CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST

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January 6, 2017

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: January 11, 2017 Budget and Finance Committee Meeting

TABLE OF CONTENTS

Item 7 **File 161225**	**Department:** Office of the Treasurer-Tax Collector (OTTC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would amend the City's Business and Tax Regulations Code to delete (i) the $100 minimum penalty from one of the penalties for failing to register with the Tax Collector and (ii) the $25 fee for obtaining a duplicate Business Registration Certificate.

Key Points

- San Francisco's Business and Tax Regulations Code requires that every person engaging in business within the City, regardless of whether such person is subject to taxation, must register within 15 days after commencing business within the City and obtain a Business Registration Certificate.
- Currently, a business that fails to register must pay a penalty equal to either $100 or the penalty assessed pursuant to Code Section 6.17-1 (starting at 5 percent of the tax), whichever is greater. Smaller businesses that fail to register are assessed a $100 minimum penalty, while larger businesses are assessed a percentage penalty. The proposed ordinance would delete the $100 minimum penalty but continue to require the percentage penalty for all businesses.
- The majority of businesses subject to the $100 minimum penalty are small businesses that renew their registration late.

Fiscal Impact

- If the proposed business registration penalty structure were implemented in 2015 and taxpayers paid on the same schedule, the Office of the Treasurer and Tax Collector would have collected approximately $1.5 million less in penalties each year, with most of the reduction in penalties benefitting the smallest businesses that come into compliance quickly after missing a business registration deadline.
- The $25 fee to obtain a duplicate Business Registration Certificate has not been enforced and therefore had not generated revenue to the City because the Office of the Treasurer and Tax Collector has determined that the cost of printing a duplicate certificate is minimal as a result of technological upgrades. Given that California law requires counties to collect a fee of not more than 100 percent of the cost of the service, the Office of the Treasurer and Tax Collector opted to forego the fee entirely.

Recommendation

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

MANDATE STATEMENT

Charter Section 2.105 requires that legislative acts in San Francisco be by ordinance, subject to approval by a majority of the Board of Supervisors.

BACKGROUND

San Francisco's Business and Tax Regulations Code requires that every person engaging in business within the City, regardless of whether such person is subject to taxation, must register within 15 days after commencing business within the City and obtain a Business Registration Certificate. The Business Registration Certificate must be conspicuously displayed at the place of business. The fees for obtaining a Business Registration Certificate range from $75 to $35,000, based on the type of business activities and the annual gross receipts. Such fees were set as part of Proposition E, which was approved by San Francisco's voters on November 6, 2012, and resulted in the establishment of a Gross Receipts Tax and changes to the Payroll Expense Tax, the Business Registration Fee, and the Common Administrative Provisions of the Business and Tax Regulations Code. Business Registration Certificates must be renewed each year by May 31st. Table 1 below outlines the Business Registration Certificate fees based on gross receipts for the calendar year and business activity type.

Table 1: Business Registration Fees

Gross Receipts for Calendar Year	Schedule A	Schedule B[1]	State Fee
$0 to $100,000	$90	$75	$1
$100,001 to $250,000	$150	$125	$1
$250,001 to $500,000	$250	$200	$1
$500,001 to $750,000	$500	$400	$1
$750,001 to $1,000,000	$700	$600	$1
$1,000,001 to $2,500,000	$300	$200	$1
$2,500,001 to $7,500,000	$500	$400	$1
$7,500,001 to $15,000,000	$1,500	$1,125	$1
$15,000,001 to $25,000,000	$5,000	$3,750	$1
$25,000,001 to $50,000,000	$12,500	$7,500	$1
$50,000,001 to $100,000,000	$22,500	$15,000	$1
$100,000,001 to $200,000,000	$30,000	$20,000	$1
$200,000,001 and over	$35,000	$30,000	$1

The City's existing Business and Tax Regulations Code imposes a penalty for failure to obtain a Business Registration Certificate under Section 6.17-3. That penalty is in addition to any other liability imposed under Article 6 of the Code (including administrative penalties), and is either

[1] Schedule B consists solely of the business activities of Certain Services (e.g., Repair/Maintenance, Personal/Laundry, Civic Organizations), Retail Trade, and/or Wholesale Trade. Schedule A includes all other business activities that do not fall under Schedule B.

$100, or a percentage of the amount owed per Code Section 6.17-1[2], whichever is greater. Thus, a person that failed to obtain a Business Registration Certificate but was not subject to a penalty under Code Section 6.17-1 (because, for example, the person was not required to pay the Business Registration fee), could still be liable for the $100 administrative penalty under Code Section 6.19-3. The existing Code also provides procedures and a $25 fee to obtain a duplicate Business Registration Certificate.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend the City's Business and Tax Regulations Code to delete (i) the $100 minimum penalty from one of the penalties for failing to register with the Tax Collector and (ii) the $25 fee for obtaining a duplicate business registration certificate.

Currently, a business that fails to register must pay a penalty equal to either $100 or the penalty assessed pursuant to Section 6.17-1 (starting at 5 percent of the tax), whichever is greater. Smaller businesses that fail to register are assessed a $100 minimum penalty, while larger businesses are assessed a percentage penalty.[3] The proposed ordinance would delete the $100 minimum penalty but continue to require the percentage penalty for all businesses.

According to Ms. Amanda Fried, Policy and Legislative Manager at the Office of the Treasurer and Tax Collector, 8,253 businesses were penalized for failing to renew their business registration in 2015, with penalties ranging from $100 to $1750. The majority of businesses subject to the $100 minimum penalty are small businesses that renew their registration late. 84 percent of businesses that registered late in 2015 had gross receipts of less than $250,000 annually, while almost 9 percent of businesses had gross receipts of less than $100,000 annually. According to Ms. Fried, the proposed ordinance aims to facilitate the overall tax compliance for small businesses. Under the proposed ordinance, businesses of all sizes would be subject to the same penalty structure, which starts at 5 percent of the tax amount due per month late, and caps out at 40 percent of the tax amount due, as shown in Table 2 below.

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[2] Section 6.17-1 states that any person who fails to pay any tax to the City, or any operator or other person who fails to collect and remit any third-party taxes shall pay a penalty of 5 percent of the tax, if the failure is for not more than 1 month after the tax became delinquent, plus an additional 5 percent for each following month or fraction of a month during which such failure continues, up to 20 percent in the aggregate, until the date of payment. Any taxes remaining unpaid for a period of 90 days after notification that the tax is delinquent shall be subject to an additional penalty of 20 percent of the tax or amount of the tax. Therefore, the total penalty is up to 40 percent of the business registration fee. Unpaid taxes and penalties shall also accrue interest at the rate of 1 percent per month, or fraction of a month, from the date the taxes become delinquent through the date the taxpayer or operator pays the delinquent taxes, penalties, interest and fees accrued to the date of payment in full.

[3] For example, a business that was required to pay a business registration fee of $200 (see Table 1 above) and failed to register would pay the $100 minimum penalty which is greater than the percentage penalty of 5 percent or $10 per month up to 40 percent or $80. A larger business that was required to pay a business registration fee of $3,750 and failed to register would be assessed the percentage penalty of 5 percent or $187 per month up to 40 percent or $1500.

