CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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February 22, 2019

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: February 27, 2019 Budget and Finance Committee Meeting

TABLE OF CONTENTS

TABLE OF CONTENTS (continued)

Item 1 **File 19-0071** *(Continued from February 13, 2019)*	**Department:** Department of Public Health (DPH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve Amendment No. 1 to the contract between the Department of Public Health (DPH) and Westside Community Mental Health Center, Inc. for behavioral health services, increasing the contract amount by $17,991,918, for a total not to exceed $23,347,118, and extending the term by three years and six months, from June 30, 2019 through December 31, 2022.

Key Points

- DPH had a prior contract with Westside Community Health Center, Inc. (Westside) from July 1, 2010 through June 30, 2018, to provide mental health and substance use disorder services, including mental health outpatient and crisis clinics, intensive case management (Assertive Community Treatment), child and adolescent outpatient services, and other mental health and outpatient substance use services. DPH awarded a new contract to Westside for one year from July 2018 to June 2019 in response to a Request for Proposals (RFP) to provide mental health outpatient and crisis clinic services. The new one-year contract also provided for intensive case management (Assertive Community Treatment) which Westside had provided under the prior contract but which were not part of the 2017 RFP.

Fiscal Impact

- The proposed resolution would increase the not-to-exceed amount of the contract by $17,991,918, for a total not to exceed $23,347,118. Approximately $8,642,629 would be funded by the general fund, approximately $12,203,011 would be funded by federal and state sources, and the remaining $2,501,477 would be a contingency, paid for by various sources as needed.

Policy Consideration

- All the responders to the 2017 RFP were awarded contracts. Westside ranked #13 of 14 proposers for general mental health outpatient services and #7 of 7 proposers for specialized mental health outpatient services. According to DPH, although Westside's overall performance score under the prior contract in FY 2014-15 and FY 2015-16 was less than satisfactory, individual program scores for Westside's mental health outpatient, crisis clinic, and intensive case management were satisfactory or higher in FY 2014-15, FY 2015-16, and FY 2016-17.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

BACKGROUND

The Department of Public Health (DPH) issued a Request for Proposals (RFP) in August 2017 to solicit providers for mental health outpatient programs for adults and older adults in three service categories, including Regular Mental Health Outpatient Programs and Specialized Mental Health Outpatient Programs. DPH received 21 proposals between these two service categories. A panel reviewed the proposals and scored them as shown in Table 1 below.

Table 1: Proposals and Scores in RFP

General	**Mental Health Outpatient Programs**	
Rank	Proposer	Score (out of 220)
1	San Francisco AIDS Foundation	210.25
2	Richmond Area Multi-Services (RAMS)	209.80
3	UCSF Alliance Health Project	204.50
4	Instituto Familiar de la Raza	204.00
5	Swords to Plowshares	203.25
6	Hyde Street Community Services	199.00
7	Episcopal Community Services of San Francisco	193.80
8	St. James Infirmary	190.75
9	Bayview Hunters Point Foundation for Community Improvement	187.60
10	Jewish Family and Children's Services	185.40
11	Community Awareness & Treatment Services (CATS)	182.60
12	Health RIGHT 360	175.00
13	Westside Community Mental Health Center, Inc.	162.75
14	BAART Community Healthcare	154.00
Specialized Mental Health Outpatient Services		
Rank	Proposer	Score (out of 220)
1	Richmond Area Multi-Services (RAMS)	215.00
2	UCSF Citywide Case Management	214.40
3	Swords to Plowshares	206.00
4	Family Services Agency- COVER MH Outpatient Program for Homeless Veterans	202.20
5	Family Services Agency- Deaf and Hard of Hearing MH Outpatient Programming	200.40
6	Current Senior Center	194.20
7	Westside Community Mental Health Center, Inc.	183.40

According to Ms. Jacquie Hale, DPH Office of Contracts Management and Compliance Manager, all responders to the RFP were awarded contracts and there was no minimum score required.

Prior Contract between DPH and Westside Community Mental Health

DPH had a prior contract with Westside Community Health Center, Inc. (Westside) from July 1, 2010 through June 30, 2018, to provide mental health and substance use disorder services, including mental health outpatient and crisis clinics, intensive case management (Assertive Community Treatment), child and adolescent outpatient services, and other mental health and outpatient substance use services.

DPH awarded a new contract to Westside for one year from July 2018 to June 2019 to provide (1) mental health outpatient services in response to the 2017 RFP for general mental health services, and (2) mental health crisis clinic services in response to the 2017 RFP for specialized mental health outpatient services. The new one-year contract between Westside and DPH also provided for intensive case management services (Assertive Community Treatment), and child and adolescent outpatient services which Westside had provided under the prior contract but which were not part of the 2017 RFP for general and specialized mental health outpatient services.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Amendment No. 1 to the contract between DPH and Westside, increasing the amount by $17,991,918, from $5,355,200 to $23,347,118, and extending the term through December 31, 2022. The proposed Amendment No. 1 would allow for a total contract term of four years and six months from July 1, 2018 through December 31, 2022, which is consistent with the original RFP, which provided for a term of up to 10 years.

As noted in Table 2 below, Westside would provide mental health outpatient, crisis clinic, and intensive case management (Assertive Community Treatment) services in FY 2018-19 to FY 2022-23 (ending December 31, 2022).

FISCAL IMPACT

The proposed resolution would increase the not-to-exceed amount of the contract by $17,991,918, for a total not to exceed $23,347,118. Funding sources are the City's General Fund ($8,642,629) and federal and state funds ($12,203,011); the remaining $2,501,447 would be a contingency, paid for by various sources if needed. The sources and uses of funds are shown in Table 2 below.

Table 2: Sources and Uses of Funds in Westside Contract

Sources	**FY 2018-19**	**FY 2019-20**	**FY 2020-21**	**FY 2021-22**	**FY 2022-23**	**Total**
Federal and State Funds						
MediCal Federal Financial Participation	$1,494,260	$1,494,260	$1,494,260	$1,494,260	$747,130	$6,724,170
State Adult 1991 Mental Health Realignment (Adults)	1,168,330	1,168,330	1,168,330	1,168,330	584,165	5,257,485
State Adult 1991 Mental Health Realignment (Children)	36,264	-	-	-	-	36,264
MH Adult Medicare	32,760	32,760	32,760	32,760	16,380	147,420
MH MHSA (Prevention and Early Intervention)	37,672	-	-	-	-	37,672
Federal and State Funds Subtotal	*$2,769,286*	*$2,695,350*	*$2,695,350*	*$2,695,350*	*$1,347,675*	*$12,203,011*
San Francisco General Fund						
County General Funds (Adults)	$1,641,146	$1,749,558	$1,860,681	$1,974,582	$1,045,665	$8,271,632
County General Funds (Children)	370,997	-	-	-	-	370,997
SF General Fund Subtotal	*$2,012,143*	*$1,749,558*	*$1,860,681*	*$1,974,582*	*$1,045,665*	*$8,642,629*
Total Sources of Funds	$4,781,429	$4,444,908	$4,556,031	$4,669,932	$2,393,340	$20,845,640
Contingency (12%)						2,501,477
Total Not-to-Exceed Amount						**$23,347,117**

Uses	**FY 2018-19**	**FY 2019-20**	**FY 2020-21**	**FY 2021-22**	**FY 2022-23**	**Total**
Westside ISFO Outpatient	$1,397,884	$1,397,884	$1,397,884	$1,397,884	$698,942	$6,290,478
Westside Crisis Clinic	1,532,844	1,532,844	1,532,844	1,532,844	766,422	6,897,798
Westside IFSO Assertive Community Treatment	1,300,000	1,300,000	1,300,000	1,300,000	650,000	5,850,000
Child and Adolescent Outpatient	444,933	-	-	-	-	444,933
Cost of Doing Business	105,768	214,180	325,303	439,204	277,976	1,362,431
Subtotal	*$4,781,429*	*$4,444,908*	*$4,556,031*	*$4,669,932*	*$2,393,340*	*$20,845,640*
Contingency (12%)						2,501,477
Total Not-to-Exceed Amount						**$23,347,117**

The contract budget provides for an annual Cost of Doing Business for projected cost escalation, which is subject to appropriation by the Board of Supervisors in the annual budget. The funding escalation of 2.5 percent was previously appropriated by the Board of Supervisors in the FY 2019-20 budget.

