CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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November 20, 2017

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: November 30, 2017 Budget and Finance Committee Meeting

TABLE OF CONTENTS

TABLE OF CONTENTS (continued)

Item 1 **File 17-1077** *(Continued from November 2, 2017)*	**Department:** Law Library Real Estate Division

EXECUTIVE SUMMARY

Legislative Objectives

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

Key Points

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

Fiscal Impact

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

Policy Consideration

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

Recommendation

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

MANDATE STATEMENT

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

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

BACKGROUND

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

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

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

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

DETAILS OF PROPOSED LEGISLATION

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

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

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

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

Table 1. Summary of Current and Proposed Lease Details

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

Source: Real Estate Division

FISCAL IMPACT

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

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

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

Table 2: Total Costs by Year under Proposed Lease Extension

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

Source: Real Estate Division

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

POLICY CONSIDERATION

Pending Litigation

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

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

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

RECOMMENDATION

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

Item 4 **File 17-1135**	**Department:** Department of Public Health (DPH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a contract between Epic City Government, LLC (Epic) and the Department of Public Health (DPH), for the delivery of software, support and implementation services, maintenance services, and hosting for an electronic health record system in the amount of $167,384,597, including a 12 percent contingency of $17,934,064. The contract term is for ten years contract term, following Board from approximately January 1, 2018 following Board of Supervisors approval through December 31, 2027. Under the proposed contract, DPH and Epic are allowed the right to extend the term for one or more additional terms by mutual agreement in a formal amendment to the contract, subject to the approval of the Board of Supervisors.

Key Points

- DPH currently has a contract with Cerner Corporation (formerly Siemens Medical Solutions USA, Inc.) to provide software and technical assistance to DPH's electronic health records and coordination of care and payments system through June 2020. DPH selected Epic through a competitive process to implement a new electronic health record system to replace the system supported by Cerner. According to DPH staff, the timeline to migrate, install and archive data from the existing Cerner system to the new electronic health record system will extend through to approximately 2020; when the Cerner system is no longer being used for billing and all data required has been migrated to the new electronic health record system or archived, DPH will decommission the Cerner system.

Fiscal Impact

- The ten-year budget for the proposed contract is $149,450,533, consisting of software licensing and implementation, maintenance, service fees for proprietary software services, fees to host DPH data, and future products and services. The contract budget includes a contingency of $17,934,064 (for a maximum contract amount of $167,384,597), which, according to DPH, will be used at DPH's sole discretion for unexpected fees, volume growth, or adjustments to products and services.

Policy Consideration

- The new DPH electronic health record system has been recommended for funding under the FY 2018-22 ICT Plan, which was approved by the Board of Supervisors on April 25, 2017. The Board of Supervisors appropriated $143.5 million in the DPH budget between FY 2015-16 and FY 2018-19 for implementation of the new electronic health record system, including the proposed contract between the City and EPIC. DPH staff are current developing an updated electronic health record project budget to reflect the selection of the Epic system, which will be subject to future Board of Supervisors approval.

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's San Francisco Health Network (SFHN) provides direct health services to thousands of insured and uninsured residents of the San Francisco Bay Area, through its network of service sites across the City[1]. The service sites include all divisions within the Department of Public Health that provide direct services such as the Priscilla Chan and Mark Zuckerberg San Francisco General Hospital, Laguna Honda Hospital, jail health services, behavioral health services and community clinics.

Siemens Medical Solutions USA, Inc.

In July 2010, the Board of Supervisors approved a contract between the Department of Public Health (DPH) and Siemens Medical Solutions USA, Inc. (Siemens) for a total not-to exceed amount of $33,820,487 for seven years from July 1, 2010 through June 30, 2017 to provide software and technical assistance to upgrade DPH's use of electronic health records and coordination of care and payments (File 10-0752). This contract included one two-year option to extend the contract through June 30, 2019.

In July 2013, the Board of Supervisors approved the first amendment to the Siemens contract to (i) increase the total not-to-exceed amount by $18,474,493 from $33,820,487 to $52,294,980, and (ii) include new services related to electronic health records and improving surgical information systems at the Zuckerberg San Francisco General Hospital (File 13-0514).

In 2015, Cerner Corporation (Cerner) acquired Siemens and formally assumed all responsibilities for the 2010 electronic health records system contract with DPH.

Competitive Selection Process and Transition to New Electronic Health Record System

In March 2016, the Board of Supervisors approved an ordinance (a) waiving the competitive solicitation process and authorizing DPH to award a sole source contract for a new electronic health records system to the University of California, San Francisco (UCSF), and (b) requiring DPH to issue a competitive Request for Proposals (RFP) if DPH was unable to conclude successful negotiations with UCSF within six months (File 16-0043). According to Ms. Winona Mindolovich, DPH Associate Chief Information Officer, after several months of due diligence and negotiations, DPH and UCSF mutually agreed that a contract could not be reached because cost and operational burdens were prohibitive for both parties. Consequently, DPH issued a

[1] Services include primary care, regional emergency and trauma treatment, medical and surgical specialties, diagnostic testing, skilled nursing and rehabilitation, dental care, comprehensive behavioral health and substance abuse treatment services, and jail health services.

competitive RFP in January 2017 for a new enterprise wide, integrated and hosted electronic health record system to replace the existing Cerner system, which has reached the end of its useful life.

DPH selected Epic City Government, LLC (Epic) after issuing an RFP on January 17, 2017. A total of four proposals were received from Epic, Cerner, Allscripts, and Centennial Computer Corporation and Meditech. Two bidders, Epic and Cerner, were selected for interviews[2]. The evaluation and selection process included the submission of written proposals, live demonstrations and interviews. The evaluation panel consisted of 56 individuals from a variety of medical specialties who are knowledgeable on the subject matter and included staff from DPH and UCSF. Epic received the higher score of the two proposals, as demonstrated in Table 1 below.