Table 2: Business Registration Penalty Structure under the Proposed Ordinance

	1 month	2 months	3 months	4 months	5 months	6 months
Penalty	5%	10%	15%	40%	40%	40%
Interest	1%	2%	3%	4%	5%	6%
Administrative Fee	$55.00	$55.00	$55.00	$55.00	$55.00	$55.00

FISCAL IMPACT

Removal of $100 Minimum Business Registration Certificate Penalty for Failing to Register a Business with the Tax Collector

According to Ms. Fried, if the proposed business registration penalty structure were implemented in 2015 and taxpayers paid on the same schedule, the Office of the Treasurer and Tax Collector would have collected approximately $1.5 million less annually in penalties, with most of the reduction in penalties benefitting the smallest businesses that come into compliance quickly after missing a business registration deadline.

Removal of $25 Fee for Not Obtaining a Duplicate Business Registration Certificate

According to Ms. Fried, the $25 fee to obtain a duplicate Business Registration Certificate has not been enforced and therefore had not generated revenue to the City because the Office of the Treasurer and Tax Collector has determined that the cost of printing a duplicate certificate is minimal as a result of technological upgrades. Given that California law requires counties to collect a fee of not more than 100 percent of the cost of the service, the Office of the Treasurer and Tax Collector opted to forego the fee entirely.

RECOMMENDATION

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

Item 10 **File 16-1312**	**Department:** Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the SFPUC's emergency declaration to repair the Kirkwood Generator Bypass System's dissipater valve and approve actions taken by the Public Utilities Commission of San Francisco (SFPUC) to secure such emergency contracts.

Key Points

- The SFPUC operates the Hetch Hetchy Water and Power system, which includes the Kirkwood Powerhouse, serves drinking water to 2.6 million customers in San Francisco, Alameda, Santa Clara and San Mateo counties. Water from Kirkwood Powerhouse is delivered either through Kirkwood Powerhouse generating units or the Kirkwood Powerhouse Bypass. The Kirkwood Powerhouse Bypass only operates if the Kirkwood Powerhouse generating units are out of service.
- On October 6, 2016, the SFPUC inspected the Kirkwood Generator Bypass System and determined that the stainless steel dissipater valve had failed, resulting in damages to surrounding structures. Hetch Hetchy Water and Power senior management red-tagged the Kirkwood Generator Bypass System, meaning it has been taken out of service as it is dangerous to operate unless repaired or replaced.
- A shutdown of water supply from Kirkwood has been scheduled from January 3 to March 3, 2017 and the Kirkwood Generator Bypass System dissipater valve needs to be in place by the time that the Hetch Hetchy Water System is operational in March 2017. Because manufacture of the dissipater valve could take up to 16 weeks, the SFPUC determined that there was not sufficient time to competitively bid for manufacture of the dissipater valve and make related repairs to the Kirkwood Generator Bypass System.
- SFPUC declared a state of emergency due to the failure of the Kirkwood Generator Bypass System on November 23, 2016. SFPUC then issued a purchase order with Oakland Machine Works for the dissipater valve on November 30, 2016.

Fiscal Impact

- The estimated cost for emergency repairs to the Kirkwood Generator Bypass System, including the $206,000 contract between SFPUC and Oakland Machine Works to manufacture the dissipater valve, is $590,000.

Policy Consideration

- Monitoring or inspection of Kirkwood Powerhouse dissipater valve requires a full water system delivery shutdown. The SFPUC has plans to inspect the new energy dissipater in November 2018 when additional rehabilitation work on Mountain Tunnel is scheduled.

Recommendations

- Amend the proposed resolution to correctly state that the emergency work will cost approximately $590,000, not $700,000.
- Approve the proposed resolution as amended.

MANDATE STATEMENT

Administrative Code Section 21.15(c) states that approval of the Board of Supervisors must be obtained for any emergency contract in excess of $100,000.

BACKGROUND

The Public Utilities Commission of San Francisco (SFPUC) operates the Hetch Hetchy Water and Power system, which serves drinking water to 2.6 million residential, commercial, and industrial customers in San Francisco, Alameda, Santa Clara and San Mateo counties. The system includes three hydroelectric powerhouses: Moccasin Powerhouse, Kirkwood Powerhouse and Holm Powerhouse. The Kirkwood Powerhouse is located on the Tuolumne River six miles downstream from Hetch Hetchy Reservoir. Water from Kirkwood Powerhouse is delivered either through Kirkwood Powerhouse generating units or the Kirkwood Powerhouse Bypass. The Kirkwood Powerhouse Bypass only operates if the Kirkwood Powerhouse generating units are out of service. According to Ms. Margaret Hannaford, Hetch Hetchy Water and Power Division Manager, Kirkwood Powerhouse has periodically been out of service due to regulatory testing, forest fires, high river flows or construction. The frequency varies but the powerhouse is commonly taken out of service annually and the outages will last several days.

On October 6, 2016, the SFPUC inspected the Kirkwood Generator Bypass System and determined that the stainless steel dissipater valve had failed, resulting in damages to surrounding structures. The bypass system was last used for an extended period (11 days) during the Rim Fire.[1] During that use, the force of the water flow stripped the steel plate, rail, concrete and rebar from the floor to a depth of about 30 inches. Hetch Hetchy Water and Power senior management red-tagged the Kirkwood Generator Bypass System, meaning it has been taken out of service as it is dangerous to operate unless repaired or replaced.

SFPUC requested quotes from five vendors to repair the Kirkwood Generator Bypass dissipater valve. Two of the vendors were not compliant with City requirements, one vendor did not have sufficient capacity, and one vendor was not able to provide a quote. SFPUC selected Oakland Machine Works to repair the Kirkwood Generator Bypass dissipater valve. According to Ms. Hannaford, Oakland Machine Works is an approved vendor with the City and Hetch Hetchy Water and Power has a blanket purchase order with Oakland Machine Works. Hetch Hetchy Water and Power requires fabrication of unique equipment for hydro-generating equipment and release equipment on dams. Oakland Machine Works has, in the past, fabricated and rebuilt moving parts for seven hydro-generators and discharge valves at Eleanor Dam.

SFPUC met with Oakland Machine Works on November 8, 2016, to discuss the design, materials, and manufacturing techniques for the new dissipater valve to mitigate the potential for a similar type of failure in the future. SFPUC received a quote from Oakland Machine Works on November 15, 2016.

[1] The Rim Fire was a wildfire started in the summer of 2013 and was the third largest wildfire in California's history. It occurred in the Sierra Nevada mountain range and was fully contained only after nine weeks.

The SFPUC General Manager declared a state of emergency due to the failure of the Kirkwood Generator Bypass System in a letter to the SFPUC President on November 23, 2016. SFPUC updated the design drawings, negotiated with Oakland Machine Works, and issued a purchase order on November 30, 2016. This resolution was submitted to the Board on December 5, 2016.