POLICY CONSIDERATION

As noted above, all the responders to the RFP for mental health outpatient services were awarded contracts by DPH. Westside ranked #13 of 14 proposers for general mental health outpatient services and #7 of 7 proposers for specialized mental health outpatient services.

According to the Budget and Legislative Analyst's 2018 *Performance Audit of the Department of Public Health Behavioral Health Services,* Westside's overall performance monitoring score in FY 2014-15 and FY 2015-16 under the prior contract with DPH was less than satisfactory, indicating a need for improvement. According to Ms. Michelle Ruggels, Director of the DPH Business Office, a review of the monitoring report scores by each of Westside's four individual programs indicates that the mental health outpatient and crisis clinics met standards in FY 2014-15, FY 2015-16 and in FY 2016-17 performed at a commendable/exceeds standards level.

The Westside Assertive Community Treatment program achieved a score equal to acceptable/met standards in FY 2016-17. However, the Westside Assertive Community Treatment program has not consistently met their budgeted level of deliverables. According to Ms. Ruggels, the contract reduced the number of Assertive Community Treatment program clients in FY 2018-19 to better realign the client caseload to reflect capacity.

According to Ms. Ruggels, the Department awarded the proposed contract to Westside due to the satisfactory individual program monitoring scores for the mental health outpatient, crisis clinic, and Assertive Community Treatment programs.

RECOMMENDATION

Approve the proposed resolution.

Items 2 and 3 **Files 19-0090 and 19-0091** *(Continued from February 20, 2019)*	**Department:** Treasurer and Tax Collector

EXECUTIVE SUMMARY

Legislative Objectives

- File 19-0090: The proposed ordinance would authorize the Treasurer and Tax Collector, in the event of a partial shutdown of the United States government between February 2019 and December 2019, to (a) secure a short-term line of credit in an amount not-to-exceed $20,000,000, or (b) partner with one or more financial institutions for the purpose of providing short-term emergency unsecured individual loans for federal employees residing in San Francisco or working at the San Francisco International Airport.
- File 19-0091: The proposed ordinance would (1) appropriate $20,000,000 of short-term loan proceeds to the Treasurer and Tax Collector to administer individual loans for eligible Federal employees impacted by a future shutdown of the Federal Government, (2) appropriate $500,000 in interest earnings to cover associated costs of administering the loans, such as interest for the loans and expected losses from nonpayment of the loans by borrowers; and (3) authorize repayment of the short-term loan obtained from the line of credit by utilizing prepayment of individual loans to federal employees.

Key Points

- As a result of the partial federal government shut down that began on December 21, 2018, 800,000 federal workers across nine agencies were furloughed or forced to work without paychecks for 35 days.
- Approximately 3,300 federal workers impacted by the partial government shutdown live in San Francisco or work at the Airport, and missed two paychecks during the shutdown.

Fiscal Impact

- The Treasurer and Tax Collector plans to secure a line of credit for $20,000,000 from a financial institution for the loan program, the proceeds of which would be used to make loans ranging from $1,000 to $6,000 for eligible federal workers who might be furloughed or required to work without pay in the event of a partial government shutdown between February 2019 and December 2019. An additional $500,000 in interest earnings from the City's investments would be used to pay associated costs.
- The Treasurer and Tax Collector will temporarily redirect up to 12 staff to assist with intake and loan processing. The Treasurer and Tax Collector may request the assistance of additional City staff during the intake period. In addition to the upfront staffing needs, the Treasurer and Tax Collector estimates that the administration of the loan program will require up to 1.00 FTE Accountant III position (1654) for one year. If the Treasurer and Tax Collector need more funds to support this position, it will require approval from the Board of Supervisors.

Recommendation

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

MANDATE STATEMENT

City Charter 9.113 states that the Board of Supervisors shall have that power to borrow money by short-term debt instruments in the manner provided by state law or City ordinance.

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

On December 21, 2018, the federal government partially shut down after congressional and White House officials failed to pass a spending bill. Over 800,000 federal workers across nine agencies were furloughed or forced to work without paychecks for 35 days. The government reopened on January 25, 2019 with the signing of a stop gap funding bill, set to expire on February 15, 2019.

According to an analysis by the Controller's Office, there are approximately 3,300 federal employees living in San Francisco or working at SFO who missed two paychecks due to the recent federal shutdown. Of those, approximately 2,000 reside in San Francisco, and additional 1,300 work at the San Francisco International Airport.

DETAILS OF PROPOSED LEGISLATION

File 19-0090: The proposed ordinance would authorize the Treasurer and Tax Collector, in the event of a partial shutdown of the United States government between February 2019 and December 2019, to (a) secure a short-term line of credit in an amount not-to-exceed $20,000,000, or (b) partner with one or more financial institutions for the purpose of providing short-term emergency unsecured individual loans for federal employees residing in San Francisco or working at the San Francisco International Airport.

File 19-0091: The proposed ordinance would (1) appropriate $20,000,000 of short-term loan proceeds to the Treasurer and Tax Collector to administer individual loans for eligible Federal employees impacted by a future shutdown of the Federal Government, (2) appropriate $500,000 in interest earnings to cover associated costs of administering the loans, such as interest for the loans and expected losses from nonpayment of the loans by borrowers; and (3) authorize repayment of the short-term loan obtained from the line of credit by utilizing prepayment of individual loans to federal employees.

Loan Program

The loan program, administered by the Treasurer and Tax Collector, will be for federal workers furloughed or required to work without pay between February 2019 and December 2019. According to Ms. Amanda Fried, Chief of Policy and Communications for the Treasurer and Tax Collector's Office, the exact dates that the Treasurer and Tax Collector will secure a line of credit and hold the funds are based on the duration of the potential shutdown. The City would offer a one-time interest-free loan of an amount between $1,000 and $6,000 available to individual employees impacted by the shutdown.[1] For ease of administration, the loan amount will be in increments of $1,000. The individual employee will choose the loan amount.

According to Ms. Fried, an online application will be available once the Board of Supervisors approves an authorizing ordinance. The online application will prompt employees to upload proof of residency, federal employment status, furlough status, and other loan requirements. Once an application is submitted, applicants will make an appointment to be screened at either City Hall or the San Francisco International Airport. If approved, federal employees will receive their loans through direct deposit into their bank account. The loan must be repaid within 60 days of the conclusion of the shutdown.

FISCAL IMPACT

The proposed ordinance would appropriate $20,000,000 for individual loans, and an additional $500,000 in interest earnings on the City's investments, for a total of $20,500,000.

