outcome objectives state that:

- 90 percent of residents will maintain their housing for a minimum of 12 months, move to other permanent housing, or be provided with more appropriate placements;
- 85 percent of lease violations will be resolved without loss of housing to residents; and
- At least 75 percent of residents will complete an annual survey and 80 percent indicate that they are satisfied or very satisfied with property management services.

Fiscal and performance monitoring will occur annually. In addition, Five Keys is required to submit monthly, quarterly, annual, and ad-hoc reports to HSH. The Department of Children, Youth, and Their Families reviewed Five Keys' financial documents as part of the FY 2021-22 Citywide Fiscal and Compliance Monitoring process and identified no findings.

Real Estate Development Services

Five Keys would also manage the rehabilitation projects for 835 Turk Street. According to HSH, the anticipated scope of rehabilitation at the site includes: any improvements to the 114 residential SRO rooms to allow for a residential R-2 occupancy designation, rehabilitation of the community kitchen and lobby, elective seismic upgrades to the non-ductile concrete building, accessibility upgrades, trash collection area, a resident laundry facility addition, any necessary repairs to the elevator and other building systems, and compliance with all applicable building code requirements. Section 34 of the proposed agreement requires Five Keys to competitively procure any service contracts through an undefined competitive process in compliance with Administrative Code Section 14B, which pertains to local business enterprise utilization.

In Year 1 of the proposed agreement, $3.78 million is budgeted for predevelopment soft costs funding the procurement and overseeing of architects, engineers, general contractors, consultants, permits and utility fees, and Planning Department entitlements. According to HSH, the predevelopment soft cost budget is based on percentages of hard and softs costs.

Although predevelopment and soft costs of approximately $3,778,138 for predevelopment are included in the proposed property management agreement budget, constructions costs are not. HSH anticipates the rehabilitation project to begin in Summer 2024. At the time of this writing, the rehabilitation budget is estimated at $17.85 million for hard costs, and $3.15 million for soft costs, or $21 million total. HSH anticipates that it would enter into a separate agreement with Five Keys to fund construction costs, which would be subject to Board approval if over $10 million. By waiving Chapter 6 of the City's Administrative Code, HSH and Five Keys would be able to procure construction or related professional services without going through the Department of Public Works.

FISCAL IMPACT

The proposed ordinance would approve a total not-to-exceed amount of $16,682,000 over the initial five-year term. This amount includes a $1,686,589 reserve amount to cover overages in operating costs and maintenance repair costs funded by Proposition C Reserve funds. Excluding reserves, the total operating expenditure for this contract is $12,213,702, and the total HSH funding is $10,876,594. Operating costs are offset by $1,337,108 in estimated tenant rental income. Exhibit 3 below shows the proposed budget of this agreement for the five-year period.

Contingency

The not to exceed amount also includes $2,781,709 in contingency, or 20 percent of operating expenses and reserves.

The reserve and contingency combined are 37 percent of operating expenditures over the initial five-year term. Due to the existing 14 percent reserve for unanticipated expenses, the Budget and Legislative Analyst does not consider an additional 20 percent contingency to be necessary. The Budget and Legislative Analyst recommends reducing the contingency to 10 percent of estimated operating expenditures, or $1,221,370, rather than 20 percent of total projected expenditures and reserves. This would reduce the not-to-exceed amount of the proposed agreement to $15,121,661. This reduction would still allow a reserve fund of $1,686,589 to cover overages in operating costs and maintenance and repair costs. It would also still allow for a contingency of $343,467 that is embedded within projected predevelopment soft cost expenditures.