Table 1: Final RFP Scoring for Electronic Health Record Contract[3]

Firms	Written Proposal	Product Demonstrations and Team Interviews	Core and Original Optional Cost Proposals	Final Score
Epic	271.96	441.77	187.69	901.42
Cerner	267.85	297.82	200	765.67

Source: Department of Public Health

According to Ms. Mindolovich, the timeline to obtain an electronic health record system through the competitive selection process did not allow DPH sufficient time to migrate, install and archive data from the existing Cerner system before the end of the existing two-year contract extension option of June 30, 2019. DPH negotiated with Cerner to allow the extension of the contract through June 30, 2020 to provide the time to procure and install the new electronic health record system and decommission the Cerner applications. Consequently, in May 2017, the Board of Supervisors approved the second amendment to the Cerner contract to (i) extend the contract by three years from July 1, 2017 through June 30, 2020, and (ii) increase the contract not-to-exceed amount by $35,183,879 for a total agreement amount not to exceed $87,478,859. According to Ms. Mindolovich, DPH will be utilizing the Cerner system to close out accounts receivable and billing. When the Cerner system is no longer being used for billing and all data required has been migrated to the new electronic health record system or archived, DPH will decommission the Cerner system.

[2] Allscripts and Centennial Computer Corporation and Meditech did not pass the minimum qualifications screening and were not evaluated. Therefore, these bidders did not receive a score.

[3] Scores are based on using average values for product demonstration scores among the raters.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a contract between Epic and DPH, for the delivery of software, support and implementation services, maintenance services, and hosting for an electronic health record system in the amount of $167,384,597, including a 12 percent contingency of $17,934,064. The contract term is for ten years contract term, following Board from approximately January 1, 2018 following Board of Supervisors approval through December 31, 2027. According to Mr. Mr. Rob Longhitano, DPH Contracts Manager, implementation of the Epic electronic health record system will occur from January 1, 2018 through September 13, 2019. Hosting and maintenance services are anticipated to occur from September 14, 2019 through December 31, 2027.

Under the proposed contract, DPH and Epic are allowed the right to extend the term for one or more additional terms by mutual agreement in a formal amendment to the contract, subject to the approval of the Board of Supervisors.[4] According to Ms. Mindolovich, electronic health record systems have a long lifecycle, and the Cerner system – the primary electronic health record that DPH is replacing – has lasted over twenty years. Ms. Mindolovich states that these systems take years to implement and optimize, and DPH anticipates continuing to invest in the system as long as Epic continues to provide value and meet requirements.

FISCAL IMPACT

The proposed contract between Epic and the City is for a guaranteed maximum amount of $167,384,597 for the ten-year term from the anticipated effective date of January 1, 2018 through December 31, 2027 for a new electronic health record system. According to Ms. Mindolovich, an enterprise wide, integrated and hosted electronic health record system is critical to DPH's integrated care delivery network and is intended to replace many of the current systems, applications and databases used to support the planning, delivery, management, and accounting for care.

Table 2 below shows the breakdown of the contract maximum amount of $167,384,597 over the ten-year term.

[4] The RFP stated that the contract would potentially be longer than 10 years, which may or may not be executed, subject to the approval of the San Francisco Board of Supervisors acting in its sole discretion.

Table 2: Epic Contract Budget from January 1, 2018 through December 31, 2027

Service	Expenditure	Description	DPH Justification
Licensing and Stage One Implementation	$44,323,076	Licensing Fees are for the DPH use of the Epic Enterprise Software needed for all stages. Stage One implementation includes all professional services needed to configure the Epic software for DPH's productive use.	"An enterprise wide, integrated and hosted Electronic Health Record System is critical to SFDPH's integrated care delivery network and its ability to drive value for patients, families, and staff from a whole person care and population-based framework. A new, integrated and hosted electronic health record system is intended to replace many of the current systems, applications and databases used to support the planning, delivery, management, and accounting for care."
Maintenance	32,001,469	Epic software maintenance fees are the annual costs of updating the software and providing a help desk for questions and support.	"Epic provides ongoing research and development, a stream of enhancements and software support necessary for the ongoing operation of the electronic health record."
Ongoing Services	15,591,265	These are ongoing service fees to provide the DPH with approximately five FTEs to perform proprietary services on the Epic software as defined by DPH.	"Epic will provide expertise for proprietary software optimization and assistance with new release utilization and resolution of highly technical configuration and build issues."
Hosting	41,456,833	Hosting fees are the annual fees associated with hosting DPH data and Epic Software over the life of the contract.	"Epic will provide hosting services for the electronic health record used by DPH."
Future Products and Services[5]	16,077,890	Future products and services are comprised of the software purchased in Stage One but will be implemented in Stages Two and Three.	"Future products and services include optional and required components that will be implemented in the second and third stages. Future services also include anticipated training for DPH staff."
Subtotal	$149,450,533		
Contingency[6] (12 percent)	$17,934,064		
Total	**$167,384,597**		

The average annual contract budget, not including the 12 percent contingency, is approximately $14.9 million per year.[7] Funding for the contract is from the General Fund, monies subject to appropriation approval by the Board of Supervisors.

[5] This includes products specific to behavioral health, ambulatory pharmacy, patient bedside charts, nephrology, customer relationship management, nurse triage, jail health, as-needed DPH training and implementation services, allowance for future volume increases & hosting fees.