DETAILS OF PROPOSED LEGISLATION

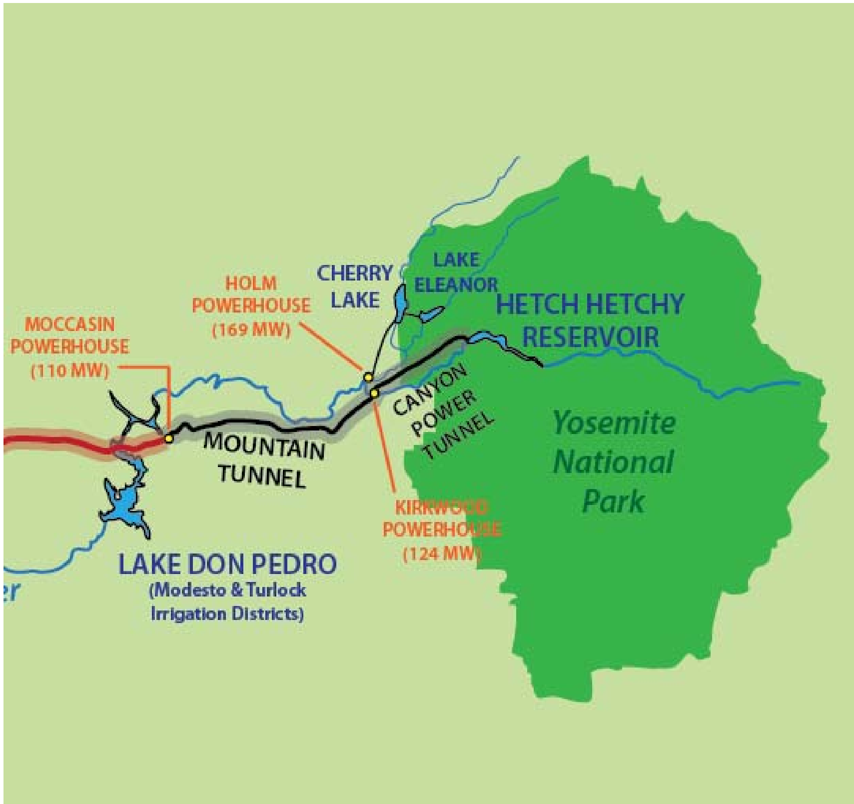
The proposed resolution would approve the SFPUC's emergency declaration to repair the Kirkwood Generator Bypass System's dissipater valve and approve actions taken by the SFPUC to secure such emergency contracts.

In accordance with the City Administrative Code, because the project was declared an emergency, the SFPUC awarded the emergency contract to Oakland Machine Works without undergoing a formal competitive bidding process because the SFPUC determined that there was insufficient time to go through such a competitive selection process due to the scheduled shut-down of the Hetch Hetchy Water System. A shutdown of water supply from Kirkwood has been scheduled from January 3 to March 3, 2017 to inspect and make repairs to the Mountain Tunnel, which runs 19 miles and connects Kirkwood Powerhouse to Priest Reservoir.

According to Ms. Hannaford, the Kirkwood Generator Bypass System dissipater valve needs to be in place by the time that the Hetch Hetchy Water System is operational in March 2017. Because manufacture of the dissipater valve could take up to 16 weeks, the SFPUC determined that there was not sufficient time to competitively bid for manufacture of the dissipater valve and make related repairs to the Kirkwood Generator Bypass System.

Exhibit 1 below shows a portion of the Hetch Hetchy Water System, including the Kirkwood Powerhouse and Mountain Tunnel.

Exhibit 1: Upper Portion of the Hetch Hetchy Power and Water System



FISCAL IMPACT

The budget for the emergency repairs to the Kirkwood Generator Bypass System, including the $206,000 contract between SFPUC and Oakland Machine Works to manufacture the dissipater valve, is $590,000, as seen in Table 1 below.

Table 1: Estimated Expenditures for Repair to Dissipater

Purpose	Estimated Cost
SFPUC Staff	$196,341
Project Development	47,646
Professional Services	18,240
Oakland Machine Works	206,000
Materials and Supplies	55,875
Contingency	65,898
Total	**$590,000**

According to Ms. Hannaford, Oakland Machine Works is currently fabricating the dissipater. SFPUC staff will perform all work required to prepare the site for construction during the shutdown, install the energy dissipater, and perform the remaining repair work to the Kirkwood Powerhouse Bypass Chamber. The dissipater is currently scheduled to arrive in the last week in March, but the SFPUC is exploring options for expediting the delivery. If it is delivered after the current shutdown, a special 2 day shutdown will be scheduled as soon as possible to complete the project.

Funds to pay for the emergency work will come from Hetch Hetchy's capital improvement project for power infrastructure, as previously appropriated by the Board of Supervisors. The current available balance is $66,900,000, and if the amended resolution is approved, the remainder of the fund will be $66,310,000.

The proposed resolution states that the emergency work will cost approximately $700,000, and should be amended to correctly state that the emergency work will cost approximately $590,000.

POLICY CONSIDERATION

According to Ms. Hannaford, monitoring or inspection of Kirkwood Powerhouse dissipater valve requires a full water system delivery shutdown, which stops water deliveries from Hetch Hetchy Reservoir to SFPUC customers, who in turn must rely on the local reservoir system. During shutdowns, the SFPUC must inspect many elements of the Hetch Hetchy Water System, including other powerhouses and the Mountain Tunnel. The shutdowns occur every two to five years. The dissipater is normally inspected concurrently with an inspection on Mountain Tunnel, which was last inspected in 2008.

The SFPUC has plans to inspect the new energy dissipater in November 2018 when additional rehabilitation work on Mountain Tunnel is scheduled.

RECOMMENDATIONS

1. Amend the proposed resolution to correctly state that the emergency work will cost approximately $590,000, not $700,000.
2. Approve the proposed resolution as amended.

Item 12 File 16-1318	Department: Mayor's Office of Housing and Community Development (MOHCD)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve an agreement between Bayside Village Associates, LP and MOHCD to retain the affordability of 70 of the 172 currently affordable housing units in the Bayside Village Apartments, and prevent the future displacement of all existing tenants of the 172 currently affordable housing units.

Key Points

- The Bayside Village Apartments were partially funded by $80 million in tax-exempt Multi-Family Housing Revenue Bonds with the requirement that at least 20 percent of the housing units were affordable to households earning up to 80 percent of the Area Median Income (AMI). The affordability requirements expired in December 2016.
- Under the proposed agreement, Bayside Village Associates, LP would (a) retain the affordability of 70 of the 172 currently affordable housing units at rent levels affordable to households with income up to 120 percent of the AMI, and (b) grant lifetime leases to existing low and moderate-income tenants of the 172 currently affordable units at their current restricted 80 percent of the AMI rent levels, in exchange for a funding grant by MOHCD in an amount not to exceed $21,680,000.

Fiscal Impact

- An appraisal valued the preservation of 70 affordable units at 120 percent of the AMI rent levels and the lifetime leases for the current residents of these 70 units at 80 percent of the AMI rent levels at $21,680,000. This valuation does not include the value of the lifetime leases for tenants of the 102 currently affordable units that will not be preserved upon vacancy, but MOHCD estimates that the value of these lifetime leases is roughly $11,000,000.
- The grant amount paid to Bayside Village Associates, LP would come from the Housing Trust Fund, which has a current balance of $36,000,218. If MOHCD were to pay the grant amount of $21,680,000, the remaining balance would be $14,320,218.

Policy Consideration

- The Board of Supervisors previously approved an agreement between MOHCD and South Beach Marina, Inc. in May 2016 to preserve 101 affordable housing units at the South Beach Marina Apartments. Two other projects have affordability requirements that have expired or will expire in 2016 or 2017. Market-rate rents are expected to be phased in for residents of the affordable housing units at 737 Post Street, and it is uncertain at this time if an agreement to preserve affordable housing units at the Fillmore Center is possible.
- MOHCD is proposing to retain housing that is affordable to moderate income households with income at 120 percent of the AMI because the City does not have sufficient moderate income housing.

Recommendation

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

MANDATE STATEMENT

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

BACKGROUND

The former San Francisco Redevelopment Agency (Redevelopment Agency) entered into an owner participation agreement with Bayside Village Associates, L.P. (BVA), a California limited partnership[1], in 1986 for a mixed commercial and residential project—the Bayside Village Apartments—in the Rincon Point-South Beach Redevelopment Project Area. The Bayside Village Apartments are located at 3 Bayside Village Place and consist of 862 residential rental units, commercial space, and parking.