Exhibit 3: Fiscal Impact of Proposed Lease & Property Management Agreement

	Year 1	Year 2	Year 3	Year 4	Year 5	All Years
	3/1/2023-6/30/2024	7/1/2024-6/30/2025	7/1/2025-6/30/2026	7/1/2026-6/30/2027	7/1/2027-2/29/2028	3/1/2023-2/29/2028
Expenditures						
Salaries & Benefits	$1,206,134	$937,306	$965,425	$994,388	$682,813	$4,786,065
Operating Expenses	$582,931	$450,720	$464,241	$478,169	$328,342	$2,304,403
Indirect Cost	$268,360	$208,204	$214,450	$220,883	$151,673	$1,063,570
Other Expenses	$3,849,354	$55,064	$56,716	$58,417	$40,113	$4,059,664
Total Expenditures	*$5,906,778*	*$1,651,293*	*$1,700,832*	*$1,751,857*	*$1,202,942*	*$12,213,702*
Reserves						
Operating Reserve	$333,333	$257,500	$265,225	$273,182	$187,585	$1,316,825
Replacement Reserve	$93,600	$72,306	$74,475	$76,709	$52,674	$369,764
Total Reserves	*$426,933*	*$329,806*	*$339,700*	*$349,891*	*$240,259*	*$1,686,589*
Total Expenditures + Reserves	*$6,333,711*	*$1,981,099*	*$2,040,532*	*$2,101,748*	*$1,443,200*	*$13,900,291*
Revenues						
Prop C	$5,567,590	$1,379,133	$1,428,672	$1,479,697	$1,021,502	$10,876,594
Prop-C Reserves	$426,933	$329,806	$339,700	$349,891	$240,259	$1,686,589
Total HSH Revenues	*$5,994,523*	*$1,708,939*	*$1,768,372*	*$1,829,588*	*$1,261,761*	*$12,563,183*
Tenant Income	$339,188	$272,160	$272,160	$272,160	$181,440	$1,337,108
Total HSH + Other Revenues	*$6,333,711*	*$1,981,099*	*$2,040,532*	*$2,101,748*	*$1,443,201*	*$13,900,291*
Not-to-Exceed Contract Amount						
Agreement Funding Sources						$13,900,291
Contingency (20%)						$2,781,709
Total Not-to-Exceed Amount						$ 16,682,000

Source: Budget Information Received by HSH

Staffing

The proposed agreement funds 12.25 full-time equivalent positions. The agreement includes a property manager (1.00 FTE), janitors (1.40 FTE), maintenance staff (1.00 FTE), and residential counselors/desk clerks (8.40 FTE). The agreement also funds 0.40 FTE of the PSH Director's Salary. The remaining 0.06 FTE is divided amongst the Co-Director of Housing and the Deputy Director of Administration salaries. The number of FTEs for the proposed agreement did not increase from the interim property management agreement.

Total Costs

The total cost to purchase and renovate the property and provide property management and support services through February 2028 (the end of the initial term of the proposed lease and property management agreement) is approximately $63 million, excluding reserves and contingencies. Acquisition and rehabilitation costs of $43,551,300 amount to $388,850 per unit. The estimated use of funds is shown below in Exhibit 4.

Exhibit 4: Estimated Total Costs: 835 Turk Street

Real Estate Acquisition and Development	
Building Acquisition	$25,701,300
Building Rehabilitation	$17,850,000
Total Acquisition and Development	**$43,551,300**
Property Management Services (03/2022- 02/2028)	
VSSF	$144,600
Five Keys, Interim	$2,655,950
Five Keys, Proposed	$12,213,702
Total Property Management Services	**$15,014,252**
Support Services (06/ 2022-06/ 2025)	
Five Keys	$2,363,696
Estimated Cost for 06/2025-02/ 2028[1]	$2,044,278
Total Support Services	**$4,407,974**
Overall Total	**$62,973,526**

Sources: HSH, Proposed Lease and Property Management Agreement, Five Keys Contracts

The monthly cost for property management and support services is approximately $270,000, or approximately $2,400 per unit per month, excluding reserves and contingencies. This is approximately 45 percent higher than the amount of $1,650 per unit per month ($19,800 annually) included in the solicitation used to procure this agreement. According to HSH, this is due to wage increases for frontline staff, increases in case management staffing overall, and the additional responsibilities and costs required for a City-owned master lease model.

POLICY CONSIDERATION

Administrative Code Chapter 6 generally requires General Fund departments to use the Department of Public Works for construction projects, which applies to the real estate development work contemplated at 835 Turk Street. Ordinance 61-19 authorized the Department of Public Works to enter and/or amend any homelessness services contract for public works without adherence to Administrative Code chapters 6 (public works contracting), 12B (non-discrimination), 14B (local business enterprise utilization), and the Environment Code. Ordinance 61-19 expires May 5, 2024. The proposed ordinance waives Administrative Code Chapter 6, while maintaining the prevailing wage and apprenticeship requirements under Chapter 23, the Chapter 14B local business enterprise utilization provisions, and contains non-discrimination provisions. Given the existing waivers for homeless projects, the primary policy change of proposed ordinance's Chapter 6 waiver is to remove Public Works from the

[1] This cost was calculated by determining an average monthly cost for the current Five Keys support services agreement, then multiplying that average by the number of months remaining from the expiration of the current agreement through February 2028.

construction process to allow the non-profit master tenant to undertake rehabilitation work for the City-owned buildings.