[6] According to Ms. Mindolovich, the contingency is to be used at DPH's sole discretion, for unexpected fees, unexpected volume growth, adjustments to the project and additional services that may be needed. In addition, DPH has a policy that allows for a contingency amount to be calculated at 12 percent of the listed base contract amount.

POLICY CONSIDERATION

FY 2018-22 Information & Communication Technology (ICT) Plan

The new DPH electronic health record system has been recommended for funding under the FY 2018-22 ICT Plan, which was approved by the Board of Supervisors on April 25, 2017. According to the proposed plan, the implementation of the new DPH electronic health record system is projected to take five years, with an overall estimated project budget from FY 2017-18 through FY 2021-22 of $203.7 million, and an estimated ongoing operating cost of $20 million per year. According to Ms. Jenny Louie, DPH Budget Director, estimates included costs for vendor implementation as well as DPH and other third party costs for readiness and implementation.

The Board of Supervisors appropriated $143.5 million in the DPH budget between FY 2015-16 and FY 2018-19 for implementation of the new electronic health record system, including the proposed contract between the City and EPIC. DPH staff are current developing an updated electronic health record project budget to reflect the selection of the Epic system and its associated implementation plan. The project budget and ongoing operating costs will be subject to future Board of Supervisors approval.

RECOMMENDATION

Approve the proposed resolution.

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[7] The contract budget in FY 2018-09 is $17.2 million and in FY 2019-20 is $24.0 million, mainly for software licensing, implementation, maintenance, and hosting. Between FY 2020-21 and FY 2027-28, the average annual budget is approximately $12.9 million for maintenance, hosting, and other ongoing services, and for specialized products and services.

Item 8 **File 17-1176**	**Department:** Office of Economic Workforce Development (OEWD)

EXECUTIVE SUMMARY

Legislative Objectives

- The requested hearing is for the release $225,000 on Budget and Finance Committee reserve to fund the Chinatown Corridor Management and Chinatown Parking and Marketing Pilot. These projects would serve Chinatown, specifically the area between Kearny and Powell Streets and California and Vallejo Streets.

Key Points

- The Board of Supervisors placed $225,000 for economic development projects in the FY 2017-18 budget for the Office of Economic and Workforce Development (OEWD) on Budget and Finance Committee reserve, pending details provided to the Board of Supervisors on comprehensive outreach to more directly address the needs of the Chinatown community.
- OEWD's Chinatown Corridor Management is intended to strengthen small businesses and improve physical conditions along Chinatown's commercial corridors. OEWD selected a community based organization following a competitive Request for Proposals (RFP) to (a) conduct door-to-door outreach with information about City programs to support small businesses, (b) track potential sites for small business use, (c) update the City's database that tracks changes to Chinatown businesses, (d) collect businesses' emergency contact information, (e) leverage resources to provide business assistance and referrals, and (f) develop strategies to support business attraction and retention.
- The Enhanced Parking and Marketing Pilot, in partnership with the Municipal Transportation Agency (SFMTA), will promote discounted parking in three public garages, highlight businesses and cultural events, and encourage businesses to extend hours with promotions. Upon release of the reserves, OEWD will select a contractor through a competitive process to promote the discounted parking and provide outreach to Chinatown businesses, with services scheduled to begin on or before February 2018.

Fiscal Impact

- The total amount requested by OEWD to be released from reserves is $225,000. This appropriation was included in the adopted FY 17-18 budget.

Recommendation

- Approve the requested release of reserves.

MANDATE STATEMENT

City Administrative Code Section 3.3(e) states that the Budget and Finance Committee of the Board of Supervisors has jurisdiction over the City's budget and may reserve proposed expenditures to be released at a later date subject to Budget and Finance Committee approval.

BACKGROUND

The Board of Supervisors placed $225,000 for economic development projects in the FY 2017-18 budget for the Office of Economic and Workforce Development (OEWD) on Budget and Finance Committee reserve. According to Mr. Joaquin Torres, OEWD Deputy Director, the funds were placed on reserve pending details provided to the Board of Supervisors on comprehensive outreach to more directly address the needs of the Chinatown community.

DETAILS OF PROPOSED LEGISLATION

The requested hearing is for the release $225,000 on Budget and Finance Committee reserve to fund the Chinatown Corridor Management and Chinatown Parking and Marketing Pilot. These projects would serve Chinatown, specifically the area between Kearny and Powell Streets and California and Vallejo Streets.

OEWD's Chinatown Corridor Management is intended to strengthen small businesses and improve physical conditions along Chinatown's commercial corridors. OEWD issued a Request for Proposals (RFP) in April 2017 to selector community based organizations to provide a variety of economic development services, including the Chinatown Corridor Manager. According to Mr. Torres, the scope of services for Chinatown Corridor Manager includes (a) conducting door-to-door outreach with information about City programs to support small businesses, (b) tracking of potential sites for small business use, (c) updating the City's database that tracks changes to Chinatown businesses, (d) collecting businesses' emergency contact information, (e) leveraging resources to provide business assistance and referrals, and (f) developing strategies to support business attraction and retention.

The Enhanced Parking and Marketing Pilot, in partnership with the Municipal Transportation Agency (SFMTA), will promote discounted parking in three public garages, highlight businesses and cultural events, and encourage businesses to extend hours with promotions. Upon release of the reserves, OEWD will select a contractor through a competitive process to promote the discounted parking and provide outreach to Chinatown businesses, with services scheduled to begin on or before February 2018.

FISCAL IMPACT

The total amount requested by OEWD to be released from reserves is $225,000. This appropriation was included in the adopted FY 17-18 budget. The cost breakdown of the use of funds is shown in Table 1 below.

