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

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: January 8, 2020 Budget and Finance Committee Meeting

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EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the Port's Ground Lease with TZK Broadway, LLC at Seawall Lots 323 and 324. The proposed lease would have an initial 50 year term with one 16 year option to extend, for a total term of 66 years.

Key Points

- The proposed Ground Lease is for a project that would replace the existing parking lot with a development that will consist of Teatro ZinZanni, a restaurant-theatre venue, a 4 floor hotel with 192 rooms and with a restaurant and bar, and a public park.

Fiscal Impact

- Under the proposed Ground Lease, annual rent to the Port during the construction period is $1,000,000. Once the hotel and theater are in operation, rent consists (A) of the higher of the annual minimum rent or the percentage rent and (B) a participation rent from refinancing or sale of the hotel. Annual minimum rent is $1,007,000 in the first two years of operation and $1,471,000 beginning in the third year and increasing by the Consumer Price Index in the following years, and percentage rent is equal to 3.5 percent of gross hotel revenues escalating to 6.5 percent of gross hotel revenues over time, and 3.5 percent of Teatro ZinZanni revenues.
- The Port would also receive 20 percent of the project profits after the developer has achieved an internal rate of return of 20 percent on equity or 50 percent of project profits once the developer has achieved 25 percent internal return on equity.
- The proposed Ground Lease requires TZK Broadway to develop and maintain 14,000 square feet of open space and a public park.
- In addition, the proposed development is expected to generate $8 million in development impact fees and $4.1 million in ongoing General Fund revenues.

Policy Consideration

- Administrative Code Section 23.30 requires the Port to determine the market rate leases that require Board of Supervisors approval. The Port did not obtain a more recent appraisal than the April 2015 appraisal because that appraisal was the basis for the 2016 Term Sheet, which was endorsed by the Board of Supervisors (File 16-0541), and the Port worked with an economic consultant to ensure that the percentage and participation rent rates were consistent with other hotel leases.
- On May 5, 2015 the Board of Supervisors approved a resolution exempting the Port from pursuing a competitive solicitation for this project (File 15-0331). In doing so, the resolution stated relocating Teatro ZinZanni to Port property was consistent with City policy to "foster, promote, and sustain music and culture in San Francisco."
- We find that the Port's determination that the rent rates in the proposed Ground Lease are market rate is reasonable and therefore recommend approval of the proposed resolution.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(a) states that contracts entered into by a department, board, or commission that (i) have anticipated revenues of $1 million or more, or (ii) have anticipated revenues of $1 million or more and require modifications, are subject to Board of Supervisors approval.

BACKGROUND

Overview of the Proposed Development

Prior to 2011, Teatro ZinZanni, a theatre venue and restaurant, operated on Port property. That lease with the Port was terminated to accommodate the America's Cup competition. Since that time, Teatro ZinZanni has partnered with Kenwood Investments and formed TZK Broadway, LLC, proposing to develop Seawall Lots 323 and 324. TZK has admitted PresidioCo Holdings, LLC, as a member to increase its hotel development capacity. The site, which is under Port jurisdiction, is currently being used as a parking lot and is shown in Exhibit 1 below.

On July 12, 2016 the Board of Supervisors approved a resolution endorsing the Port's Term Sheet with TZK Broadway, LLC (File 16-0541). Attachment 1 provides a summary of the changes to the project that are included in the proposed Ground Lease since the Term Sheet was approved by the Board of Supervisors in 2016.

Exhibit 1: Map of Seawall Lots 323 & 324

Source: Port

The proposed project would replace the existing parking lot with a development that will consist of a restaurant-theatre venue, a 4 floor hotel with 192 rooms and with a restaurant and bar, and a public park. Teatro ZinZanni will operate the theatre-restaurant venue under a sublease with TZK Broadway. TZK Broadway will contract with a hotel management company, Interstate Hotels and Resorts, to operate the hotel under a Marriot franchise.

No vehicle parking is proposed at the site; 63 bicycle parking spaces will be constructed. Construction is expected to take approximately 22 months (October 2020 – August 2022) and is expected to cost $143 million, all of which would be paid by private funds. The Planning Commission has determined that the proposed project would not have significant environmental impact, required certain mitigation measures, and has granted a Conditional Use Authorization to TZK Broadway.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the Port's Ground Lease with TZK Broadway, LLC at Seawall Lots 323 and 324. The proposed lease would have an initial 50 year term with one 16 year option to extend, for a total term of up to 66 years, and have a minimum base rent beginning at $1 million per year.