As noted above, Section 34 and Exhibit F of the proposed agreement require the master tenant to procure development contracts using an undefined “competitive process” overseen by the Contract Monitoring Division (CMD), which ensures compliance with the City’s local business enterprise requirements in Chapter 14B.

Exhibit F of the proposed agreement requires that the master tenant comply with MOHCD’s Underwriting Guidelines, which provides policy guidance for real estate development project costs. Unlike an MOHCD agreement, the proposed agreement does not specify the City’s participation in the procurement of contractors, such as approving solicitations, participating in selecting contractors, and providing technical assistance to assess bids. The agreement’s lack of specificity regarding the City’s participation in selecting real estate development contractors may present a risk to adhering to the project budget. Following a discussion with the BLA, HSH stated that it will develop written regulations for PSH operations and real estate development, specifying the Department’s role in selecting contractors.

Building Rehabilitation

According to our report on the purchase of this property, a licensed consultant conducted a visual inspection of the building in June 2021 and November 2021 (File 22-0015). The inspection identified approximately $9.1 million in immediate repair needs, including $5.5 million in voluntary seismic upgrades. As noted in that report, this inspection did not assess the building systems, hazardous materials, or a geotechnical assessment, which would inform structural upgrades. At the time of this writing, the rehabilitation budget is estimated at $21 million, including seismic work, common space upgrades, and work to conform to building code, as discussed above. Because they will be funded by a grant agreement, construction contracts for these repairs will be subject to Board of Supervisors’ approval if they are over $10 million and will require a report from our office.

RECOMMENDATIONS

1. Reduce the not to exceed amount from $16,680,349 to $15,121,661.
2. Approve the contract approval portion of the ordinance, as amended.
3. Approval of the Chapter 6 waiver portion of the ordinance is a policy matter for the Board of Supervisors.
4. Request HSH to add a provision in the proposed lease and property management agreement detailing the Department's role in selecting real estate development contracts, including approving solicitations, participating in selecting contractors, and providing technical assistance to assess bids.

Item 6 **File 22-1170**	**Department:** Department of Homelessness and Supportive Housing (HSH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would: (a) authorize the Department of Homelessness and Supportive Housing (HSH) to execute a Standard Agreement with the California Department of Housing and Community Development (HCD) to receive $56,578,000 of Project Homekey grant funds for acquisition and initial operations of the property located at 333 12th Street for use as permanent supportive housing, (b) approve and authorize HSH to commit approximately $98,800,000 in required matching funds and five years of operating costs, (c) affirm the Planning Department's determination under the California Environmental Quality Act, and (d) adopt the Planning Department's findings of consistency with the General Plan and Planning Code.

Key Points

- In April 2022, the Board of Supervisors approved the purchase of 333 12th Street at a total not to exceed amount of $147,540,000. The acquisition will be financed using the proposed Homekey award and Proposition C homeless gross receipt tax funds.
- 333 12th Street is a newly constructed building completed in 2021 that has 200 units. The Homekey grant requires 170 of these units must be occupied by Homekey-eligible individuals of families who are or are at risk of becoming homeless.
- At present 95 units are fully or partially occupied by market rate tenants. As lease-up occurs, current residents will be asked to move into shared units.
- The total award of $56,578,000 includes $48,850,000 towards acquisition costs and $7,728,000 towards operating costs for the property. The $7,728,000 award for operating costs includes a bonus award of $1,680,000 conditioned on the property achieving 90 percent occupancy by March 2023. HSH does not anticipate meeting this target.

Fiscal Impact

- The grant agreement requires HSH to fund the remaining acquisition costs of $98,800,000 and to fund operating and service costs for five years. HSH's is procuring property management and supportive service contracts at a cost of $27,520,000 over five years, offset by an operating subsidy of $6,048,000 in the Homekey award.

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.

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

BACKGROUND

In July 2020, Mayor London Breed announced her Homelessness Recovery Plan that included the goal of acquiring or leasing 1,500 new units of Permanent Supportive Housing over the next two years. The City added 2,918 new units of permanent supportive housing that were active or under contract with a non-profit provider as of June 30, 2022 using monies made available from the state Homekey program and Proposition C, a gross receipts tax to fund homeless services and housing approved by San Francisco voters in November 2018.