Table 1: Cost Breakdown of OEWD Release of Reserves

Project	Cost
Chinatown Corridor Manager Project	$100,000
Customer Attraction – Enhanced Parking	$100,000
Customer Attraction – Parking Marketing	$25,000
Total	**$225,000**

RECOMMENDATION

Approve the requested release of reserves.

Item 10 **File 17-1178**	**Department:** Department of Public Health (DPH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize a new lease between the City and Robert J. Cort Marital Trust and Vera Cort Survivor's Trust at 1380 Howard Street for Department of Public Health from January 1, 2018 to December 31, 2022. The new lease has three (3) five-year options to extend through 2037 ay 95 percent fair market value.

Key Points

- The City has leased space at 1380 Howard Street since October 1988 for the Community Behavioral Health Services Division of the Department of Public Health (DPH). In 2006, the Board of Supervisors approved an amendment to the 1380 Howard Street lease for 79,950 square feet for a term through December 2012. The amended lease had two (2) five year options to extend the lease at 95 percent fair market value. In 2012, the Board of Supervisors approved the first of the two five year options of the lease for a term from January 1, 2013 through December 31, 2017. The Real Estate Division opted to enter into a new lease rather than exercise the one additional option to extend the current lease as the new proposed lease allows the City, at City's option and subject to further Board approval, to extend the lease through 2037.

Fiscal Impact

- Under the proposed lease, annual base rent paid by the City to the landlord is $42.75 per square foot, equal to $3,417,862 per year, or $17,089,313 over five years. In addition, the City will pay approximately $340,587 directly for gas, water and electricity, which are separately metered, as well as janitorial services. Therefore, total estimated first year rent and operating costs paid by the City are $3,758,449.
- Under the proposed lease, the landlord will construct improvements to 1380 Howard Street of up to $1,278,500, subject to review and approval by the City. The landlord will pay up to $479,700 toward the cost of the tenant improvements. DPH does not plan on exceeding the $479,700 cost for improvements.

Policy Consideration

- The Real Estate Division considered two alternatives to renewing the proposed lease at 1380 Howard Street: (1) purchase of 1380 Howard Street, which the Real Estate Division determined was not financially feasible; and (2) leasing alternative office space. The Real Estate Division evaluated alternative office space using an electronic listing service for commercial properties, and did not find suitable alternatives based on the square footage needed and the cost per square foot.

Recommendation

- Approve the proposed resolution

MANDATE STATEMENT

Administrative Code Section 23.27 requires Board of Supervisors approval of leases that are longer than one year where the City is the tenant. If the base rent is more than $45 per square foot per year, the City must obtain a third party appraisal to determine fair market value of the lease.

BACKGROUND

The City has leased space at 1380 Howard Street since October 1988 for the Community Behavioral Health Services Division of the Department of Public Health (DPH). The primary DPH programs that occupy the five story plus basement office building serve the DPH Community Programs' Administrative Office, and include program administration for: (a) Community Oriented Primary Care, (b) Business Office, (c) Contracts Office, (d) Information Technology/MIS, and (e) Cultural Competency and Client Relations. DPH client service programs that occupy space include: (a) DPH's Pharmacy, (b) Opiate Addiction Treatment Program, (c) Behavioral Health Access Center, and (d) Substance Abuse Crime Prevention Act (SACPA).

In 2006, the Board of Supervisors approved an amendment to the 1380 Howard Street lease, increasing the leased space from 70,300 square feet to 79,950 square feet and extending the term through December 2012. The amended lease had two (2) five year options to extend the lease at 95 percent fair market value, as determined by an appraisal commissioned by the landlord. In 2012, the Board of Supervisors approved the first of the two five year options of the lease for a term from January 1, 2013 through December 31, 2017.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize a new lease between the City and Vera Cort as Trustee of the Robert J. Cort Marital Trust and as Trustee of the Vera Cort Survivor's Trust as Landlord for 1380 Howard Street for DPH's Community Behavioral Health Services Division.

The terms of the proposed lease are summarized in Table 1 below.

Table 1: Proposed Lease Provisions

	Proposed Lease Provisions
Lease term	January 1 2018 to December 31, 2022
Square feet	79,950
Options to extend	Three (3) five-year options to extend through 2037 at 95% fair market value
Base rent paid by City	$42.75 per square foot per year $284,821.88 per month $3,417,862 per year
Rent Increase	None
Tenant improvement allowance	Up to $479,700 paid by landlord
Estimated utilities and services in first year	$4.26 per square foot per year $28,413 per month $340,587 per year

The existing lease provides one additional five-year option to extend the lease through 2022 at 95 percent of fair market value. According to Mr. Charlie Dunn, Senior Real Property Officer, the Real Estate Division opted to enter into a new lease rather than exercise the one additional option to extend the current lease as the new proposed lease allows the City, at City's option and subject to further Board approval, to extend the lease through 2037. According to Mr. Dunn, the rent of $42.75 per square foot per year under the proposed new lease represents approximately 80 percent of fair market rent of $54.00 per square foot, as determined by an appraisal prepared by Clifford Advisory LLC in July 2017 for the City's Real Estate Division.

FISCAL IMPACT

Under the proposed lease, annual base rent paid by the City to the landlord is $42.75 per square foot, equal to $3,417,862 per year for 79,950 square feet, or $17,089,313 over five years.

The City will pay directly for gas, water and electricity, which are separately metered, as well as janitorial services. The Real Estate Division estimates first year janitorial and utilities and janitorial services are equal to $4.26 per square foot, equal to $340,587 in the first year. Therefore, total estimated first year rent and operating costs paid by the City are $3,758,449.