The Treasurer and Tax Collector plans to secure a line of credit for $20,000,000 from a financial institution for the loan program. The Department has not yet identified a financial institution. The remaining $500,000 will come from interest earnings on the City's investments attributable to the General Fund. According to Ms. Fried, the estimated interest earnings of the City's general fund investments in FY 2018-19 will be more than $35 million. The $500,000 will cover associated costs of administering the loans, such as interest for the loans and expected losses from nonpayment of the loans by borrowers.

According to Ms. Fried, the Treasurer and Tax Collector will temporarily redirect up to 12 staff to assist with intake and loan processing. The Treasurer and Tax Collector may request the assistance of additional City staff during the intake period. According to Ms. Fried, the department expects to be able to pay for the staff time with current budget allocations. In addition to the upfront staffing needs, the Treasurer and Tax Collector estimates that the administration of the loan program will require up to 1.00 FTE Accountant III position (1654) for one year. If the Treasurer and Tax Collector need more funds to support this position, it will require approval from the Board of Supervisors.

The online application portal will not require extra costs as it is within the existing contract of the current vendor.

RECOMMENDATION

Approval is a policy matter for the Board of Supervisors.

[1] The range is based on the estimated average weekly wage of federal employees. Federal government workers who are not impacted by the shutdown will not be eligible.

Item 6 File 19-0154	Department: Department of Public Health (DPH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would allow the Department of Public Health (DPH) to accept and expend a three-year grant of $271,200 from the California Department of Rehabilitation with a required match of $2,456,625 for the State Vocational Rehabilitation Services Program for the period of July 1, 2019 through June 30, 2022.

Key Points

- The purpose of the State Vocational Rehabilitation Services Program is to provide vocational and situational assessment, work adjustment, and employment services for adults with severe mental illness. The Department of Rehabilitation directly funds the four nonprofit organizations to provide services and 5.75 positions in in the Department of Rehabilitation's Rehabilitation Team unit and Case Services to support the program.
- The grant funds 0.59 Health Coordinator III position in the DPH budget.

Fiscal Impact

- The total grant budget for the State Vocational Rehabilitation Services Program over three years is $11,533,452, which includes (a) $11,262,252 in direct Department of Rehabilitation funds; and (b) $271,200 in grant funds to DPH (the subject of this resolution).
- The grant requires DPH matching funds of $2,456,625, of which approximately 59 percent comes from the General Fund, and approximately 41 percent comes from the State's Mental Health Services Act (Proposition 63) funds. Sufficient funding for the grant match was appropriated in the FY 2018-19 and FY 2019-20 DPH budget.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

BACKGROUND

Since 1997, the San Francisco Department of Public Health (DPH) has been receiving grant funds from the California Department of Rehabilitation to provide vocational assessment and employment services, including employment preparation, job development, placement, and job retention services for adults with severe mental illness. In September 2016, the Board of Supervisors retroactively approved the most recent grant agreement with the Department of Rehabilitation, providing $271,200 over three years, from July 2016 through June 2019 (File 16-0897, Resolution 394-16). The grant reimburses DPH for 0.59 Full-Time Equivalent (FTE) Health Coordinator III position.

In addition to the grant, the Department of Rehabilitation directly funds the following four contractors[1] to provide these services to San Francisco residents:

- Richmond Area Multi-Services, Inc. (RAMS), which provides vocational assessment, employment services, and job coaching;
- Citywide Case Management Forensics, which provides vocational assessment and employment services;
- Caminar, Inc., which provides employment services; and
- Occupational Therapy Training Program Groups-San Francisco (OTTP-SF), which provides vocational assessment and employment services.

Additionally, the Department of Rehabilitation directly funds 5.75 FTEs in the Department of Rehabilitation's Rehabilitation Team unit and Case Services. The Rehabilitation Team Unit determines eligibility and functional capacities, assists in the development of individualized plans for employment, and provides vocational counseling and services coordination. Case Services pays for certain client expenses to provide eligible clients with tools, clothing, and any needed materials while in training.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize DPH to accept and expend Department of Rehabilitation grant funds of $271,200 for the three-year period of July 1, 2019 through June

[1] According to Mr. Juan Ibarra, DPH Vocational Services Program Manager, the Department of Rehabilitation previously also funded Toolworks, which provided employment services. Toolworks is no longer operating under this program, and its services have been absorbed by Occupational Therapy Training Program Groups-San Francisco.

30, 2022. The proposed grant funds pay for 0.59 FTE position in DPH to coordinate vocational programs and employment services for clients within Community Behavioral Health Services.

FISCAL IMPACT

The State Vocational Rehabilitation Services grant budget over three years is $11,533,452, shown in Table 1 below, which includes

(a) $11,262,252 in direct Department of Rehabilitation funding; and

(b) $271,200 in grant funds to DPH (the subject of this resolution)

The proposed grant requires $2,456,625 in matching funds from DPH, equal to 21.3 percent of Department of Rehabilitation funding of $11,533,452, as shown in Table 1 below.

Table 1: State Vocational Rehabilitation Services Program Budget and Required DPH Match

Program	FY 2019-20	FY 2020-21	FY 2021-22	Total
Department of Rehabilitation				
Rehabilitation Team Unit	$634,668	$634,668	$634,668	$1,904,004
Case Services	693,645	693,645	693,645	2,080,935
Richmond Area Multi-Services	1,021,118	1,021,118	1,021,118	3,063,354
Citywide Case Management Forensics	630,343	630,343	630,343	1,891,029
Caminar	416,788	416,788	416,788	1,250,364
Occupational Therapy Training Program	357,522	357,522	357,522	1,072,566
Direct Department of Rehabilitation Funds	$3,754,084	$3,754,084	$3,754,084	$11,262,252
State Grant to DPH	90,400	90,400	90,400	271,200
Total Department of Rehabilitation Funds	$3,844,484	$3,844,484	$3,844,484	$11,533,452

According to Mr. Ibarra, of the $2,456,625 in DPH required matching funds, approximately 59 percent comes from the General Fund, and approximately 41 percent comes from the State's Mental Health Services Act (Proposition 63) funds. Sufficient funding is provided in the FY 2018-19 and FY 2019-20 DPH budgets.

RECOMMENDATION

Approve the proposed resolution.

Items 9 and 10 **Files 19-0146 and 19-0144**	**Department:** Mayor's Office of Housing

EXECUTIVE SUMMARY

Legislative Objectives

File 19-0146 is a resolution approving a loan by MOHCD to 88 Broadway Family LP, a California limited partnership, of up to $31,020,739 for a term of 57 years to develop 100 percent affordable housing. **File 19-0144** is a resolution approving a loan by the Mayor's Office of Housing and Community Development (MOHCD) to 735 Davis Senior LP, a California limited partnership, of up to $19,583,557 for a term of 57 years to develop 100 percent affordable housing.

Key Points

- 735 Davis Senior LP and 88 Broadway Family LP are limited partnerships of BRIDGE Housing (BRIDGE) and John Stewart Company (John Stewart), selected by MOHCD through a competitive solicitation to develop affordable housing at 88 Broadway and 735 Davis Street. Development of 88 Broadway will create 124 units of housing affordable to households with maximum income between 30 percent and 120 percent of San Francisco's Area Median Income (AMI), and development of 735 Davis Street will create 53 units affordable to low income seniors and formerly homeless adults with maximum income between 30 percent and 75 percent of AMI. The Board of Supervisors previously approved the option for 735 Davis Senior LP and 88 Broadway Family LP to ground lease the respective properties.