In July 2020, the California Department of Housing and Community Development (HCD) announced the Homekey program, providing grants to sustain and expand housing for people experiencing homelessness impacted by COVID-19. Funding is provided jointly by the federal and state governments, and the program requires the grant recipient to provide matching funds. HSH has secured more than $212.57 million in state Homekey awards. In Round 1, HSH was awarded $76.9 million to acquire and operate two properties. In September 2021, HCD announced a second round of Homekey grant funding, which HSH received grant awards for all four applications submitted. As of the writing of this report, HSH has received state approval for round 2 grant funds totaling approximately $135.7 million to acquire, improve, and operate four sites, including 333 12th Street. HSH will be introducing accept and expend legislation for the final round 2 Homekey Grant award for 5630 Mission before the end of the calendar year.

333 12th Street

In April 2022, the Board of Supervisors approved the purchase of 333 12th Street at a total acquisition cost of $145,000,000 plus an estimated $290,000 for typical closing costs, and up to $2,250,000 in interest payable in two installments, for a total acquisition cost amount not to exceed $147,540,000 (File 22-0344).[1] The authorizing legislation also permitted HSH to apply for a Project Homekey grant to partially fund the acquisition and operation of the property. In July 2022, HCD notified HSH of a Homekey grant award of $56,578,000.

In August 2022, the City acquired 333 12th Street to provide Permanent Supportive Housing. 333 12th Street is approximately 25,533 square feet of land, with a residential building consisting of 200 multi-family units (two-, four- and five-bedroom units), office space, community lounges, a central lobby, laundry rooms, elevator, and shared outdoor space.

[1] As of August 31, 2022, the City had completed installment payments totaling $100,089,899 towards the purchase.

According to the Department of Homelessness and Supportive Housing (HSH) staff, the property is currently being used for private, market rate housing, and current tenants are on month-to-month leases. Current residents are not required to move out of the building, and tenants have been informed the building will be operated as a supportive housing site for formerly homeless families. Approximately 120 residents currently occupy 19% of total bedrooms across 95 units. As lease up of PSH units occurs, current residents will be asked to consolidate into units per the terms of their existing leases.[2] HSH will be referring families exiting homelessness into vacant units through Coordinated Entry and anticipates attrition of the current market rate tenants to vacate the remaining units.

HSH has selected Abode Services as the supportive services provider and Housing for Independent People, Inc. as the property manager through a competitive bidding process. The master lease and property management agreement is pending approval by the Board of Supervisors (File 22-1171) and the supportive services contract is not yet finalized according to HSH.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would:

- Authorize HSH to execute a Standard Agreement with HCD for a total not-to-exceed amount of $56,578,000 in Project Homekey grant funds;
- Accept and expend those funds for the acquisition of 333 12th Street for permanent supportive housing and to support its operations through June 2026;
- Authorize HSH to contribute a minimum of five years of operating costs and approximately $98,800,000 in Proposition C matching funds for acquisition of the property;
- Affirm the Planning Department's determination under the California Environmental Quality Act;
- Adopt the Planning Department's findings of consistency with the General Plan and Planning Code Section 101.1; and
- Authorize HSH to make changes to the Standard Agreement and Homekey documents that do not materially increase the obligations or liabilities of the City or materially decrease benefits to the City.

Building Occupancy

The Homekey grant agreement requires that 170 of the 200 units in the building will be occupied by Homekey-eligible households defined as individuals or families who are homeless or at risk of becoming homeless and are impacted by COVID-19 or other communicable diseases. As lease up of PSH units occurs, current residents occupying 19% of current bedrooms across 95 units will be asked to consolidate into shared units per the terms of their existing leases. HSH anticipates some

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[2] Residents typically rent individual rooms rather than the entire unit.

current residents will choose to leave the property. The grant agreement also requires that 85 of the 170 units (50 percent of Homekey-assisted units) will be occupied by homeless individuals or families.

FISCAL IMPACT

Acquisition and Operating Costs

The total award of $56,578,000 includes $48,850,000 towards acquisition costs and $7,728,000 towards operating costs for the property. The grant agreement requires HSH to fund the remaining acquisition costs of $98,800,000 and to fund operating and service costs for five years. At the time HSH applied for the Homekey grant, HSH estimated the City share of operating costs for five years to be $19,800,000 based on average costs of supportive housing sites. However, property management and supportive services costs exceed prior estimates, and the total property management and supportive service costs are expected to be $27,520,000 (see File 22-1171).