Funding for the proposed lease in FY 2017-18 and FY 2018-19 comes from the DPH FY 2017-18 and FY 2018-19 budgets, previously appropriated by the Board of Supervisors

Tenant Improvements

Under the proposed lease, the landlord will construct improvements to 1380 Howard Street of up to $1,278,500, subject to review and approval by the City. The landlord will pay up to $479,700 toward the cost of the tenant improvements. If the costs of tenant improvements are more than $479,700, the City will pay the excess up to $799,500. According to Mr. Dunn, the tenant improvements have not yet been detailed; however, the planned improvements include updating the elevator lobbies, re-painting and carpeting parts of the corridor, and replacing ground floor paint and lighting at an estimated cost of $479,700. According to Greg Wagner, DPH Chief Financial Officer, DPH does not plan on exceeding the $479,700 cost for improvements.

POLICY CONSIDERATION

According to the October 23, 2017 memorandum from the Director of Real Estate to the Board of Supervisors, the Real Estate Division considered two alternatives to renewing the proposed lease at 1380 Howard Street: (1) purchase of 1380 Howard Street, which the Real Estate Division determined was not financially feasible; and (2) leasing alternative office space. According to Mr. Dunn, the Real Estate Division evaluated alternative office space using an electronic listing service for commercial properties, and did not find suitable alternatives based on the square footage needed and the cost per square foot.

RECOMMENDATION

Approve the proposed resolution

Items 11 and 12 **Files 17-0254 and 17-0255**	**Department:** San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolutions amend two restaurant leases between San Francisco International Airport (Airport) and SSP America, Inc. for (i) 1300 on Fillmore in the International Terminal (File 17-0254), increasing the square footage to approximately 2,100 square feet, the Minimum Annual Guaranteed (MAG) rent to $279,000, and the annual promotional charge to $2,100, and (ii) Union Street Gastropub in Terminal 3 (File 17-0255), increasing the square footage to approximately 2,654 square feet, the MAG rent to $181,714 and the annual promotional charge to $3,111.

Key Points

- SSP currently operates two restaurants in the Airport, 1300 on Fillmore in the International Terminal and Union Street Gastropub in Terminal 3. The Board of Supervisors approved the original lease for the Union Street Gastropub in Terminal 3 in 2003, and the first amendment to the lease in 2015, suspending the MAG and other fees through November 2015 due to Airport construction in Terminal 3, and providing for a new 10-year lease to approximately November 2025. The Board of Supervisors approved the 1300 on Fillmore lease in the International Terminal lease in July 2016.
- SSP America was allowed to expand the premises of 1300 on Fillmore to 2,100 square feet and Union Street Gastropub to 3,111 square feet to create additional dining room seating. Under the proposed resolutions, the MAG rent would increase retroactively and proportionally to the square footage for each restaurant, to $279,000 for 1300 on Fillmore and $181,714 for Union Street Gastropub. According to the Airport, the amended leases and increases in the MAG rent would be effective as of March 11, 2017 for 1300 on Fillmore (File 17-0254) and March 30, 2017 for Union Street Gastropub (File 17-0255). According to Airport staff, SSP America has paid percentage rent rather than the MAG for the 1300 on Fillmore and Union Street Gastropub leases.

Fiscal Impact

- Under the proposed first amendment to the lease between SSP America and the Airport for the 1300 on Fillmore space in the International Terminal, SSP America would pay MAG rent to the Airport from March 2017 through May 2027 of at least $2,859,750, not including Consumer Price Index (CPI) increases. Under the proposed second amendment to the lease between SSP America and the Airport for the Union Street Gastropub space in Terminal 3, SSP America would pay MAG rent to the Airport from March 2017 through November 2025 of at least $1,567,283, not including CPI increases.

Recommendations

- Amend File 17-0255 to state that the 2017 MAG rent to be paid by SSP America to the Airport is $58.41 per square foot, equal to $181,714 for 3,111 square feet.
- Amend Files 17-0254 and 17-0255 for retroactive approval.
- Approve Files 17-0254 and 17-0255 as amended.

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

SSP America, Inc. (SSP America) currently operates 1300 on Fillmore in the International Terminal (File 17-0254) and Union Street Gastropub in Terminal 3 (File 17-0255) in San Francisco International Airport (Airport). Under the lease between the Airport and SSP America for:

(a) 1300 on Fillmore, SSP America pays the greater of Minimum Annual Guarantee (MAG) rent of $225,000 or percentage rent[1] for 1,694 square feet of space for a ten-year term from approximately June 2017 to May 2027 with two one-year options to extend to May 2029; and

(b) Union Street Gastropub, SSP America pays the greater of the MAG of $155,020 or percentage rent[2] for 2,654 square feet for an approximate 20-year term (including suspension of the lease during Airport construction in Terminal 3) from 2003 to November 2025.

The Board of Supervisors approved the original lease for the Union Street Gastropub in Terminal 3 in December 2003 (File 03-1710). In January 2015, the Board of Supervisors approved the first amendment, suspending the MAG and other fees through November 2015 due to Airport construction in Terminal 3, and providing for a new 10-year lease to approximately November 2025 (File 14-0946). The Board of Supervisors approved the 1300 on Fillmore lease in the International Terminal lease in July 2016 (File 16-0450).