Fiscal Impact

- The total estimated development costs for 88 Broadway are $97,181,737. Financing includes federal Low Income Housing Tax Credits, commercial loans, the MOCHD loan, and other sources. The MOHCD loan of up to $31,020,739 includes a loan of $27,908,676 for up to 57 years; loan repayments would be made to MOHCD only if net revenues are available after operating costs (including debt service on other loans, ground lease payments, and reserves) have been met by the project. The balance of $3,111,063 would be a bridge loan pending receipt by the project of other financing sources, including an Affordable Housing Program loan by the Federal Home Loan Bank and financing attributed to use of commercial space.
- The total estimated development costs for 735 Davis Street are $40,525,132. Financing includes federal Low Income Housing Tax Credits, commercial loans, the MOCHD loan, and other sources. The MOHCD loan of up to $19,583,557 includes a forgivable loan of $18,525,959 for up to 57 years; loan repayments would be made to MOHCD only if net revenues are available after operating costs (including debt service on other loans, ground lease payments, and reserves) have been met by the project. The balance of $1,057,598 would be a bridge loan pending receipt by the project of other financing sources, including an Affordable Housing Program loan by the Federal Home Loan Bank and financing attributed to use of commercial space.

Recommendation

- Approve the proposed resolutions.

MANDATE STATEMENT / BACKGROUND

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.

DETAILS OF PROPOSED LEGISLATION

File 19-0144: The proposed resolution approves a loan by the Mayor's Office of Housing and Community Development (MOHCD) to 735 Davis Senior LP, a California limited partnership, of up to $19,583,557 for a term of 57 years to develop 100 percent affordable housing.

File 19-0146: The proposed resolution approves a loan by MOHCD to 88 Broadway Family LP, a California limited partnership, of up to $31,020,739 for a term of 57 years to develop 100 percent affordable housing.

Affordable Housing Project

735 Davis Senior LP and 88 Broadway Family LP are limited partnerships of BRIDGE Housing (BRIDGE) and John Stewart Company (John Stewart), formed for the simultaneous development of two parcels of affordable housing on 88 Broadway and 735 Davis Street. BRIDGE will be the entity that assumes primary responsibility for development of the properties, with John Stewart serving as co-developer and providing long-term property management services for housing developed on both the 88 Broadway and adjacent 735 Davis Street sites.

88 Broadway is under the jurisdiction of the Port of San Francisco. In July 2018, the Board of Supervisors approved the Memorandum of Understanding (MOU) between the Port and MOHCD in which MOHCD would pay the Port the fair market value of use of 88 Broadway as affordable housing, and the option for 88 Broadway Family LP to ground lease the property from the Port (File 18-0863). 735 Davis is under the jurisdiction of MOHCD, and in July 2018 the Board of Supervisors approved an option for 735 Davis Senior LP to ground lease the property from the City (File 18-0686).

88 Broadway

88 Broadway will consist of 124 units multifamily rental housing that will be affordable to households with income ranging from 30 percent to 120 percent of the Area Median Income (AMI). The actual income and rental unit mixed is shown in Table 1. The project will consist of 16 junior studio, 37 one-bedroom, 48 two-bedroom, and 24 three-bedroom units. Of the 124 units, 31 units will be subject to a Housing Assistance Payment contract (HAP) with the San Francisco Housing Authority; preference in HAP unit allocation will be given to Hope SF residents who voluntarily elected to apply for housing at 88 Broadway.[1]

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[1] Hope SF was a Citywide initiative to redevelop four public housing sites into new mixed-income and mixed-use communities. See: http://hope-sf.org/basic.php .

Table 1: 88 Broadway Unit Mix *

Unit Size	No. of Units	Maximum Income Level
Studio	1	30% of AMI
1 bedroom	2	30% of AMI
2 bedroom	1	30% of AMI
3 bedroom	1	30% of AMI
Studio	5	50% of AMI
1 bedroom	13	50% of AMI
2 bedroom	17	50% of AMI
3 bedroom	9	50% of AMI
Studio	8	60% of AMI
1 bedroom	16	60% of AMI
2 bedroom	20	60% of AMI
3 bedroom	10	60% of AMI
Studio	1	80% of AMI
1 bedroom	3	80% of AMI
2 bedroom	6	80% of AMI
3 bedroom	1	80% of AMI
Studio	1	100% of AMI
1 bedroom	1	100% of AMI
2 bedroom	2	100% of AMI
3 bedroom	1	100% of AMI
1 bedroom	2	120% of AMI
2 bedroom	2	120% of AMI
3 bedroom	1	120% of AMI

Source: MOHCD
* 100 percent of the AMI for San Francisco in 2018 is $118,400 for a family of four.

735 Davis Street

The 735 Davis Street project will provide housing for eligible low income seniors and the formerly homeless. The development will consist of 53 units affordable to adults with income between 30 percent and 75 percent of AMI, consisting of 23 studios, 29 one-bedrooms, and one two-bedroom. The unit mix and income requirements are shown in Table 2 below. Fifteen units are designated for tenants referred from the Department of Homelessness and Supportive Housing, and will be supported by a Local Operating Subsidy Program (LOSP) grant or other subsidy for supportive housing.[2]

[2] LOSP is an annual General Fund subsidy to supportive housing projects; MOHCD enters into LOSP contracts of approximately 15 years with the nonprofit operators of the supportive housing projects, subject to Board of Supervisors approval. Other supportive housing subsidy programs include the Continuum of Care federal program.

Table 2: 735 Davis Unit Mix

Unit Size	No. of Units	Maximum Income Level
Studio	9	30% of AMI
1 bedroom	4	30% of AMI
Studio	13	50% of AMI
1 bedroom	12	50% of AMI
1 bedroom	6	60% of AMI
Studio	1	75% of AMI
1 bedroom	7	75% of AMI

Source: MOHCD

Commercial Use

Both buildings include commercial ground floor uses. Envisioned usages include a child care center, a community-serving restaurant, and café.

Project Solicitation

The selection of the development team for 88 Broadway and 735 Davis was conducted through a competitive Request for Proposals (RFP) process. The RFP was published on MOHCD's website. In addition, MOHCD has an email list of interested parties used to distribute the notice of the RFP, and lets affordable housing developers know about upcoming RFPs during the regular monthly meetings. In addition, the announcement for 88 Broadway and 735 Davis was distributed through the Port of San Francisco website and email lists. MOHCD staff also conducts additional outreach to qualified developers to solicit interest and assure a competitive bidding process. In response, qualified development teams submit proposals which are vetted and reviewed by a project selection team, using various scoring criteria to guide the selection and award process.

The RFP for 88 Broadway and 735 Davis Street was issued on December 4, 2015. MOHCD staff made additional outreach efforts to qualified developers in an attempt to attract proposals. According to MOHCD documentation, a pre-submittal meeting convened on December 17, 2015 was well attended. In the end, MOHCD received qualifying proposals from two development teams led by Chinatown Community Development Corporation and BRIDGE-John Stewart, respectively. Proposals were evaluated by a project selection panel composed of representatives from MOHCD, the Port of San Francisco, Human Services Agency, Department of Public Health[3] and relevant community groups (Chinatown Progressive Association, Northeast Waterfront Advisory Group, and 88 Broadway Working Group). Interviews with the two prospective candidates were conducted, and smaller focus groups convened that engaged in a detail proposal review and vetting process. At the conclusion of this process, BRIDGE/John Stewart was deemed to have the higher proposal score.

[3] The Human Services Agency and Department of Public Health programs were subsequently transferred to the Department of Homelessness and Supportive Housing in 2016.