All local matching funds will be provided by existing Proposition C revenues. The estimated Proposition C funds needed for the purchase of the building and five years of operations are approximately $105.6 million.[3] Acquisition expenditures incurred in FY 2022-23 were previously appropriated in HSH's FY 2021-22 and FY 2022-23 budget.

Bonus Award

The $7,728,000 award for operating costs includes a bonus award of $1,680,000 conditioned on the property achieving 90 percent occupancy by March 2023. HSH does not anticipate meeting this target.

RECOMMENDATION

Approve the proposed resolution.

[3] The total purchase cost was $145 million, plus $290,000 in closing costs, and up to $2,250,000 in interest due to the installation payment structure of the purchase (as discussed in our report on File 22-0344), offset by the proposed Homekey award, which includes $48,850,000 for the purchase. Five years of property management costs in the pending lease and management agreement are $15,075,022, paid for by Proposition C ($6,937,809), Homekey ($6,048,000), and tenant income ($2,089,193) and $12,445,000 for supportive services.

Item 7 **File 22-1171**	**Department:** Homelessness and Supportive Housing (HSH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a lease and property management agreement between the Department of Homelessness and Supportive Housing (HSH) and Housing for Independent People, Inc. to lease, operate, and maintain the City-owned property at 333 12th Street for a term of five years from approximately February 2023 through January 2028, and one five-year option to extend, with total costs not to exceed $20,080,000, for use as permanent supportive housing.

Key Points

- In May 2022, the Board of Supervisors approved the purchase of 333 12th Street for use as permanent supportive housing for families. Under a Request for Proposals for service proposers, a joint proposal from Abode Services, as the supportive services provider, and Housing for Independent People, Inc., as the property manager, received the highest average score and was awarded the contract.
- The building has 200 family size units, 95 of which are occupied by market rate tenants.

Fiscal Impact

- The proposed lease and property management agreement would have a total amount not to exceed $20,080,000 over the initial five-year term, including a reserve and contingency. Due to the existing reserve, the Budget and Legislative Analyst recommends reducing the contingency to 10 percent of operating expenditures, or $1,507,500.

Recommendations

1. Amend the proposed resolution to reduce the not-to-exceed amount of the proposed lease and property management agreement to $18,238,407
2. Approve the resolution, as amended.

MANDATE STATEMENT

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

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

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

BACKGROUND

In November 2018, San Francisco voters approved Proposition C, a gross receipts tax to fund homeless services and housing. In July 2020, Mayor London Breed announced her Homelessness Recovery Plan, that included the goal of acquiring or leasing 1,500 new units of Permanent Supportive Housing (PSH) over the next two years. According to the proposed resolution, as of June 30, 2022, the City had added 2,918 new units of site-based and scattered site PSH that were active or under contract with a non-profit provider.

333 12th Street

In May 2022, the Board of Supervisors approved the purchase of 333 12th Street at a total acquisition cost of $145,000,000 plus an estimated $290,000 for typical closing costs, and up to $2,250,000 in interest payable in two installments, for a total acquisition cost amount not to exceed $147,540,000 (File 22-0344).

In August 2022, the City acquired 333 12th Street to provide permanent supportive sousing (PSH). 333 12th Street is approximately 25,533 square feet of land, with a residential building consisting of 200 multi-family units (two-, four- and five-bedroom units), office space, community lounges, a central lobby, laundry rooms, elevator, and shared outdoor space. The property is in the South of Market District on 12th Street between Harrison and Folsom Streets.

According to Department of Homelessness and Supportive Housing (HSH) staff, the property is currently being used for private, market rate housing, and current tenants are on month-to-month leases. HSH states that the City has issued a Notice of Non-Displacement to communicate to current residents that they are not required to move. Tenants have been informed the building will be operated as a permanent supportive housing site for formerly homeless families. Current residents typically rent individual rooms rather than the entire unit. Approximately 120 residents currently occupy 19% of total bedrooms across 95 units. As lease up of PSH units occurs, current residents will be asked to consolidate into units per the terms of their existing leases.

Homekey Grant

A proposed resolution to approve the acceptance of a $56,578,000 Homekey grant to offset the cost of the purchase and provide a partial operating subsidy to support operations through June 30, 2026 will be heard at the Budget and Finance Committee on December 7, 2022 (File 22-1170). The Homekey grant agreement requires that 170 of the 200 units in the building will be occupied by Homekey eligible households. The total award of $56,578,000 includes a bonus award of $1,680,000 conditioned on the property achieving 90 percent occupancy by March 2023, which will not be achieved.