Construction of the Bayside Village Apartments was partially funded by $80 million in tax-exempt Multi-Family Housing Revenue Bonds issued by the Redevelopment Agency. BVA also obtained a mortgage loan, which was co-insured by the U.S. Department of Housing and Urban Development (HUD).

As a condition of the Multi-Family Housing Revenue Bond funding, BVA was required to make at least 20 percent of the residential units (or 172 of 862 units) affordable to low and moderate income households for 30 years until December 1, 2016. BVA is under no obligation to retain the 172 housing units as affordable units after this date although they would be required to issue a 12-month notice to tenants prior to converting the affordable units to market rate.[2]

According to the Mayor's Office of Housing and Community Development (MOHCD), which became the housing agency for former Redevelopment Agency housing assets, the 172 affordable rental units are affordable to households with income up to 80 percent of the Area Median Income (AMI).[3]

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve an agreement between BVA and MOHCD to (a) retain the affordability of 70 of the 172 currently affordable housing units (or 40 percent) in the Bayside Village Apartments at rent levels affordable to households with income up to 120 percent of the AMI[4], and (b) prevent the future displacement of all existing low and moderate-income tenants of the 172 currently affordable housing units, in exchange for a funding grant by MOHCD to BVA in an amount not to exceed $21,680,000.

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[1] BVA is a California limited partnership in which a wholly owned subsidiary of Cleveland-based Forest City Enterprises is the General Partner.

[2] Because the units were built after 1979, they are not subject to the City's Rent Stabilization Ordinance.

[3] 80 percent of the AMI in 2016 for a family of four is $86,150

[4] 120 percent of the AMI in 2016 for a family of four is $129,250

The existing tenants of the 172 currently affordable housing units would be granted lifetime leases at their current restricted 80 percent of the AMI rent levels, provided that they: 1) have household incomes below 150 percent of AMI;[5] 2) do not have a second home; and 3) possess a valid lease. Additionally, existing tenants of affordable units who have not completed the income certification process[6] within the last two years would be required to complete that process immediately and then every two years going forward. At vacancy, 102 units would convert to market-rate rents and the balance of 70 units would be preserved as permanently affordable to households earning up to 120 percent of the AMI for the life of the project.

The agreement would allow BVA to select which 70 units are maintained as permanently affordable within three years following execution of the agreement. However, BVA would be required to maintain affordability of a prescribed mix of unit types—23 studios, 23 one-bedroom units, and 24 two-bedroom units, and to ensure that affordable units are spread out throughout the apartment buildings, shown in Table 1 below.

Table 1: Unit Type and Affordability Level of Permanently Affordable Units

Unit Type	Number of Affordable Units	AMI Level
Studio	23	120%
One-bedroom	23	120%
Two-bedroom	24	120%
Total	70	

Source: Grant Agreement

FISCAL IMPACT

Valuation Analysis

A valuation analysis, conducted by John C. Clifford, MAI[7], for MOHCD in September 2016, valued the preservation of 70 affordable units at 120 percent of the AMI rent levels and the lifetime leases for the current residents of these 70 units at 80 percent of the AMI rent levels at $21,680,000, or approximately $310,000 per unit. The MOHCD grant to BVA in an amount of $21,680,000 was based on this analysis and would be paid out of the MOHCD Housing Trust Fund.

The valuation analysis calculated the difference in fair market value of the Bayside Village Apartments with and without the affordability requirements for the 70 units. According to the analysis, permanent preservation of 70 affordable units would cost BVA approximately $18.32 million in foregone rental income (the value of the difference between market rate rents and 120 percent of the AMI rents, capitalized[8]), which is slightly offset by lower real estate taxes for

[5] 150 percent of the AMI in 2016 for a family of four is $161,550

[6] BVA conducts the income certification process and then files an annual report with MOHCD.

[7] "MAI" refers to a member of the Appraisal Institute, which is a professional association of real estate appraisers.

[8] "Capitalized" in this instance means that the net rental income of the first year was divided by the capitalization rate to determine the property value. The appraiser determined that (a) the difference between the market rate rent and affordable rents for the 70 units was $754,860 per year; and (b) the capitalization rate was 4.1212% based on investor surveys and actual local sales transactions. The value of $18.32 million to retain 70 affordable

a net cost of $17.80 million. The lifetime leases of current tenants of these 70 affordable units would cost BVA an additional $3.88 million in foregone rental income.[9] The difference in fair market value of the project with and without the affordability requirements equals $21.68 million as shown in Table 2 below.

Table 2: Difference in Fair Market Value without Affordability Requirements

Difference for 70 Affordable Units	Value
Market rate rents compared to rents affordable to households with income up to 120% of the AMI	$18,320,000
Real estate taxes	(520,000)
Subtotal	$17,800,000
Rents affordable to households with incomes up to 80 percent of the AMI *(lifetime leases of current tenants)* compared to rents affordable to households with income up to 120% of the AMI	3,880,000
Total difference in fair market value	**$21,680,000**

Source: John C. Clifford, MAI Appraisal Report

This valuation does not include the value of the lifetime leases for tenants of the 102 currently affordable units that will not be preserved upon vacancy. Mr. Don Lusty, MOHCD Senior Project Manager, estimates that the value of these leases—calculated as the net present value of the difference between market rent and rent affordable to households with incomes up to 80 percent of the AMI over the duration of each tenant's residency for all tenants—is approximately $11,000,000. Mr. Lusty cautions that this is a rough estimate (it was not verified by the appraiser) but acknowledges that BVA would bear all of the cost to allow existing tenants to remain in these 102 currently affordable units.

Housing Trust Fund Balance

In 2012, voters approved Proposition C, which amended the City Charter to establish the Housing Trust Fund to "support creating, acquiring and rehabilitating affordable housing and promoting affordable home ownership programs in the City" (City Charter Section 16.110). The charter mandate required the City to appropriate $20 million from the General Fund to the Housing Trust Fund in FY 2013-14, increasing by $2.8 million per year for each of the next 11 fiscal years until the annual appropriation reaches $50.8 million in FY 2024-25.[10] The budget amount for FY 2016-17 is $28.4 million. The Housing Trust Fund budget funds four program

units equals the difference in market rate and affordable rents of $754,860 divided by the capitalization rate of 4.1212%.

[9] The estimated $3.88 million in foregone rents to BVA for current tenants who remain in the 70 affordable units is based on (a) the difference in existing rent affordable to households with income up to 80 percent of the AMI and the future rents affordable to households with income up to 120 percent of the AMI, and (b) the expected turnover of tenants each year over a 14-year period.

[10] Adjustments for future years will be based on the percentage change in General Fund Discretionary Revenues from the prior year.

areas: 1) the Down Payment Assistance Loan Program (DALP)[11]; 2) Housing Stabilization Programs[12]; 3) Complete Neighborhoods Infrastructure[13]; and 4) Affordable Housing Development. The grant amount paid to BVA would come out of the budget for this fourth program area.