Review of Project Compliance with MOHCD Underwriting Guidelines

Our review of the loan agreements for the 88 Broadway and 735 Davis projects indicate the terms and financial provisions of these agreements, and the accompanying pro forma analyses, are in conformity with the MOHCD Underwriting Guidelines.

Gap financing is provided in the standard form of fully subordinated, 57-year debt at 0-3% interest. MOHCD will receive any cash disbursements once other operating, debt service, and reserve requirements have been met. The debt service coverage ratio on both projects exceeds the minimum ratio of 1.10:1 in all years shown in the 20 year project pro forma, and is projected to rise over time. Capitalized Operating Reserves, which are a required reserve set-aside to cover unanticipated changes in operating expenses (including changes in debt service), and which must be held in an interest-bearing account, are in conformity with the requirement that the reserve is sufficient to cover three months of operating costs inclusive of debt service.

Both projects are in compliance with the required set aside of funds into Replacement Reserve Deposits, as set by the per unit fixed amount indicated in the Underwriting Guidelines.

Both projects have set asides for payment of the developer fees. The 88 Broadway project allows the developer to receive up to $4,000,000 in developer fees. The amounts stated in the loan agreement (see above) are $2,160,000, allowable at specific project milestones. Additional surpluses may be received by 88 Broadway Family LP in the form of Deferred Developer Fees. The 735 Davis Street project provides for up to $1,000,000 in Developer Fee, paid at specific project milestones.

Our review of the loan agreements indicates that the amounts assessed for Partnership Management Fees and Asset Management Fees fare in compliance with MOHCD underwriting guidelines based on industry standards for the amounts that may be assessed and charged to these fees.

Loan Approval Process

The Citywide Affordable Housing Loan Committee (Loan Committee) approved up to $31,020,739 in MOHCD gap financing for the 88 Broadway project, and $19,583,557 in MOHCD gap financing for the 735 Davis Street project. The approval was made in accordance with the Housing Development process document, as follows. Once a project has been recommended for development, MOHCD will convene a Peer Review group composed of representatives from the MOHCD and the Office and Community Investment and Infrastructure. The Peer Review Group is charged with the task of initial review and drafting of the formal request for funding based on various performance targets - income limits, unit mix by affordability targets, and special populations to be housed by the proposed development. This funding request is then submitted to the Loan Committee for approval. Members of the Loan Committee include the MOHCD Director, the Director of the Office of Community Investment and Infrastructure, and Deputy Director of the Department of Homelessness and Supportive Housing. Once the project specifications and loan terms are approved by the Loan Committee, the project can be forwarded to the Mayor. Board of Supervisors approval is required prior to execution of the loan agreement by the Mayor according to City Charter Section 9.118(b).

Conformance to the California Environmental Quality Act (CEQA), General Plan and Planning Code

Files 19-0144 and 19-0146 find that the loan agreements are consistent with the adopted Mitigation Monitoring and Reporting program under CEQA, the General Plan, and the eight priority policies of the Planning Code, Section 101.1. According to a June 2018 letter from the Director of Planning, the proposed projects at 88 Broadway and 735 Davis conform to the General Plan and the eight priority policies of the Planning Code, Section 101.1. The Board of Supervisors previously adopted the Mitigation Monitoring and Reporting program under CEQA for 735 Davis Street (File 18-0686) and 88 Broadway (File 18-0683).

FISCAL IMPACT

88 Broadway Family LP (File 19-0146)

The total estimated development costs for 88 Broadway are $97,181,737. Of this total, $36,770,970 is financed by 4 percent federal Low Income Housing Tax Credits that have been secured and committed to the project.[4] Bank of American is the tax credit investor, and will also provide the construction loan. An additional $19,815,000 of total project costs will be financed through a 15 year conventional (permanent) self-amortizing mortgage loan at a 5.5 percent interest rate from Barings Bank. BRIDGE/John Stewart Company has a secured Letter of Intent from both Bank of America and Barings Bank. Additional, and not yet committed, portions of the project financing are the anticipated Affordable Housing Program (AHP) loan of $1,140,000 from the Federal Home Loan Bank, for which MOHCD is providing bridge funding (see below), and project revenues of $1,887,596 that are anticipated to be received from the conclusion of a commercial space financing once the Developer secures a tenant for the space.

$31,020,739 in Gap Financing

File 19-0146 would approve a gap loan to be made by MOHCD to 88 Broadway Family LP up to $31,020,739 for a term of 57 years. Based on estimated project financing and costs, MOHCD estimates that the actual loan amount would be $27,908,676, as shown in Table 3 below, which would be allocated from the City's Affordable Housing Fund. Under the loan terms, loan repayments would be made to MOHCD only if net revenues are available after operating costs (including debt service on other loans, ground lease payments, and reserves) have been met by the project.

According to Citywide Affordable Housing Loan Committee approval, MOHCD is requesting loan authorization of up to $31,020,739, which is $3,111,063 more than the estimated loan of $27,908,676 because MOCHD will provide bridge financing to cover certain development costs

[4] The 4 percent Low Income Housing Tax Credit (Tax Credit Equity) is an Internal Revenue Service program that subsidizes affordable housing development by granting investors a one-to-one reduction in their federal tax liability. The Low Income Housing Tax Credit is designed to subsidize either 30 percent or 70 percent of the low-income unit costs in a project. The "4 percent" program equals an approximate 30 percent subsidy for new construction that uses additional subsidies or the acquisition cost of existing buildings. The "9 percent" program equals an approximate 70 percent subsidy that supports new construction without any additional federal subsidies

in anticipation 88 Broadway Family LP receiving an Affordable Housing Program loan from the Federal Home Loan Bank, estimated to be $1,140,000, and commercial loan for development costs attributable to the ground floor commercial space, estimated to be $1,887,596.[5] Upon receipt of these loans, 88 Broadway Family LOP will repay an equal amount toward MOHCD's gap loan.

Table 3: 88 Broadway Family LP, Sources and Uses

Sources	
MOHCD Gap Financing Loan (File 19-0146)	$27,908,676
Tax Credit Equity	36,770,970
Affordable Housing Program Loan	1,140,000
Commercial Bank Loan	19,815,000
Commercial Space Loan	1,887,596
General Partner Equity	5,159,495
Deferred Developer Fee	4,500,000
Total Sources	**$97,181,737**
Uses	
Design and Engineering	$3,810,438
Legal and Other	2,902,610
Financing	6,965,374
Contingency and Reserves	1,372,220
Subtotal	15,050,642
Developer Costs	11,819,495
Construction	70,311,600
Total Uses	**$97,181,737**

In addition, the gap loan of up to $31,020,739 to be provided by MOHCD to 88 Broadway Family LP includes a previously allocated predevelopment loan of $3,800,000 to the 88 Broadway project. The predevelopment loan was not subject to Board of Supervisors approval because the loan amount was less than $10 million and the term was less than 10 years.

Tax Credit Equity, General Partner Equity, and Developer Deferred fee

The amount of federal tax credits allocated to an affordable housing project is based on the total project costs ("eligible basis"). The 4 percent Low Income Housing Tax Credit provides a subsidy approximately equal to 30 percent of the project costs.[6] In order to maximize eligible

[5] The Affordable Housing Program loan of $1,140,000 and commercial loan of $1,887,596 total $3,027,596. According to MOHCD, the loan amount up to $3,112,063 is greater than the estimated loan amount of $3,027,596 because the developer provided two sets of cost estimates and MOHCD determined to use the higher amount for the approval. The final commercial bridge loan amount will be determined prior to execution of gap loan and will be no more than $1,972,063.