Procurement

In June 2022, HSH issued a Request for Proposal (RFP) to select non-profit providers for property management and supportive services at 333 12th Street.[1] Two proposals were received for this RFP, including a proposal from Abode Services and Housing for Independent People, Inc.[2] Five evaluation panelists scored the proposals divided amongst three categories: (1) Project Approach, (2) Organizational Capacity, Staffing and Relevant Experience, and (3) Fiscal Capacity/Budget. The proposal from Abode Services, as the supportive services provider, and Housing for Independent People, Inc., as the property manager, received the highest average score of 88 out of 100 possible points and was awarded the contract.[3]

According to HSH, there is no interim property management agreement because the site is not yet operating as permanent supportive housing. As part of the sale of the property to the City, the City took over the prior owner's property management agreement with Cushman & Wakefield until the proposed lease and property management agreement could be executed. If the proposed lease and property management agreement with Housing for Independent People, Inc. is approved, HSH will end the existing agreement to coincide with the start of the lease and property management agreement.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves a lease and property management agreement with Housing for Independent People, Inc. to provide onsite property management and operations services at 333 12th Street. The agreement includes:

- A five-year term with an option to extend for up to an additional five years and base rent of $1.00 per year with no annual rent increases.

[1] The lease and operating agreements for 3061 16th Street, 5630 Mission Stret, and 1321 Mission Street utilized a Solicitation of Information to procure service providers. According to HSH, the Department intends to use Requests for Proposals to procure master lease and property management agreements going forward.

[2] Abode is the parent entity of Housing for Independent People, Inc.

[3] The proposals were evaluated by two Program Support Analysts at HSH, a Senior Community Development Specialist at the Mayor's Office of Housing and Community Development, a Principal Administrative Analyst at the Mayor's Office, and the Director of Housing at HSH.

- A not to exceed amount of $20,080,000 for the City to pay the net property management and operating costs.

The proposed legislation would also make the following findings and actions:

- The below market rent payable under the agreement will serve a public purpose by providing Permanent Supportive Housing for formerly homeless and low-income households in need, in accordance with Section 23.33 of the Administrative Code.
- Adopt findings declaring that the property is "exempt surplus land" under the California Surplus Lands Act.
- Affirm the Planning Department's determination under the California Environmental Quality Act (CEQA).
- Adopt the Planning Department's findings of consistency with the General Plan and Planning Code Section 101.1.
- Authorize the Director of Property and the Executive Director of HSH to execute the agreement, make certain modifications, and take certain actions in furtherance of the agreement and resolution.

Lease and Property Management Agreement Services

Housing for Independent People, Inc. would be responsible for providing property management services at 333 12th Street for 200 units consisting of 195 multi-family units and five units to be used by staff to live on-site as well as for support services. According to HSH, because the building was not built to support and accommodate formerly homeless families, the five units are needed to be used as office space to locate the support service staff. Residents will be referred by HSH's Coordinated Entry program. According to HSH, supportive services will be provided by Abode (the parent entity of Housing for Independent People, Inc.) under a separate agreement. However, HSH states this agreement has not been finalized yet because the site is slated to begin operating in February 2023. The source of funding for the agreement will be Proposition C Our City, Our Home family housing funds, previously appropriated within HSH's budget.

As detailed in the proposed lease and property management agreement, Housing for Independent People, Inc. will provide ongoing management, maintenance, and operation of the property as Permanent Supportive Housing. This includes the following activities: conducting wellness checks and/or emergency safety checks, performing application reviews and executing lease agreements, enforcing leases, which includes providing written notices and working to prevent evictions, collecting rent and other housing-related payments from residents, maintaining the building's common areas and turning over units, ensure that translation and interpreter services are available to residents as needed, conducting preventative maintenance, maintaining a residential occupancy rate of at least 95 percent, working with residents to resolve lease violations, and conducting general maintenance and repairs, amongst other activities.

Funding Requirements

Under the proposed agreement, Housing for Independent People, Inc. will submit an annual property management plan, annual operating budget, and an annual preventative maintenance plan and schedule for City approval. Housing for Independent People, Inc. would be able to adjust budget line items in the annual operating budget by no more than 10 percent, unless first receiving HSH pre-approval. No later than July 10 of each Operating Year, HSH would deposit 20 percent of the Annual Operating Subsidy for Housing for Independent People, Inc. to pay for project expenses. Housing for Independent People, Inc. will submit monthly invoices and related documentation to HSH within 15 days after the month to reimburse operating expenditures from the previous month.