The proposed resolution would also adopting findings of consistency with the City's General Plan, authorize the Port Executive Director to take necessary actions to finalize the proposed lease, and affirm the Planning Department's determination under the California Environmental Quality Act.

The Port Commission approved the Lease Disposition and Development Agreement, governing the development of the proposed hotel and theater project, and the proposed Ground Lease with TZK Broadway, LLC in September 2019. TZK Broadway must close escrow and take possession of the site within 12 months,[1] or approximately October 2020, at which time the Ground Lease goes into effect. Construction of the proposed hotel and theater project must be completed within 24 months after the proposed Ground Lease goes into effect. The proposed Ground Lease is subject to the terms of the Lease Disposition and Development Agreement prior to completion of construction of the proposed hotel and theater project, as discussed further below.

Ground Lease Terms

Exhibit 2 below summarizes the key terms of the proposed Ground Lease.

[1] TXK Broadway has four three-month options to extend this term, subject to a fee of $25,000 for each extension.

Exhibit 2: Key Terms of Proposed Ground Lease

Effective Date	Expected October 2020 (expected start of construction).
Term	Initial term: 50 years; One option to extend: 16 years. Up to 66 years in total
Construction Period	The construction period must not exceed 24 months; the developer has four options to extend this period in 3 month increments at a cost of $25,000 for each.
Minimum Annual Rent	$1,000,000 during construction. $1,007,000 years 1 and 2 of operations. If hotel occupancy exceeds 80%, the hotel would pay the Port the 90% of hotel Percentage Rent and 100% of Theatre Percentage Rent. $1,471,000 year 3 of operations and escalating by Bay Area CPI annually after. Every ten years beginning in year 11 of operations, minimum rent would be reset to maximum of that year's CPI increase or 65% of 5 year average of percentage rent.
Percentage Rent	3.5% of gross hotel revenues, escalating to 6.5% of gross hotel revenues. 3.5% of Teatro ZinZanni gross revenues.
Participation Rent with TZK as the First Tenant or Owner.	20% of project profits after developer's 20% return on actual equity and 50% of project profits after developer's 25% return on actual equity for (a) project operations, (b) project refinancing, and (c) sale of the project
Participation Rent with Subsequent Tenants or Owners.	20% of project profits after developer's 16% return on actual equity and 50% of project profits after developer's 18% return on actual equity for (a) project operations, (b) project refinancing, and (c) sale of the project
Park Maintenance	Paid by TZK Broadway.
Local Hire Requirements	30% Local Hire Program Expected. Compliance with First Source Hiring program expected.
Local Business Enterprise Requirements	17% LBE participation expected.
First Source Hiring	50% of open entry level positions
Permitted Uses	The project site must have hotel and dinner-restaurant venue in operation as well as a public park.

Source: Proposed Ground Lease between the Port and TZK Broadway

Public Park

The proposed Ground Lease requires TZK Broadway to develop and operate 14,000 square feet of open space and a public park. TZK is responsible for maintenance of the park, including trash removal and recycling systems, and security to keep the park clean and safe.

Lease Disposition and Development Agreement

The proposed Ground Lease between the Port and TZK Broadway is subject to the terms of the Lease Disposition and Development Agreement until the construction of the proposed hotel and theater project is completed and the Certificate of Completion is issued by the Port, as noted above. Exhibit 3 below summarizes the key terms of the Lease Disposition and Development Agreement.

Exhibit 3: Key Terms of Lease Disposition and Development Agreement

Effective Date	Upon approval of the proposed resolution[2]
Term	Through completion of construction of the proposed hotel and theater development and issuance of the Certificate of Completion
Project Plan	The final financing plan for the proposed development must be approved by the Port.
Payments to Port	Initial payment of $37,500. Developer will also pay for the Port's transaction costs, capped at $300,000.
Local Hire	Developer expected to achieve 30% local hire for construction work (per Chapter 82 of the Administrative Code) and to comply with the City’s First Source Hiring program in (per Chapter 83 of the Administrative Code). Final values will be included in proposed Ground Lease.
Local Business Enterprise	17% of total project costs expected. Final value will be included in proposed Ground Lease.