[6] The 30 percent subsidy is calculated on the present value of the tax credits, which are allocated to the equity investor over 10 years. Therefore, while the federal tax credits allocated to 88 Broadway of $36.8 million are approximately 38 percent of estimated project costs of $97.2 million, the present value of the tax credits is approximately 30 percent of the project costs. $36.8 million is provided by Bank of America in equity to the

project costs, the financing plan for 88 Broadway includes deferred developer fees of $4,500,000 and general partner equity of $5,159,495 as sources of funds, as shown in Table 3 above, which complies with Internal Revenue Code Section 42. The uses of funds, shown in Table 3 above, include $11,819,495 in developer costs, consisting of (a) general partner equity of $5,159,495, which is an accounting entry to balance sources and uses, (b) deferred developer fees of $4,500,000 which will be paid only if net revenues are realized from the project, (net revenue will be evenly split between MOHCD and the 88 Broadway Family LP, and (c) $2,160,000 in cash reimbursement.

735 Davis Senior LP (File 19-0144)

The total estimated development costs for 735 Davis Street are $40,525,132. Of this total, $16,925,551 is financed by a percent federal Low Income Housing Tax Credit that has been secured and committed to the project. Bank of American is the tax credit investor. BRIDGE/John Stewart Company has secured a Letter of Intent from the Bank of America. Additional, and not yet committed, portions of the project financing are the anticipated Affordable Housing Program (AHP) loan of $520,000 from the Federal Home Loan Bank, for which MOHCD is providing bridge funding, and project costs attributable to the commercial space ground floor uses of $558,851 will be repaid with the developer secures debt on the commercial space component of the project.

$19,583,557 in Gap Financing

File 19-0144 would approve a gap loan to be made by MOHCD to 735 Davis Senior LP up to $19,583,557 for a term of 57 years. Based on estimated project financing and costs, MOHCD estimates that the actual loan amount would be $18,525,959, as shown in Table 4 below, which would be allocated from the City's Affordable Housing Fund. Under the loan terms, loan repayments would be made to MOHCD only if net revenues are available after operating costs (including debt service on other loans, ground lease payments, and reserves) have been met by the project.

According to Citywide Affordable Housing Loan Committee approval, MOHCD is requesting loan authorization of $19,583,555, which is $1,057,598 more than the estimated loan of $18,525,959 because MOCHD will provide bridge financing to cover certain development costs in anticipation of 735 Davis Senior LP receiving an Affordable Housing Program loan from the Federal Home Loan Bank, estimated be $520,000, and a commercial loan for development costs attributable to the ground floor commercial space, estimated to be $558,851.[7] Upon receipt of these loans, 735 Davis Senior LP will repay an equal amount toward MOHCD's gap loan.

project, in exchange for the future 10 year stream of Low-Income Housing Tax Credits and is priced based on a competitive bidding process for investors.

[7] The Affordable Housing Program loan of $520,000 and commercial space loan of $558,851 total $1,078,851. According to MOHCD, the projected loan balance of $1,057,598 is less than the estimated bridge loan amount up to $1,078,851 because the developer provided two sets of cost estimates and MOHCD determined to use the higher amount for the approval. The final commercial bridge loan amount will be determined prior to execution of gap loan and will be no more than $537,598.

Table 4: 735 Davis Senior LP, Sources and Uses

Sources	
MOHCD Gap Financing Loan (File 19-0146)	$18,525,959
Tax Credit Equity	16,925,550
Affordable Housing Program Loan	520,000
Commercial Bank Loan	
Commercial Space Loan	558,851
General Partner Equity	3,994,770
Deferred Developer Fee	
Total Sources	**$40,525,130**
Uses	
Design and Engineering	$2,068,661
Legal and Other	1,969,957
Financing	2,387,892
Contingency and Reserves	544,318
Subtotal	6,970,828
Developer Costs	4,994,770
Construction	28,559,532
Total Uses	**$40,525,130**

In addition, the gap loan of up to $19,583,557 to be provided by MOHCD to 735 Davis Senior LP, includes a previously allocated predevelopment loan of $2,200,000 to the 735 Davis Street project. The predevelopment loan was not subject to Board of Supervisors approval because the loan amount was less than $10 million and the term was less than 10 years.

Tax Credit Equity, General Partner Equity, and Developer Deferred fee

The amount of federal tax credits allocated to an affordable housing project is based on the total project costs ("eligible basis"). The 4 percent Low Income Housing Tax Credit provides a subsidy equal to approximately 30 percent of the project costs.[8] In order to maximum eligible project costs, the financing plan for 735 Davis Street includes general partner equity of $3,994,770 as a source of funds, as shown in Table 4 above, which complies with the Internal Revenue Code Section 42. The uses of funds, shown in Table 4 above, include $4,994,770 in developer costs, consisting of (a) general partner equity of $3,994,770, which is an accounting entry to balance sources and uses, and (b) developer fees of $1,000,000 based on achieving milestones.

[8] The 30 percent subsidy is calculated on the present value of the tax credits, which are allocated to the equity investor over 10 years. Therefore, while the federal tax credits allocated to 735 Davis Street of $16.9 million are approximately 42 percent of estimated project costs of $40.5 million, the present value of the tax credits is 30 percent of the project costs. $16.9 million dollars is provided by Bank of America in equity to the project, in exchange for the future 10 year stream of Low-Income Housing Tax Credits and is priced based on a competitive bidding process for investors.

Affordable Housing Fund

Files 19-0144 and 19-0146 approve loans of $19,583,557 and $31,020,739 respectively, totaling $50,604,296 in Affordable Housing Fund loans. According to Benjamin McCloskey, Deputy Director for Finance and Administration at MOHCD, the balance of the Affordable Housing Fund at the end of FY 2017-18 was $167.9 million.

RECOMMENDATION

Approve the proposed resolutions.

Items 16, 17 and 18 **Files 18-1062, 18-1070, & 18-1071**	**Department:** San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolutions would approve food and beverage concession leases between San Francisco International Airport (Airport) as landlord and (i) Host International, Inc., with Minimum Annual Guaranteed (MAG) rent of $475,000 (File 18-1062); (ii) Lady Luck Gourmet, LLC, with MAG rent of $240,000 (File 18-1070); and (iii) SF Foodways, LLC, with MAG rent of $620,000 (File 18-1071). Each lease would have a term of ten year with an option for the Airport to extend for an additional two years.

Key Points

- In December 2017, the Airport Commission authorized Airport staff to issue a Request for Proposals (RFP) for nine food and beverage concession leases in Terminal 1, including (i) an Asian quick serve restaurant; (ii) a café and market; and (iii) a sit-down restaurant and bar.
- A panel reviewed the proposals and determined (i) Lady Luck Gourmet, LLC; (ii) Host International, Inc.; and (iii) SF Foodways, LLC to be the highest scoring responsive and responsible proposers. In July 2018, the Airport Commission approved the three leases.

Fiscal Impact

- Over the initial ten-year terms of the three leases, the Airport would receive at least $12,626,875 in MAG rent. The initial term includes a period of approximately one year and one month when the MAG would be reduced by 50 percent, due to the phased opening of Terminal 1, which is undergoing significant renovations. The Phase 2 opening is anticipated to be March 24, 2020.
- If the Airport exercises the two-year options to extend, it would receive at least $2,670,000 in additional MAG rent.
- The Airport expects to receive percentage rent, which would exceed the MAG.

Recommendation

- Approve the proposed resolutions.