Project Reserves

The Project Reserves are detailed in Exhibit E, Annual Operating Budget. The City would hold any required project reserves and Housing for Independent People, Inc. must receive written approval from the City before incurring any costs against reserves listed. The City would approve uses of the reserves in two general categories: (1) operating reserve and (2) replacement reserve. The operating reserve may be used to alleviate cash shortages from inability to collect rent, increases to utility costs, unbudgeted maintenance expenses, abnormally high vacancies, and other project expenses. The replacement reserve may be used for relocation costs because of an unanticipated emergency, unusual replacement and repairs, or the replacement of furniture, fixtures, or equipment required. The operating reserve was sized to account for: (1) pending final quotes for property insurance; and (2) an estimated under-collection of rent payments compared to total occupancy. The replacement reserve is sized to allow for five percent of the units to be turned over per year and for unexpected major systems repairs. According to Exhibit E, the reserve amounts total $1,655,905 and is prorated annually over the five -year term. According to HSH staff, the reserve amount is based on review of the budget in comparison to other similar sized buildings.

Service and Outcome Objectives

The proposed lease and property management agreement include the following service and outcome objectives for Housing for Independent People, Inc.:

- Ensure that each unit, upon turnover, is cleaned and/or repaired within 21 days;
- Collect at least 90 percent of resident's monthly rent;
- Maintain a residential occupancy rate of at least 95 percent;
- Submit an Annual Operating Budget and provide a property management plan and a preventative maintenance plan and schedule to HSH for review and approval; and
- Submit all required asset management and program reports on a timely basis to HSH and other funders

Outcome objectives include the following:

- 90 percent of residents will maintain their housing for a minimum of 12 months, move to other PSH, or be provided with more appropriate placements;
- 85 percent of lease violations will be resolved without loss of housing to residents; and

- At least 75 percent of residents will complete an annual satisfaction survey, and of those responsive residents, 80 percent will indicate that they are satisfied or very satisfied with property management services

Performance and fiscal monitoring will occur annually. In addition, Housing for Independent People, Inc. is required to submit monthly, quarterly, annual, and ad-hoc reports to HSH.

FISCAL IMPACT

The proposed resolution would approve a total not to exceed amount of $20,080,000. As Exhibit 1 shows below, the term budget totals $15,075,002. The not-to-exceed amount includes $1,655,905 in reserves and $3,349,094 in contingency funding at a rate of approximately 20 percent of the term budget and the reserves.

Exhibit 1 below shows the proposed budget of this resolution for the five-year period.

Exhibit 1: Fiscal Impact of Proposed Resolution

	Start-up & Year 1 (2/1/2023-6/30/2024)	Year 2 (7/1/2024-6/30/2025)	Year 3 (7/1/2025-6/30/2026)	Year 4 (7/1/2026-6/30/2027)	Year 5 (7/1/2027-1/31/2028)	All Years (2/1/2023-1/31/2028)
Expenditures						
Salaries & Benefits	$1,388,694	$1,009,662	$1,039,952	$1,071,151	$643,583	$5,153,043
Operating Expenses	1,762,073	1,332,287	1,371,193	1,694,226	1,032,085	7,191,863
Indirect Cost	472,615	351,292	361,672	414,807	251,350	1,851,736
Other Expenses[4]	201,355	152,969	158,131	162,875	91,602	766,933
Capital Expenditure[5]	-		36,050	37,132	38,245	111,427
Total Expenditures	*$3,824,738*	*$2,846,210*	*$2,966,998*	*$3,380,190*	*$2,056,866*	*$15,075,002*
Reserves						
Operating Reserve	332,917	242,050	249,312	256,791	154,288	1,235,358
Replacement Reserve	113,333	82,400	84,872	87,418	52,524	420,547
Total Reserves	*$446,250*	*$324,450*	*$334,184*	*$344,209*	*$206,812*	*$1,655,905*
Total Expenditures + Reserves	**$4,270,988**	**$3,170,660**	**$3,301,182**	**$3,724,399**	**$2,263,678**	**$16,730,907**
Revenues						
State Project Homekey	3,433,508	2,372,360	242,132			6,048,000
Proposition C			2,251,016	2,906,340	1,780,453	6,937,809
Subtotal, Operating Revenues	*$3,433,508*	*$2,372,360*	*$2,493,148*	*$2,906,340*	*$1,780,453*	*$12,985,809*
Prop C Reserve Funding	446,250	324,450	334,184	344,209	206,812	1,655,905
Total HSH Revenues	**$3,879,758**	**$2,696,810**	**$2,827,332**	**$3,250,549**	**$1,987,265**	**$14,641,714**
Tenant Income	391,230	473,850	473,850	473,850	276,413	2,089,193
Total HSH + Other Revenues	**$4,270,988**	**$3,170,660**	**$3,301,182**	**$3,724,399**	**$2,263,678**	**$16,730,906**
Not-to-Exceed Contract Amount						
Agreement Funding Sources						$16,730,906
Contingency (20%)						$3,349,094
Total Not-to-Exceed Amount						**$20,080,000**