According to Mr. Benjamin McCloskey, Deputy Director of Finance and Administration at MOHCD, the balance of the Affordable Housing Development portion of the Housing Trust Fund is $36,000,218 (as of December 21, 2016). If MOHCD were to pay the grant amount of $21,680,000 to BVA, the remaining balance would be $14,320,218. According to Mr. McCloskey, MOHCD would be able to accommodate a grant to BVA because certain projects in the housing pipeline are expected to take longer than anticipated, which gives MOHCD greater funding capacity in the current fiscal year. Mr. McCloskey also states that nothing in the housing pipeline is currently unfunded, but MOHCD may not be able to accommodate future needs that arise (such as another similar development agreement) were it to pay the grant amount.

POLICY CONSIDERATION

Other Affordable Housing Unit Requirements Expiring in 2016 and 2017

The Board of Supervisors previously approved an agreement between MOHCD and South Beach Marina, Inc. in May 2016 to preserve 101 affordable housing units at the South Beach Marina Apartments in exchange for a credit toward future inclusionary housing fee obligations not to exceed $59,300,000, or approximately $590,000 per unit.[14]

In addition to Bayside Village Apartments and South Beach Marina Apartments, two other projects have affordability requirements that have expired or will expire in 2016 or 2017, as shown in Table 3 below, totaling 272 affordable units. According to Mr. Lusty, no other housing projects have affordable units that will expire prior to 2037.

Table 3: Other Housing Projects with Affordable Units Expiring before 2037

Project Name	737 Post Street	Fillmore Center
Ownership Entity	Sequoia Equities, Inc.	Prudential REIT
Affordability Expiration	March 27, 2016	December 1, 2017
Affordable Units (#, %)	49 (20%)	223 (20%)
Market-Rate Units	198	891
Total Project Units	248	1,114

Source: MOHCD

[11] DALP is a down payment assistance loan for first time homebuyers that earn up to 120 percent of the AMI.
[12] Programs such as Energy Efficiency Loans and Eviction Defense/Prevention and Tenant Housing Stabilization
[13] Funds available for improvements to infrastructure that serve affordable housing residents
[14] The average cost per BVA unit of $310,000 is $280,000 less than the average cost per South Beach Marina Apartments unit of $590,000. The Bayside Village Apartments are smaller on average than South Beach Marina Apartments.

According to Mr. Lusty, MOHCD staff have not reached agreement with Sequoia Equities, Inc. to prevent displacement of existing residents of the now expired 49 affordable units at 737 Post Street. Market rate rents will be phased in for current residents over an 18-month period.[15]

MOHCD staff began negotiations with the owners of the Fillmore Center in December 2016 with the goal of preventing displacement of existing residents, but it is uncertain at this time whether or not an agreement to preserve the 223 affordable units and/or prevent displacement is possible for this housing project.

Moderate Income Affordable Housing

The affordability level for the 70 preserved units would increase from the current 80 percent of the AMI to 120 percent of the AMI.[16] However, the units will maintain affordability to "moderate income" households (defined as earning between 80 percent of the AMI and 120 percent of the AMI). According to Mr. Lusty, MOHCD is proposing to retain housing that is affordable to moderate income households with income at 120 percent of the AMI because the City does not have sufficient moderate income housing. According to the 2007-2014 Regional Housing Needs Assessment, produced by the Association of Bay Area Governments (ABAG), the City met 65.6 percent of its total housing goals between 2007 and 2014 but only 19 percent of housing goals for moderate income households with income at 80 percent and 120 percent of the Area Median Income.

RECOMMENDATION

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

[15] Per Mr. Lusty, an exception will be made for a few seniors, who will not be subject to rent increases.

[16] Preserving 70 affordable units at 80 percent of the AMI rent levels would require a larger grant amount than what is currently proposed. According to Mr. Lusty, raising the affordability level from 80 percent of the AMI to 120 percent of the AMI would allow MOHCD to preserve more units as permanently affordable as if the affordability level remained at 80 percent of the AMI.

Items 13, 14, 15 & 16 **Files 16-1161, 16-1355, 16-1164, 16-1356**	**Department:** Mayor's Office of Housing and Community Development (MOHCD)

EXECUTIVE SUMMARY

Legislative Objectives

The four proposed resolutions would approve: (1) the master development agreement (File 16-1355) and the development agreement between the San Francisco Housing Authority (SFHA) (File 16-1161), the City, and BRIDGE Housing Corporation and BRIDGE Urban Infill Land Development LLP (BRIDGE) to develop the Potrero HOPE SF Project; and (2) the master development agreement (File 16-1356) and the development agreement between SFHA (File 16-1164), the City, and Mercy Housing California and the Related Companies of California, LLC (Mercy) to develop the Sunnydale HOPE SF Project (File 16-1164). SFHA selected the developers through a competitive process in 2008.

Key Points

- The Potrero HOPE SF and Sunnydale HOPE SF projects would demolish existing public housing and build replacement public housing, affordable housing, and market rate housing on land owned by SFHA. Each project would be developed in phases over approximately 25 years.
- The master development agreements outline SFHA's role as landowner, including preparation and sale of SFHA-owned property to private developers to construct market rate housing and transfer of SFHA-owned property to non-profit developers through 99-year ground leases to construct affordable housing. The development agreements grant the developers the right to develop the project sites as described in the agreements.

Fiscal Impact

- Phase 1 of the Potrero HOPE SF Project would construct 72 units of affordable housing; financing of $68.5 million has been obtained of which $17.7 million was committed by MOHCD. Phase 1 of the Sunnydale HOPE SF Project would construct 55 units at an estimated cost of $42.4 million; MOHCD has committed $7.0 million and the developer is seeking federal Low Income Housing Tax Credits and other financing.
- The development agreements do not commit MOHCD to finance the remaining project phases, but MOHCD anticipates financing approximately $583.8 million over 13 years.

Policy Consideration

- Total development costs per square foot for Potrero and Sunnydale HOPE SF projects are higher than for the two other HOPE SF projects – Alice Griffith and Hunters View. According to MOHCD, Alice Griffith and Hunters View have lower costs due to the larger size of the projects and related economies of scale. Also, the more recent Potrero and Sunnydale projects are impacted by increasing construction costs in San Francisco.

Recommendation

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

MANDATE STATEMENT

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

BACKGROUND

Launched in 2007, HOPE SF is a City sponsored anti-poverty initiative, led by the Mayor's Office of Housing and Community Development (MOHCD) in partnership with the San Francisco Housing Authority (SFHA), to redevelop the City's most distressed public housing sites into mixed-income communities comprised of affordable housing, including replacement units for existing public housing, and market rate housing units.

The HOPE SF initiative is comprised of separate projects to redevelop four public housing sites in San Francisco. Construction to replace the 267 public housing units at Hunters View with 750 affordable units began in 2010 and is scheduled to be completed in 2018. Construction to replace the 256 public housing units at Alice Griffith with 504 affordable units began in 2015 and is scheduled to be completed in 2021. Potrero Terrace and Annex ("Potrero") and Sunnydale-Velasco ("Sunnydale") are the third and fourth sites slated for redevelopment as part of the HOPE SF initiative and are the subject of the proposed resolutions, discussed below.

Potrero is a 619 unit 38-acre public housing site located on the south slope of Potrero Hill. Sunnydale is a 775 unit 50-acre public housing site located in the Visitacion Valley neighborhood. Both sites are currently owned and operated by SFHA and are in a similar state of disrepair with limited access to services and no formal open spaces.