DETAILS OF PROPOSED LEGISLATION

File 17-0254 is a resolution approving the first amendment to the lease between SSP America and the Airport for the 1300 on Fillmore space in the International Terminal to: (a) increase the square footage by approximately 24 percent from 1,694 square feet to 2,100 square feet, and (b) increase the MAG from $225,000 to $279,000 (equal to approximately $132.95 per square foot). The MAG is adjusted annually based on a formula in the original lease. All other lease terms remain unchanged.

File 17-0255 is a resolution approving the second amendment to the lease between SSP America and the Airport for the Union Street Gastropub space in Terminal 3 to: (a) increase the square footage by approximately 17 percent from 2,654 square feet to 3,111 square feet, and

[1] Percentage rent in the lease for 1300 on Fillmore equals: 6 percent of gross revenues up to $1 million, 8 percent of gross revenues between $1 million and $1.5 million, and 10 percent of gross revenues of more than $1.5 million.
[2] Percentage rent in the lease for Union Street Gastropub equals: 8 percent of gross revenues up to $600,000, 10 percent of gross revenues between $600,000 and $1 million, and 12 percent of gross revenues of more than $1 million.

(b) increase the MAG from $155,020 to $181,714 (equal to $58.41 per square foot). The MAG is adjusted annually based on a formula in the original lease. All other lease terms remain unchanged.

SSP America was allowed to expand the premises of 1300 on Fillmore to 2,100 square feet and Union Street Gastropub to 3,111 square feet. According to Ms. Gigi Ricasa, Airport Senior Principal Property Manager, both of these expansions were to create additional dining room seating which the Airport supported as it will lead to higher sales and made sense physically in the both locations. Under the proposed resolutions, the MAG rent would increase retroactively and proportionally to the square footage for each restaurant, to $279,000 for 1300 on Fillmore and $181,714 for Union Street Gastropub. The amended leases and increases in the MAG rent would be effective as of March 11, 2017 for 1300 on Fillmore (File 17-0254) and March 30, 2017 for Union Street Gastropub (File 17-0255). According to Ms. Ricasa, SSP America has paid percentage rent rather than the MAG for the 1300 on Fillmore and Union Street Gastropub leases.

Under the existing lease for the Union Street Gastropub in Terminal 3 (File 17-0255), the 2017 MAG to be paid by SSP America to the Airport is $58.41 per square foot, equal to $181,714 for 3,111 square feet. File 17-0255 should be amended to state that the MAG in 2017 is $181,714 rather than the incorrect amount in the resolution of $166,439.

FISCAL IMPACT

Under the proposed first amendment to the lease between SSP America and the Airport for the 1300 on Fillmore space in the International Terminal, SSP America would pay MAG rent to the Airport from March 2017 through May 2027 of at least $2,859,750, not including Consumer Price Index (CPI) increases.[3] Under the proposed second amendment to the lease between SSP America and the Airport for the Union Street Gastropub space in Terminal 3, SSP America would pay MAG rent to the Airport from March 2017 through November 2025 of at least $1,567,283, not including CPI increases. Under the existing leases SSP America pays the greater of percentage or MAG rent, and as noted above, SSP has paid has paid percentage rent to the Airport rather than the MAG.

In addition to rent, SSP also pays an annual Promotional Charge of $1 per square foot for each restaurant. The Promotional Charge is used by the Airport for marketing purposes. With the increase in square footage for each restaurant, SSP will now pay an annual Promotional Charge of $2,100 for 1300 on Fillmore and $3,111 for Union Street Gastropub.

RECOMMENDATIONS

1. Amend File 17-0255 to state that the 2017 MAG rent to be paid by SSP America to the Airport is $58.41 per square foot, equal to $181,714 for 3,111 square feet.
2. Amend Files 17-0254 and 17-0255 for retroactive approval.
3. Approve Files 17-0254 and 17-0255 as amended.

[3] Under the two leases between the SSP America and the Airport, the MAG is increased annually by a formula based on the CPI.

Item 17 **File 17-1197**	**Department:** Mayor's Office

EXECUTIVE SUMMARY

Legislative Objectives

The proposed resolution would (1) authorize a purchase and sale agreement for the Mayor's Office of Housing and Community Development (MOHCD) to purchase Sunnydale Parcel Q from Sunnydale Parcel Q Housing Partners for $3,000,000; (2) authorize a 75-year ground lease, with one 24-year option to extend, between the City as landlord and Sunnydale Parcel Q Housing Partners as tenant for $15,000 annual base rent to construct affordable housing; and (3) adopt findings that the purchase, sale, and lease of the property are consistent with the General Plan and the eight policy priorities of Planning Code Section 101.1.

Key Points

- Sunnydale Parcel Q, which is adjacent to the San Francisco Housing Authority (SFHA) Sunnydale housing complex, is proposed for development of 55 units of multi-family rental housing for low-income households. Sunnydale Parcel Q Housing Partners (which is a limited partnership consisting of subsidiaries of Mercy Housing California and Related Companies of California) purchased Sunnydale Parcel Q from a private party in December 2016 for $3,000,000, using an acquisition loan from MOHCD, with the understanding that MOHCD would subsequently purchase Sunnydale Parcel Q and enter into a long-term ground lease with Sunnydale Parcel Q Housing Partners to develop the affordable housing.
- MOHCD's purchase price of $3,000,000 for Sunnydale Parcel Q is less than the $5,950,000 appraised value, based on an appraisal dated November 1, 2017.

Fiscal Impact

- For the purchase of Sunnydale Parcel Q from Sunnydale Parcel Q Housing Partners, MOHCD will apply a credit of $3,000,000 to the outstanding balance of the acquisition loan. Total estimated costs to Sunnydale Parcel Q Housing Partners to develop affordable housing on Sunnydale Parcel Q are $44.8 million; sources of financing include low-income housing tax credits, MOHCD gap financing, and other sources.
- MOHCD will enter into a 75-year ground lease with Sunnydale Parcel Q Housing Partners, in which Sunnydale Parcel Q Housing Partners will pay base rent of $15,000 per year, and residual rent up to $580,000 per year to the extent that surplus cash is available.