Source: Exhibit E of Proposed Lease Agreement

Sources of Funding

Operating costs totaling $15,075,002 are funded by the proposed Homekey grant ($6,048,000), Proposition C Homelessness Gross Receipt Tax revenues ($6,937,809), and tenant income ($2,089,193). According to HSH staff, the operating and replacement reserves ($1,655,905) will be funded by Proposition C housing funds. HSH states that in addition to the one-time Homekey operating funds, the City's subsidy including the reserves are budgeted in HSH's housing budget supported by Proposition C Homelessness Gross Receipts tax revenue. If needed, the contingency would also be funded by Proposition C funds.

Staffing

The proposed agreement funds 11.50 full-time equivalent positions for property management, desk clerks, maintenance technicians and janitors. In addition, the agreement provides funding

[4] These costs are for Bookkeeping/Accounting services, Asset Management, audit services, and Contracted Security/Desk Clerk coverage. These costs are separated out because they are not subject to additional indirect cost allocation to the provider.

[5] According to HSH, this is the cost of turning over occupied units as those residents leave through attrition. HSH states this will exceed the expected 5 percent of units turning over that is covered by the reserves because there are currently 95 occupied units.

for contracted security desk services, bookkeeping/accounting services, asset management, and audit services.

Contingency

The reserve and contingency are 33 percent of estimated expenditures over the initial five-year term. Due to the existing 11 percent reserve for unanticipated expenses, the Budget and Legislative Analyst does not consider an additional 20 percent contingency to be necessary and recommends reducing the contingency to 10 percent of operating expenditures, or $1,507,500, rather than 20 percent of total projected expenditures and reserves. This would reduce the not-to-exceed amount of the proposed agreement to $18,238,407. This reduction would still allow a reserve fund of $1,655,905 to cover overages in operating costs and maintenance and repair costs.

Total Costs

The total cost to purchase the property and provide property management and support services through January 2028 (the end of the initial term of the proposed lease and property management agreement) is approximately $175 million, excluding reserves and contingencies. The estimated sources and uses of funds are shown in Exhibit 2 below.

Exhibit 2: Total Estimated Sources and Uses of Funds for Acquisition and Five Years of Operation

Sources	Amount
Proposition C	116,392,809
Homekey Grant	56,578,000
Tenant Income	2,089,193
Total Sources	**$175,060,002**

Uses	Amount
Building Purchase	$147,540,000
Rehabilitation	0
Property Management	15,075,002
Support Services	12,445,000
Total Uses	**$175,060,002**

Sources: HSH, Proposed Lease and Property Management Agreement

The total annual cost for property management and support services is approximately $5,335,910, or approximately $26,680 per unit, in FY 2024-25 excluding reserves and contingencies. This is approximately 34 percent higher than the $19,800 per unit estimated by HSH and reported by the Budget and Legislative Analyst at the time of the acquisition in April 2022 but is consistent with the $26,700 per unit estimate included in the solicitation used to procure this agreement. According to HSH, the increase in service costs is due to higher wages for service providers and higher service levels for a large building of formerly homeless families.

The RFP states that the property management budget proposals should be within two percent of the average $1,105 per unit per month. The proposed property management agreement is based on actual cost assumptions is $1,277 per unit per month,[6] or 15 percent higher than the budget in the RFP. According to HSH, the property management budget is higher than in the RFP because of higher than expected insurance requirements requested by the City.

RECOMMENDATIONS

1. Amend the proposed resolution to reduce the not-to-exceed amount of the proposed lease and property management agreement to $18,238,407.
2. Approve resolution, as amended.

[6] On average, during Years 2 – 4 of the agreement (the periods with twelve months).