SFHA issued a Request for Qualifications (RFQ) for developers of each of the two sites in October 2007. In 2008, SFHA selected BRIDGE Housing Corporation and BRIDGE Urban Infill Land Development LLP (BRIDGE) to develop a master development plan to revitalize Potrero, and selected Mercy Housing California and the Related Companies of California, LLC (Mercy) to develop a master development plan to revitalize Sunnydale.[1] Over the next two years, the selected Master Developers hosted multiple meetings with SFHA residents and community members to develop new site plans for the projects. In 2010, the Master Plans were finalized and the Projects began their environmental review processes and land use approval processes with the Planning Department.

DETAILS OF PROPOSED LEGISLATION

The four proposed resolutions would approve:

[1] The Exclusive Negotiating Rights Agreements for both projects were later amended to grant development rights to the current developers: BRIDGE Potrero Community Associates, LLC and Sunnydale Development Co., LLC. According to MOHCD, both limited liability corporations (LLCs) have the initially selected developer or their affiliate as controlling members.

- The master development agreement (File 16-1355) and the development agreement between SFHA, the City, and BRIDGE to develop the Potrero HOPE SF Project (File 16-1161); and
- The master development agreement (File 16-1356) and the development agreement between SFHA, the City, and Mercy to develop the Sunnydale HOPE SF Project (File 16-1164).

Overview of Potrero and Sunnydale HOPE SF Projects

Both the Potrero HOPE SF Project and the Sunnydale HOPE SF Project would demolish all existing public housing units and streets and build new housing and new streets to better connect the areas with the surrounding neighborhood street grids. At completion, both projects would include public housing replacement units, additional units affordable to households earning up to 60 percent of the Area Median Income (AMI)[2], and market rate units. As shown in Table 1 below, the projects would include 1,800 affordable housing units and 1,465 market rate housing units, for a total of 3,265 housing units; and new open space, new retail space, and new community services space. The new streets would include new public utility systems, sidewalks and street furnishings, and transportation improvements. Construction would occur in phases over 25 years, and current residents would be relocated to allow demolition and rebuilding of the site in phases.[3]

Table 1: Potrero and Sunnydale HOPE SF Proposed Uses

	Potrero		Sunnydale		Total
Proposed Use	**Current**	**Proposed**	**Current**	**Proposed**	**Proposed**
Residential Units					
Public Housing (Replacement)	619	619	775	775	1,394
Affordable (up to 60 percent of the AMI)	-	187	-	219	406
Subtotal, Affordable Housing	619	806	775	994	1,800
Market Rate	-	817	-	648	1,465
Total Residential Units	619	1,623*	775	1,642*	3,265
Retail Space	-	15,000 gsf	-	16,200 gsf	
Community Services Space	-	30,000 gsf	29,276 gsf	72,500 gsf	
Public Open Space	-	3.5 acres	-	3.6 acres	

Source: Master Development Agreements
*Each site has maximum build out of 1,700 units as provided in the Environment Impact Report (EIR)

Master Development Agreements

The Master Development Agreements (MDAs) outline SFHA's role as land-owner and detail the SFHA's responsibilities for the project, mainly: (a) disposing of land owned by SFHA for market rate parcels, which would be sold to independent developers, and new public infrastructure

[2] 60 percent of the AMI in 2016 for a family of four is $64,600 as published by MOHCD.
[3] Residents would be relocated onsite or voluntarily offsite. Residents are guaranteed a right to return to the property under the City's Right to Return Ordinance.

and streets, which would be dedicated to the City upon Project completion; (b) disposing of land owned by SFHA for affordable parcels through long term ground leases with the affordable housing developers and (c) continuing to provide Section 8 vouchers for the operational costs of the affordable housing.

The Developers would prepare each market rate parcel for development, and SFHA would sell these parcels to third-party developers, with approved zoning, to build what is outlined in the Development Agreements and Special Use Districts.[4] SFHA would have to approve the sale of each parcel, and the proceeds from the sale of these parcels would provide a funding source for development of affordable units. The market rate sites would not be individually subject to affordable housing obligations required by Planning Code Section 415, because more than one-half of the housing to be constructed in the Potrero and Sunnydale HOPE SF projects is affordable.

SFHA would continue to own the affordable housing parcels and would issue 99-year ground leases to the Developers. As a condition of the leases, the Developers would be required to maintain the affordability of all units for 99 years. The Developers would own the building structures and maintain them. According to MOHCD, the Section 8 vouchers provided by SFHA together with rent payments from tenants would fully cover building operating costs and debt service payments.

Development Agreements

The Development Agreements grant the Developers the right to develop the project sites as described in the agreements. They also authorize City departments (e.g. the Planning Department and the City Attorney) to take any action required for project implementation, and provide certain fee exemptions[5]. The agreements outline the process for applying for City funding but do not commit City funding to the projects outright.

Potrero Development Phases and Financing

Construction of the Potrero HOPE SF Project would occur in five main phases over 25 years, and current residents would be relocated to allow demolition and rebuilding of the site in phases. Table 2 below shows the Project phases and public financing schedule. The timeline is subject to change depending on market forces and the availability of financing.

[4] According to Ms. Lisa Motoyama, Director of Real Estate – Special Initiatives at MOHCD, market rate developers would be selected through a competitive process. The affordable developers could submit a proposal and compete in this process if they desired.

[5] The Transportation Sustainability Fee and the Citywide Child Care Fee are not applicable to the projects per City code, while the Bicycle Parking In-Lieu Fee and the Street Trees In-Lieu Fee would be waived for both projects. Market rate units would be subject to the Eastern Neighborhoods Impact Fee Equivalent (for Potrero), the Visitacion Valley Fee (for Sunnydale) and the School Impact Fee. Affordable units would be subject to the School Impact Fee, but would receive a credit for replacement public housing units. Both projects would be subject to established processing fees for the processing or review of applications.

Table 2: Potrero HOPE SF Project Phases and Public Financing Schedule

Development Phase	Affordable Units	Market Rate Units*	Public Financing Schedule: Predevelopment	Public Financing Schedule: Permanent (Gap)
Phase 1	72	0	FY 2015-16	FY 2016-17
Phase 2	94	102	FY 2016-17	FY 2017-18
Phase 3	95	255	FY 2018-19	FY 2019-20
Phase 4	65	0	FY 2020-21	FY 2021-22
Phase 5A	160	255	FY 2021-22	FY 2023-24
Phase 5B	160	80	FY 2022-23	FY 2024-25
Phase 5C	160	125	FY 2023-24	FY 2025-26
Unit Total	**806**	**817**		

Source: Master Development Agreement
* Market Rate Unit estimates are approximate based on the Master Budget in the MDA

Phase 1 of the Potrero HOPE SF Project is construction on Block X[6], which is scheduled to begin in 2017, and will convert a 0.69-acre vacant lot at 1101 Connecticut Street into 72 affordable housing units. Development of Block X in Phase 1 is not part of the development agreement, which is the subject of Resolution 16-1161. Financing of $68,453,064 for development of Block X has been finalized as of December 20, 2016, as shown in Table 3 below.

[6] Block X, located at 1101 Connecticut Street, is not part of the project site and is not part of the Potrero Development Agreement. The Board of Supervisors previously approved purchase of Block X from the San Francisco Unified School District in February 2016 (File 16-0069) and an option to ground lease the property to Potrero Housing Associates I, LP, a California limited partnership formed by BRIDGE Housing Corporation, in June 2016 (File 16-0555). The Planning Commission has approved zoning map amendments for Block X separately from the rest of the Project to expedite construction. Once construction of Block X is completed, existing Potrero public housing residents will be relocated to Block X during construction of replacement public housing at Potrero.