Policy Consideration

- In accordance with City Administrative Code Section 23.3, an appraisal review is required for the purchase by the City of property exceeding $200,000 in fair market value. According to MOHCD staff, although the appraisal review was not available for review by the Budget and Legislative Analyst, it will be presented to the Budget and Finance Committee by November 30, 2017.

Recommendation

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

MANDATE STATEMENT

City Administrative Code Section 23.3 requires (1) Board of Supervisors approval of any purchase of real property by the City, and (2) an appraisal for the purchase of property exceeding $10,000 in fair market value and an appraisal review for the purchase of property exceeding $200,000 in fair market value.

BACKGROUND

HOPE SF is a program between the City and the San Francisco Housing Authority (SFHA), in which the Mayor's Office of Housing and Community Development (MOHCD) is the lead agency in redeveloping five SFHA housing developments: Hunters View, Alice Griffith, Potrero Terrace and Annex, and Sunnydale.

In March 2008, following a competitive solicitation process, SFHA selected Mercy Housing California and Related Companies of California (Mercy/Related) as co-developers for the revitalization of Sunnydale through HOPE SF.

In April 2008, the MOHCD issued a Notice of Funding Availability for development of the Sunnydale Master Plan, and Mercy/Related were selected as the recipients of the funding.

The Sunnydale HOPE SF Master Plan includes the complete rebuilding of the existing SFHA Sunnydale housing development. The Master Plan consists of a maximum of 1,770 new units, including 969 to 994 affordable units, of which 775 are replacement units for existing Sunnydale public housing residents, and approximately 600 market rate units. The project also includes 4.6 acres of new open space and approximately 60,000 square feet of new neighborhood-serving retail and community spaces. The Board of Supervisors approved the Sunnydale HOPE SF Special Use District in January 2017.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would:

(1) Authorize a purchase and sale agreement for the acquisition by the City, under the jurisdiction of MOHCD, of Sunnydale Parcel Q from Sunnydale Parcel Q Housing Partners for $3,000,000;

(2) Authorize a 75-year ground lease, with one 24-year option to extend, between the City as landlord and Sunnydale Parcel Q Housing Partners as tenant for $15,000 annual base rent to construct a 100 percent affordable, 55-unit multifamily rental housing development for low-income households; and

(3) Adopt findings that the purchase, sale, and lease of the property are consistent with the General Plan and the eight policy priorities of Planning Code Section 101.1.

Purchase and Sale Agreement

The proposed resolution would authorize the City to purchase Sunnydale Parcel Q, which consists of 21,757 square feet of land located at 1491 Sunnydale Avenue, from Sunnydale Parcel Q Housing Partners, L.P., which consists of subsidiaries of both co-developers for

$3,000,000. An appraisal dated November 1, 2017 valued the Sunnydale Parcel Q property at $5,950,000 based on the City's approval of the redevelopment of the Sunnydale public housing complex, and the completion of entitlement work on Sunnydale Parcel Q.

In order to relocate residents currently on site to start demolition of the existing SFHA housing and subsequent construction of the new Sunnydale HOPE SF housing units, Sunnydale Parcel Q Housing Partners purchased Sunnydale Parcel Q, which is adjacent to the existing SFHA housing development at 1491 Sunnydale Avenue. Sunnydale Parcel Q Housing Partners acquired Sunnydale Parcel Q in 2016 for $3,000,000 using a $5,000,000 predevelopment and acquisition loan from MOHCD. According to the April 2016 MOHCD staff report to the HOPE SF Affordable Housing Loan Committee[1], Sunnydale Parcel Q Housing Partners were to complete purchase of the site in December 2016, and then transfer the site to MOHCD at construction financing close. MOHCD would credit the acquisition loan to be shown paid in full at land transfer. According to the staff report, MOHCD would then ground lease the site to Sunnydale Parcel Q Housing Partners.

Development of Sunnydale Parcel Q

The proposed development of Sunnydale Parcel Q is a 55-unit multi-family rental housing development for low-income households. The housing is a mix of one-, two- and three-bedroom units for households with incomes up to 50 percent of the San Francisco Area Median Income (AMI)[2]. 75 percent of the housing units will be reserved for existing residents of SFHA's Sunnydale housing development.

Related will develop the property and Mercy will be the property manager. Financing for the project consists of federal Low Income Housing Tax Credits and gap financing to be provided by MOHCD, as discussed further below.

Planning Department Findings

The project was reviewed in accordance with the California Environmental Quality Act (CEQA) under the Addendum to the Environmental Impact Report – Sunnydale Velasco HOPE Master Plan, published on June 16, 2016. The Planning Department additionally determined that the proposed development of Sunnydale Parcel Q is consistent with the eight priority policies of the Planning Code and in conformity with the City's General Plan.

FISCAL IMPACT

For the purchase of Sunnydale Parcel Q from Sunnydale Parcel Q Housing Partners, MOHCD will apply a credit of $3,000,000 to the outstanding balance of the $5,000,000 predevelopment and acquisition loan to Sunnydale Parcel Q Housing Partners. MOHCD will also provide Sunnydale Parcel Q Housing Partners with additional financial assistance to leverage equity from an allocation of low-income housing tax credits and other funding sources. The sources and uses for the proposed development of Sunnydale Parcel Q are shown in Table 1 below.