MANDATE STATEMENT

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

BACKGROUND

On December 5, 2017, the San Francisco International Airport (Airport) Commission authorized Airport staff to issue a Request for Proposals (RFP) for nine food and beverage concession leases in Terminal 1, including the following three leases:[1]

Lease 7: Asian Quick Serve Restaurant
Lease 8: Café and Market
Lease 9: Sit-Down Restaurant and Bar

After issuing the RFP and conducting an informational meeting, Airport staff gathered feedback and made changes to some of the business terms. On March 20, 2018, the Airport Commission authorized staff to accept proposals. On May 2, 2018, the Airport received 18 proposals that met the minimum qualifications for the three leases. A four-member panel reviewed the proposals and scored them as shown in Table 1 below.

Table 1: Proposals and Scores for Terminal 1 Food and Beverage Concession Lease RFP

Proposer	Concept Name	Score
Lease 7: Asian Quick Serve Restaurant (File 18-1070)		
Lady Luck Gourmet, LLC	Goldilocks Filipino Cuisine	91.25
Bun Mee LLC	Bun Mee	86.50
Sankaku, Inc.	Waku Waku	86.00
Bayport Concessions, LLC	Koi Palace Express	84.25
JDDA Concession Management, Inc.	Hibachi-San Japanese Kitchen	78.50
Gate 74, Inc.	Koja Kitchen	78.25
CA Clipper Foods, LLC	Thai Express	78.00
Teriyaki Madness – SFO Group	Teriyaki Madness	73.25
S Two Puffs, LLC	Sous Vide SFO	59.00
Lease 8: Café and Market (File 18-1062)		
Host International, Inc.	The Bistrot Bay Area	91.25
Rylo Management, LLC	Jack Rabbit Market	80.50

[1] The Airport Commission also approved the other six leases included in the RFP: Lease 1 (Asian Quick Serve Restaurant), Lease 2 (Mexican, Latin or South American Quick Serve Restaurant), Lease 3 (American Quick Serve Restaurant), Lease 4 (Sit-Down Restaurant and Bar), Lease 5 (Chicken Quick Serve Restaurant), and Lease 6 (Café). These leases were approved by the Board of Supervisors on January 15, 2019.

Lease 9: Sit-Down Restaurant and Bar (File 18-1071)		
SF Foodways, LLC	Flyaway by Drake's Brewing Co.	93.75
Host International, Inc.	Sam's Chowder House	87.25
Amoura International	Amoura	86.75
SSP America, Inc.	Trick Dog	86.75
Mission Yogurt, Inc.	Corridor	86.25
Paradies Lagardere @ SFO 2018 (F&B), LLC	Bourbon Pub	86.25
Flagship, LLC	Blatt Beer & Table	77.75

The following were determined to be the highest scoring responsive and responsible proposers: (1) Lady Luck Gourmet, LLC; (2) Host International, Inc.; and (3) SF Foodways, LLC. On July 10, 2018, the Airport Commission approved leases with the selected proposers.

DETAILS OF PROPOSED LEGISLATION

The proposed resolutions would approve food and beverage concession leases between the Airport as landlord and the following concession tenants: (1) Lady Luck Gourmet, LLC (File 18-1070); (2) Host International, Inc. (File 18-1062); and (3) SF Foodways, LLC (File 18-1071). All leases would have a term of ten years, with an option for the Airport to extend for an additional two years, for a total term of 12 years. Each tenant would pay the greater of the Minimum Annual Guaranteed (MAG) rent or percentage rent based on gross revenues. The key provisions of the leases are shown in Table 2 below.

Table 2: Key Provisions of Proposed Leases

Tenant	Host International (File 18-1062)	Lady Luck (File 18-1070)	SF Foodways (File 18-1071)
Term	10 years	10 years	10 years
Option to Extend	2 years	2 years	2 years
Square Footage	2,115 square ft.	724 square ft.	2,982 square ft.
Initial MAG Rent[2]	$475,000	$240,000	$620,000
MAG Adjustment	Adjusted annually based on Consumer Price Index (CPI)		
Percentage Rent (of Gross Revenues)	8% up to $1,500,000, 10% from $1,500,000-$2,000,000, 12% over $2,000,000	8% up to $500,000, 10% from $500,000-$1,000,000, 12% over $1,000,000	8% up to $1,500,000, 10% from $1,500,000-$2,000,000, 12% over $2,000,000
Minimum Investment	$1,000 per square foot of the premises		
Interim Rent During Construction	12% of gross revenues		
Deposit	Equal to one-half of initial MAG (subject to mid-term adjustment)		
Early Termination	Airport may terminate with 6 months written notice, if space is required for Airport's Five-Year or Ten-Year Capital Plan		
Cleaning Fee	$59 per square ft. per year	$59 per square ft. per year	Not applicable
Infrastructure Fee	$5 per sq. ft. per year	$5 per sq. ft. per year	Not applicable
Promotional Charge	$1 per square foot per year		
Pest Control Fee	$75 per month		

Phased Opening

Terminal 1 is currently undergoing a significant renovation project, and the renovated terminal will be opened in phases. According to Mr. Tomasi Toki, Airport Principal Property Manager, these three concessions are expected to open with the Phase 2 opening on March 24, 2020. Due to the phasing, the MAG rent is reduced by 50 percent for the period between the earlier of the Phase 1 opening and July 23, 2019, and the earlier of the Phase 3 opening and May 1, 2021. The full MAG would then be paid after the earlier of May 1, 2021 and the opening of Phase 3.

FISCAL IMPACT

Under the terms of each lease, the tenants would pay the greater of the MAG rent or rent equal to a percentage of gross revenues. Over the ten year terms of the leases, the Airport would receive at least $12,626,875 in MAG rent. This includes the phased opening period of approximately 1 year and 1 month, in which the MAG rents are reduced by 50 percent. If the

[2] Beginning with the Airport's 2016 competitive solicitation for food and beverage leases, the Airport sets MAG rents for each fully leased area, on an average, at 65 percent of projected percentage rent.

Airport chooses to exercise the options to extend for an additional two years, it would receive at least an additional $2,670,000 in MAG rent for total MAG rent of at least $15,296,875 over 12 years. The MAG rents paid by the tenants are shown in Table 3 below.

Table 3: MAG Rent Paid by Tenants

	Host International	Lady Luck	SF Foodways	Total
MAG	$475,000	$240,000	$620,000	$1,335,000
Phased Period (1.08 Years)	$257,292	$130,000	$335,833	$723,125
Full MAG (8.92 Years)	4,235,417	2,140,000	5,528,333	11,903,750
Full Term (10 Years)	**$4,492,708**	**$2,270,000**	**$5,864,167**	**$12,626,875**
Option Term (2 Years)	950,000	480,000	1,240,000	2,670,000
Total	**$5,442,708**	**$2,750,000**	**$7,104,167**	**$15,296,875**

According to Mr. Toki, the Airport expects to receive percentage rent, which would exceed the MAG.

RECOMMENDATION

Approve the proposed resolutions.

Items 19 and 20 **Files 19-0166 and 19-0167**	**Department:** Mayor's Office of Housing and Community Development Real Estate Division

EXECUTIVE SUMMARY

Legislative Objectives

File 19-0166 is a resolution authorizing the Director of the City's Real Estate Division to execute a commercial lease between City and La Cocina, Inc., for City-owned property located at 101 Hyde Street.

File 19-0167 is a resolution authorizing the Mayor's Office of Housing and Community Development to accept and expend a gift of $1,000,000 from the San Francisco Foundation to the Neighborhood Development Special Revenue fund, and approves the City's use of the funds for the interim activation of 101 Hyde Street.