Table 3: Sources of Funds for Block X (Potrero HOPE SF Phase 1)

Source	Amount
Public Sources	
MOHCD Gap[7]	$17,693,093
Subtotal Public Sources	**$17,693,093**
Private Sources	
First Mortgage[8]	$17,700,000
Private Subordinate Debt[9]	1,200,000
Deferred Developer Fee[10]	2,000,000
Private Investor Contributions[11]	29,859,971
Subtotal Private Sources	**$50,759,971**
Total Sources	**$68,453,064**

Source: MOHCD

The Potrero Development Agreement covers Phases 2 through 5 of the Potrero HOPE SF Project. Total estimated costs for development of 734 affordable housing units[12] are $821,205,167, including $322,346,687 in public financing and $498,858,480 in private financing, shown in Table 4 below. Financing for the affordable housing units in the subsequent phases, which will occur over a nine-year period from FY 2017-18 through FY 2025-26, has not been finalized.

Financing for construction of 94 affordable housing units during Phase 2 of the Project would be secured in FY 2017-18. Phase 2 would entail (a) the demolition of 91 existing public housing units[13] and surrounding infrastructure, (b) construction of Block B, which would include 94 affordable units, and (c) the sale of Block A for market rate housing development. Subsequent phases would similarly involve demolition of existing units, construction of new affordable units, and preparation of market rate parcels for sale and are expected to follow the public financing schedule described in Table 2 above.

[7] A low-interest loan (3 percent) from MOHCD Gap Funding would be payable back to the City from residual rent receipts (i.e. funds that remain once all other expenses and debt are paid) over 55 years.

[8] A private loan that uses the property as collateral. Block X's First Mortgage will be issued by Citibank.

[9] According to Ms. Kirkpatrick, MOHCD Project Manager, Citibank provided subordinate debt through their Affordable Housing Catalyst Loan Program, paid through residual rent receipts if available.

[10] A portion of the Developer fee would be paid back from rent receipts after completion of the Project.

[11] Private Investor Contributions include (a) $100 in cash investment plus (b) $29,859,871 in anticipated proceeds from the sale of Federal Low Income Housing Tax Credits for affordable housing projects.

[12] Of the 806 affordable housing units, 72 units will be constructed on Block X during Phase 1 and 734 units will be constructed under the terms of the Potrero Development Agreement in Phases 2 through 5.

[13] Current residents would be relocated to the newly constructed affordable units on Block X or to vacant units in other buildings.

Table 4: Sources of Funds for the Potrero HOPE SF Project

Source	Amount
Public Sources	
MOHCD Gap	$314,396,687
Affordable Housing Program[14]	7,950,000
Subtotal Public Sources	**$322,346,687**
Private Sources	
First Mortgage	$189,139,244
Deferred Developer Fee	20,733,509
Private Investor Contributions[15]	288,985,727
Subtotal Private Sources	**$498,858,480**
Total Sources	**$821,205,167**

Source: Master Development Agreement (Exhibit H)

Public financing of $322,346,687 would consist of loans by MOHCD and the Federal Home Loan Bank of San Francisco.

Sunnydale Development Phases and Financing

Construction of the Sunnydale HOPE SF Project would occur in three main phases over 25 years, and current residents would be relocated to allow demolition and rebuilding of the site in phases. Table 5 below shows the Project phases and public financing schedule. The timeline is subject to change depending on market conditions and the availability of financing for affordable housing.

[14] An Affordable Housing Program (AHP) grant from the Federal Home Loan Bank of San Francisco. The budget assumes that the Project would receive approximately $10,000 per affordable unit for each phase of the Project percent. According to Ms. Motoyama, Block X did not receive this loan prior to construction because the Project was unable to apply in time, but the Developer will apply for funding in the next round.

[15] Private Investor Contributions include (a) $1,122,984 in cash investment plus (b) $287,862,743 in anticipated proceeds from the sale of Federal Low Income Housing Tax Credits for affordable housing projects.

Table 5: Sunnydale HOPE SF Project Phases and Public Financing Schedule

			Public Financing Schedule	
Development Phase	**Affordable Units**	**Market Rate Units***	**Predevelopment**	**Permanent (Gap)**
Phase 1	55	0	FY 2015-16	FY 2016-17
Phase 1A	343	8	FY 2016-17, FY 2017-18, FY 2018-19	FY 2017-18, FY 2018-19, FY 2019-20
Phase 1B	69	0	FY 2019-20	FY 2020-21
Phase 1C	100	48	FY 2020-21	FY 2021-22
Phase 2A	133	68	FY 2021-22, FY 2022-29	FY 2022-23, FY 2023-24
Phase 2B	79	86	FY 2023-24	FY 2024-25
Phase 2C	66	84	FY 2024-25	FY 2025-26
Phase 3A	72	137	FY 2025-26	FY 2026-27
Phase 3B	77	217	FY 2026-27, FY 2027-28	FY 2027-28, FY 2028-29
Phase 3C	0	0	FY 2028-29	FY 2029-30
Unit Total	**994**	**648**		

Source: Development Agreement
* Market Rate Unit estimates are approximate based on the Master Budget in the MDA

Phase 1 of the Project is construction of 55 affordable units on Parcel Q, a half-acre vacant lot owned by the Sunnydale Parcel Q Housing Partners, L.P. (Parcel Q L.P.), an affiliate of the development partner, Mercy Housing California and the Related Companies of California, LLC, located at Sunnydale and Hahn Streets, adjacent to the Sunnydale Project owned by SFHA. Parcel Q L.P. purchased Parcel Q in December of 2016 and is in the process of assessing financing options, including permanent financing, applying to the California Tax Credit Allocation Committee for Federal Low Income Housing Tax Credits and the Federal Home Loan Bank of San Francisco for Affordable Housing Program (AHP) funds to finance the project, and MOHCD gap funding. MOHCD previously provided predevelopment financing of $2,000,000 and acquisition financing of $3,000,000 to Parcel Q L.P. Project construction is scheduled to begin in December 2017. Estimated project financing of $42,431,219 is shown in Table 6 below.

Table 6: Sources of Funds for Parcel Q (Sunnydale HOPE SF Phase 1)

Source	Amount
Public Sources	
MOHCD Gap	$6,952,279
Affordable Housing Program	540,000
Subtotal Public Sources	**$7,482,279**
Private Sources	
First Mortgage	$8,541,219
Private Investor Contributions[16]	26,397,721
Subtotal Private Sources	**$34,938,940**
Total Sources	**$42,431,219**

Source: MOHCD

Total estimated financing of 944 affordable housing units in the Sunnydale HOPE SF Project, including the 55 units in Parcel Q, is $965,191,517, which consists of $392,428,208 in public financing and $572,763,309 in private financing, shown in Table 7 below. Financing for all other phases of the Sunnydale Project would be finalized on a rolling basis in advance of the public financing schedule shown in Table 5 above.

Financing for construction of the next phase of the Project—Phase 1A—would be secured over three fiscal years—FY 2017-18, FY 2018-19, and FY 2019-20. Phase 1A would entail (a) the demolition of 188 existing public housing units[17] and surrounding infrastructure, (b) construction of Blocks 6A, 6B, 3A, and 3B, which would include a total of 343 affordable units, (c) the sale of Block 5 for market rate housing development, and (d) construction of new community serving spaces. Subsequent phases would similarly involve demolition of existing units, construction of new affordable units, and preparation of market rate parcels for sale and are expected to follow the public financing schedule described in Table 5 above.