[1] The HOPE SF Affordable Housing Loan Committee is made up of representatives from MOHCD, Human Services Agency, Department of Public Health, Office of Community Investment and Infrastructure, and San Francisco Housing Authority.

[2] $57,650 in 2017 for a family of four

Table 1: Sunnydale Parcel Q Development Sources and Uses of Funds

Sources of Funds	Amount
MOHCD Gap Financing Permanent Loan to Sunnydale Parcel Q Housing Partners	$7,466,847
MOHCD Predevelopment and Acquisition Loan [a]	2,000,000
Permanent Financing	11,617,000
Low-Income Housing Tax Credits	23,747,625
Total Sources of Funds	**$44,831,472**
Uses of Funds	
Acquisition (Closing Costs)	$62,500
Hard Costs (Construction)	31,599,341
Construction Contingency (10%)	3,159,934
Soft Costs (Design, Engineering, Financing, Legal)	6,593,989
Soft Cost Contingency (3.6%)	329,699
Reserves	911,009
Mercy/Related Developer Fee	2,175,000
Total Uses of Funds	**$44,831,472**
Cost Per Unit (55 units)	$815,118

[a] $5,000,000 loan net of the $3,000,000 credit for acquisition of Sunnydale Parcel Q.
Source: MOHCD

According to Ms. Sara Amaral, MOHCD Project Manager, the total development cost per unit of $815,118 is $173,778, or 27 percent, higher than the average per unit cost of $641,340 for multifamily affordable housing projects in MOHCD's portfolio with a completion date after January 2015. The total development cost per bedroom of $439,524 is $73,106, or 20 percent, higher than the average per bedroom cost of $366,418 for MOHCD's multifamily affordable housing portfolio. According to Ms. Amaral, the high construction costs are due to (1) the construction of housing over a concrete parking podium, with concrete adding significantly to the cost of construction, (2) the high portion of two- and three-bedroom apartments, reducing the total number of units, and (3) the City's competitive construction market.

Total City financing to the project (not including the purchase price of Sunnydale Parcel Q) of $9,466,847 ($2,000,000 in predevelopment and acquisition loan and $7,466,847 in permanent financing) results in City financing costs of $172,124 per unit for the 55 total units of housing, which is $37,841 or 18 percent, lower than MOHCD's average cost of financing per unit of $209,965.

Ground Lease

After purchasing the property, MOHCD (landlord) would enter into a 75-year ground lease with Sunnydale Parcel Q Housing Partners (tenant) for the Sunnydale Parcel Q property. Key terms of the ground lease are shown in Table 2 below.

Table 2: Key Lease Terms

Lease Term	
Size of Property	21,757 SF
Lease Period	75 years (January 2018 to January 2093)
Options to extend the lease	One 24-year option to extend the lease through 2117 for a total lease term of 99 years
Base rent	$15,000 per year
Adjustments to base rent	None
Residual rent	Up to $580,000 per year
Adjustments to residual rent	10 percent of fair market value on the 15th anniversary of the first rent payment and every 15 years thereafter
Taxes, Insurance, Maintenance, Utilities	Payable by Sunnydale Parcel Q Housing Partners

Sunnydale Parcel Q Housing Partners would pay base rent of $15,000 per year to MOHCD in exchange for Sunnydale Parcel Q Housing Partners' agreement to develop and operate the affordable housing development with rent levels affordable to households with up to 50 percent of San Francisco AMI. According to Ms. Amaral, the $15,000 base rent is the standard fee MOHCD charges affordable housing developers. The total amount of base rent to be paid by Sunnydale Parcel Q Housing Partners to MOHCD over the term of the 75-year lease would be $1,125,000, as shown in Table 3 below.

Table 3: Total Rent Paid by Related to MOHCD

Annual Rent	Lease Term	Total Rent
$15,000	75 years	$1,125,000

If the project does not have sufficient income to pay base rent in any year, the unpaid amount will be deferred and accrue without interest until paid.

Residual rent, for repayment of the MOHCD loans, will be payable to the extent that surplus cash[3] is available. Residual rent will be up to $580,000 for the first 15 years of the ground lease, and will reset to 10 percent of the new appraised fair market value of the Sunnydale Parcel Q project on the 15th anniversary of the first rent payment and every 15 years thereafter. Unpaid residual rent due to insufficient surplus cash in any year will not accrue and will not be payable from surplus cash in subsequent years. If surplus cash is insufficient to pay the full amount of residual rent, Sunnydale Parcel Q Housing Partners must certify in writing and provide supporting documentation to the City to verify the insufficiency.

POLICY CONSIDERATION

In accordance with City Administrative Code Section 23.3, an appraisal review is required for the purchase by the City of property exceeding $200,000 in fair market value, and according to the appraisal, the Sunnydale Parcel Q property has a fair market value of $5,950,000. According to MOHCD staff, although the appraisal review was not available for review by the Budget and

[3] Project income remaining after payment of operating expenses and management fees

Legislative Analyst, it will be presented to the Budget and Finance Committee by November 30, 2017.

MOHCD staff note that there is currently legislation pending before the Board of Supervisors to amend Administrative Code Section 23.3 to waive the appraisal and appraisal review requirement for property that will be used for 100 percent affordable housing (File 17-1107). If the proposed legislation is approved by the Board of Supervisors, an appraisal review would not be required for the purchase of Sunnydale Parcel Q. Since this legislation has not yet been approved, the Budget and Legislative Analyst considers it a policy matter for the Board of Supervisors to approve the purchase of Sunnydale Parcel Q pending completion of an appraisal review.

RECOMMENDATION

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