Key Points

- 101 Hyde Street is a City-owned parcel, conveyed to the City by the developer of market rate housing at 1066 Market Street in lieu of meeting the City's Inclusionary Affordable Housing requirements (approved by the Board of Supervisor through Ordinance 126-16). The property is slated for affordable housing development, but until sufficient funding is identified to develop the property, the Board of Supervisors approved the property for interim use for community serving purposes. In addition to the property conveyance, the developer donated $6 million, of which $1 million was for interim community use and $5 million was for affordable housing development. These funds are held in trust by the San Francisco Foundation.
- The City selected the nonprofit organization, La Cocina, through a competitive solicitation to use the property for food oriented businesses. Under the proposed lease, La Cocina would make tenant improvements and operate a food hall, assisting low-income clients in launching self-sustaining businesses.
- The tenant improvements are scheduled for completion in November 2019. Upon issuance of the temporary certificate of occupancy, La Cocina will pay annual rent of $12,000 and percentage rent equal to 5 percent of net revenues. The lease will extend through December 2025.

Fiscal Impact

- Tenant improvement costs are estimated to be $4.6 million. Funding sources include $1.4 million of City funds, including the $1 million grant from the San Francisco Foundation and $465,000 in previously appropriated funds; $2.4 million secured by La Cocina through fundraising; and approximately $780,000 to be obtained through additional fundraising or a bridge loan.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

City Administrative Code Section 23.30 requires Board of Supervisors approval for lease of City-owned property that is not required for City purposes. An appraisal of the fair market rent for the lease is not required if the Director of the City's Real Estate Division determines that the fair market rent is less than $45 per square foot..

BACKGROUND

101 Hyde Street is a one story building at the corner of Golden Gate Avenue and Hyde Street consisting of approximately 7,500 square feet of space formerly used as a U.S. Postal Service Office. In August 2016, the owner of the land dedicated the site to the City through the Mayor's Office of Housing and Community Development (MOHCD) for the purpose of developing affordable housing. The dedication was a result of Ordinance 126-16 which waived the Inclusionary Affordable Housing requirements set forth in Planning Code Section 415, exempting the market rate residential development at 1066 Market Street (affiliated with the Shorenstein Properties LLC) from such requirements in exchange for the dedication of real property.

DETAILS OF PROPOSED LEGISLATION

File 19-0166: The proposed resolution authorizes the Director of Real Estate to execute a commercial lease between City and La Cocina, Inc., for City-owned property located at 101 Hyde Street.

File 19-0167: The proposed resolution authorizes the Mayor's Office of Housing and Community Development to accept and expend a gift of $1,000,000 from the San Francisco Foundation to the Neighborhood Development Special Revenue fund, and approves the City's use of the funds for the interim activation of 101 Hyde Street.

<u>$1,000,000 Gift (File 19-0167)</u>

As noted above, the developer of the market rate housing at 1066 Market Street donated 101 Hyde Street to the City for affordable housing development in lieu of meeting the City's Inclusionary Affordable Housing requirements. In addition to the property donation, the developer donated $6 million for the development of 101 Hyde Street; $1 million was donated for temporary development of the site while the City raised additional funds for developing the site as permanent affordable housing, and $5 million was donated for converting the space to affordable housing. The San Francisco Foundation agreed to be the temporary trustee of the funds until the site is ready for development.

The release of the $1,000,000 gift would be used for temporary development of the site. According to the proposed resolution, the $1,000,000 was given to the San Francisco Foundation for the purpose of (i) offsetting interim ownership costs incurred by the City for temporary use of the property; (ii) funding improvements to the property to support interim use; and (iii) funding miscellaneous expenses associated with interim use of the property until the property is developed as permanent affordable housing.

Commercial Lease (File 19-0166)

Original Lease

In 2016, the City's Real Estate Division in collaboration with the Office of Economic and Workforce Development (OEWD) and MOHCD solicited proposals for temporarily converting 101 Hyde Street to a community serving interim use through a competitive Request for Proposals (RFP) process. They received two proposals and selected La Cocina, Inc., a non-profit organization, as the proposer with the higher application and interview score. La Cocina specializes in assisting low-income clients in launching self-sustaining food oriented businesses. La Cocina proposed building a food hall with a commercial kitchen in the space which will include seven kiosks for full time vendors, and one kiosk for rotating pop-ups.

Between December 2016 and June 2018, a period of 18 months, the Real Estate Division and La Cocina worked to establish the terms of the commercial lease. The Real Estate Division entered into a lease with La Cocina in June 2018. The lease term was year-to-year for up to seven years. According to Mr. Josh Keene, Special Projects and Transactions Manager, the Real Estate Division consulted with the City Attorney's Office and did not consider the lease to be subject to Board of Supervisors approval for the initial one-year term under Administrative Code Section 23.31, which grants the Director of Real Estate the authority to enter into leases of one year or less for which the rent is less than $15,000. Under the lease, upon issuance of a temporary certificate of occupancy, La Cocina will pay annual rent of $12,000 and percentage rent of 5 percent of net income.

Proposed Lease

The proposed lease replaces the prior year-to-year lease and provides a mechanism for the City to release portions of the $1 million gift, as well as additional City funds, to La Cocina. The lease term is for approximately six years and nine months from approximately March 1, 2019 through December 31, 2025. Upon issuance of a temporary certificate of occupancy, La Cocina would pay annual rent of $12,000 and percentage rent equal to 5 percent of net income.

Tenant Improvements

The original lease and proposed lease are for the operation of a restaurant, bar, and/or food market hall. La Cocina is responsible to make tenant improvements at its sole cost, based on detailed architectural drawings included in the original lease. The City will reimburse La Cocina for tenant improvements up to $1,465,000. Design development documents are completed and construction documents are 90 percent complete. Construction of tenant improvements is scheduled to begin in May 2019 and completion of tenant improvements is expected in November 2019.

FISCAL IMPACT

The project budget for tenant improvements to 101 Hyde Street is $4,600,000 as shown below in Table 1.

Table 1: Preliminary project budget for development at 101 Hyde Street

Sources	
City Funds	
San Francisco Foundation Grant	$940,000
FY 2017-18 and FY 2018-19 Budget	465,000
Subtotal City Funds [a]	$1,405,000
La Cocina Funds	
La Cocina Funds	$1,662,478
US Department of Health and Human Services	750,000
Subtotal La Cocina [b]	$2,412,478
Subtotal City and La Cocina Funds	$3,817,478
Bridge Loan or Other Fundraising [c]	782,522
Total Sources	**$4,600,000**
Uses	
Design and Engineering Costs	$83,625
Permits and Utilities	24,386
Construction Hard Costs	4,013,100
Furniture, Fixtures, and Equipment	152,000
Administration	70,000
Subtotal	$4,343,111
Contingency (6%)	256,889
Total Uses	**$4,600,000**

[a] Of the $1 million San Francisco Foundation grant, $60,000 is allocated to Real Estate Division costs and $940,000 is allocated to the 101 Hyde Street project. Total City contribution is $1,465,000, including $60,000 in Real Estate Division costs, $940,000 in the San Francisco Foundation grant, and $465,000 previously appropriated by the Board of Supervisors in the FY 2017-18 and FY 2018-19 budgets.

[b] La Cocina has $2,412,478 in funds previously received, approved, or pledged from foundations, corporations, individuals, and federal grants.

[c] The funding gap of $782,522 is expected to come from additional fundraising by La Cocina, or if necessary, from a bridge loan to La Cocina from Dignity Health.

RECOMMENDATION

Approve the proposed resolution.