[16] Private Investor Contributions in this instance, only include anticipated proceeds from the sale of Federal Low Income Housing Tax Credits for affordable housing projects.
[17] Current residents would be relocated to the newly constructed affordable units on Parcel Q or to vacant units in other buildings.

Table 7: Sources of Funds for the Sunnydale HOPE SF Project

Source	Amount
Public Sources	
MOHCD Gap	$288,246,382
Affordable Housing Program	$9,800,000
California Department of Housing and Community Development (HCD)[18]	$94,381,826
Subtotal Public Sources	**$392,428,208**
Private Sources	
First Mortgage	$197,891,042
Deferred Developer Fee	$17,999,788
Private Investor Contributions[19]	$356,872,479
Subtotal Private Sources	**$572,763,309**
Total Sources	**$965,191,517**

Source: Master Development Agreement (Exhibit H)

Companion Ordinances and Resolutions

In addition to the Development Agreements and Master Development Agreements described above, both projects require additional ordinances and resolutions to be approved by the Board of Supervisors in order to begin construction as planned. These include: (1) General Plan Amendments (Files 16-1308 and 16-1309); (2) Planning Code Map Amendments (Files 16-1160 and 16-1163); and (3) the Creation of Special Use Districts (SUDs) (Files 16-1159 and 16-1162). These ordinances and resolutions are calendared at the January 9, 2017 Land Use and Transportation Committee. If the Board of Supervisors approves the Development Agreements and Master Development Agreements the Board of Supervisors will also need to approve these additional ordinances and resolutions.

FISCAL IMPACT

MOHCD Gap Funding

Although the Development Agreements do not commit City funding to the projects, MOHCD anticipates that they would finance any costs not covered by other funding sources for both projects pursuant to the public financing approval process outlined in the Development Agreements. Based on current budget estimates, the Potrero HOPE SF Project (excluding Block X) would receive $296,703,594[20] and the Sunnydale HOPE SF Project would receive

[18] Unlike the Potrero Project budget, the Sunnydale Project budget assumes some financing from HCD. According to Ms. Kirkpatrick, the two projects would compete for HCD funding, so assuming one project receives funding and one does not allows the estimates for both projects combined to remain conservative.

[19] Private Investor Contributions include (a) $500,000 in cash investment plus (b) $356,372,479 in anticipated proceeds from the sale of Federal Low Income Housing Tax Credits for affordable housing projects.

[20] Because Block X is not part of the Development Agreement, MOHCD Gap funding for Block X is excluded from this figure. The entire Potrero project is expected to receive $314,396,687 in MOHCD gap funding. Subtracting MOHCD gap for Block X ($17,693,093) from the total, provides the expected MOHCD gap received by the Project that would result from approval of the Development Agreement—$296,703,594.

$288,246,382 in funds from MOHCD Gap Funding, for a total of $584,949,976 for both projects over approximately 13 years through 2030[21].

According to Ms. Faith Kirkpatrick, Project Manager of the Potrero HOPE SF Project and Senior Community Development Specialist at MOHCD, the projects will receive a combined total of $80 million from Proposition A affordable housing bonds that will cover a portion of MOHCD gap.[22] According to Lisa Motoyama, Director of Real Estate-Special Initiatives at MOHCD, the remainder of MOHCD gap funding would likely come from the Housing Trust Fund. According to Mr. Benjamin McCloskey, Deputy Director of Finance and Administration at MOHCD, the Department currently has a funding plan that shows anticipated costs and revenues available to meet those costs.

The amount of MOHCD gap funding required to construct the Potrero HOPE SF and Sunnydale HOPE SF projects is subject to the availability of other financing and market conditions. MOHCD gap funding could be higher than projected if less State funding is available or construction costs are higher than currently anticipated. According to Mr. McCloskey, decreases in other financing or increases in project costs could result in delays in constructing the affordable housing project. An increase in gap funding provided by MOHCD to the Potrero HOPE SF or Sunnydale HOPE SF projects could impact MOHCD's ability to finance other projects in the City's long-range affordable housing pipeline.

Sale of Market Rate Parcels

Under the proposed MDAs, the Developers would prepare each market rate parcel for development, and SFHA would then sell these parcels to third-party developers for market rate housing construction. The proceeds from the sale of these parcels would provide an additional funding source for the construction of affordable housing. According to Ms. Kirkpatrick, a recent market study estimated the residual land value[23] of these parcels to be approximately $170,000 per market rate unit for the Potrero project. Sunnydale's estimated land value is $50,000 per market rate unit based on current land sales at Hunters View HOPE SF Project and the 2017 Market Sales study for the Sunnydale HOPE SF project.

Based on these estimates, sale of the estimated 817 market rate parcels located in the Potrero Project would generate $138,890,000 for the Project, and sale of the estimated 648 market rate parcels located in the Sunnydale Project would generate $32,400,000, for a combined total of $171,290,000 for both projects.

As shown in Table 5 below, the net MOHCD Gap—MOHCD Gap less proceeds from sale of market rate parcels—would be $157,813,594 for Potrero and $255,846,382 for Sunnydale, for a combined total of $413,659,976 for both projects.

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[21] As noted above the development of Block X in Phase I of the Potrero HOPE SF Project is fully funded and not included in the respective Development Agreement.

[22] Proposition A was approved by San Francisco voters in November 2015.

[23] Residual land value in this case is the value of the land minus development costs incurred to prepare the land for sale.

Table 8: Net MOHCD Gap Funding for Potrero and Sunnydale HOPE SF Projects

	Potrero*	Sunnydale	Total
MOHCD Gap	$296,703,594	$288,246,382	**$584,949,976**
Market Rate Parcel Sale Proceeds	138,890,000	32,400,000	**171,290,000**
Net MOHCD Gap	**$157,813,594**	**$255,846,382**	**$413,659,976**

Source: MOHCD, Budget Analyst Calculation
*Potrero MOHCD Gap excludes Block X

POLICY CONSIDERATION

Affordable units for Phase 1 of both Projects are comparable in size (both in terms of number of bedrooms and square footage) to the current phases of Alice Griffith and Hunters View HOPE SF Projects.[24] However, the total development cost (not including infrastructure costs) per square foot is higher for Potrero and Sunnydale than Alice Griffith and Hunters View, as shown in Table 9 below. According to Ms. Motoyama, the current phases of Alice Griffith and Hunters View have lower construction costs per square foot relative to the first phases of both Potrero and Sunnydale due to economies of scale—the current phases of Alice Griffith and Hunters View involve construction of larger buildings for more affordable units compared to the first phases of Potrero and Sunnydale. Ms. Motoyama also notes that development costs for these two projects are higher because construction costs in San Francisco are increasing due to increased competition from the current high volume of construction.

Table 9: Other HOPE SF Projects Total Development Cost (TDC) Comparison

HOPE SF Projects	TDC*	TDC per unit	TDC per bedroom	TDC per square foot
Alice Griffith - Phase 3A/B	$84,947,022	$696,287	$312,305	$467
Hunters View - Phase 2A	$65,331,394	$610,574	$272,214	$406
Potrero - Phase 1 (Block X)	$57,524,912	$821,784	$410,892	$528
Sunnydale - Phase 1 (Parcel Q)	$42,431,219	$771,477	$415,992	$689

Source: MOHCD
* Total Development Cost for building construction (does not include infrastructure costs)

RECOMMENDATION

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

[24] The units in Parcel Q (Sunnydale) are slightly smaller on average than the other projects according to MOHCD data.