Source: Lease Disposition and Development Agreement: Port/TZK Broadway

The final Local Hire and Local Business Enterprise commitments for the proposed development must still be finalized with Port and the Office of Economic and Workforce Development and Office of Contract Administration. According to Mr. Ricky Tijani, Development Project Manager at the Port, that is expected to occur at the execution of the Lease Disposition and Development Agreement. TZK Broadway is expected to comply with the requirements of the City’s First Source Hiring program, administered by the Office of Economic and Workforce Development, which requires that City contractors and developers to make efforts to hire disadvantaged San Francisco residents.

[2] The proposed resolution does not approve the Lease Disposition and Development Agreement, but approval of the proposed ground lease for the hotel and theater project is necessary for TZK Broadway LLC to obtain financing, close escrow, and secure the site.

FISCAL IMPACT

Ground Lease Rent

Under the proposed Ground Lease, annual rent to the Port during the construction period is $1,000,000. Once the hotel and theater are in operation, rent consists (a) of the higher of the annual minimum rent or the percentage rent and (b) participation rent from refinancing or sale of the hotel. Annual minimum rent is $1,007,000 in the first two years of operation and $1,471,000 beginning in the third year and increasing by the Consumer Price Index (CPI) in the following years, and percentage rent is equal to 3.5 percent of gross hotel revenues escalating to 6.5 percent of gross hotel revenues over time, and 3.5 percent of Teatro ZinZanni revenues, as shown in Exhibit 2 above. According to Mr. Tijani, the minimum annual rent is based on a 2015 appraisal that was used to negotiate the Term Sheet that the Board of Supervisors endorsed in 2016 (File 16-0541). The annual minimum rent has been escalated from $890,000 in the 2016 Term Sheet to $1,000,000 in 2019, as shown in Attachment 1. The percentage rent has not changed since the 2016 Term Sheet. According to a 2016 Feasibility Study prepared by HVS Consulting and Valuation Services for the Port,[3] the percentage rent values are consistent with other percentage rent ranges in similar Ground Leases for hotels in San Francisco, considering the inclusion of the participation rent and the zoning limits on the site area.

Participation Rent

The Port would also receive 20 percent of the project profits after the developer has achieved an internal rate of return of 20 percent on equity or 50 percent of project profits once the developer has achieved 25 percent return on equity.[4] According to the 2016 Feasibility Study, the estimated internal rate of return on the developer's equity ranges from 15 percent to 19 percent, based on the study's assumptions of the developer's equity contribution, debt service, and refinancing of the debt. Therefore, the Port may or may not receive participation rent depending on how the hotel and theater project appreciate in value when refinanced or sold as well as capital market conditions.

The 2016 Term Sheet did not address the participation rent of subsequent tenants to TZK Broadway. Under the proposed Ground Lease, The Port would receive 20 percent of the project profits after a subsequent tenant has achieved an internal rate of return of 16 percent on equity or 50 percent of project profits once a subsequent tenant has achieved 18 percent return on equity.

Estimated Rent to the Port

According to the 2016 Feasibility Study, the Port will receive percentage rent that exceeds the annual minimum rent specified in the proposed Ground Lease beginning in the first year of operation. Exhibit 4 below summarizes the expected rent to the Port through CY 2026. The values do not include participation rent from the first tenant's sale of the lease because the

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[3] Report to Port from HVS Consulting and Valuation Services dated May 6, 2016.

[4] Internal rate of return on developer equity is calculated by dividing present value project's cash flows after debt payments by the developer's equity contribution.

Port's Feasibility Study[5] concluded that the Port would not receive any participation rent through 2026 if assumptions about the amount of actual equity funded and appreciation rate do not change.

Exhibit 4: Expected Rent Paid by TZK Broadway to the Port Through 2026

	Construction		Initial Operations		Full Operations		
Year	2020	2021	2022	2023	2024	2025	2026
Minimum Annual Rent	$1,000	$1,000	$1,007	$1,007	$1,471	$1,515	$1,561
Percentage Rent	n/a	n/a	$1,364	$1,487	$1,577	$1,623	$1,661
Expected Rent Payment to Port	**$1,000**	**$1,000**	**$1,364**	**$1,487**	**$1,577**	**$1,623**	**$1,661**

Source: Port

As shown above, the percentage rent from the project is expected to exceed the minimum base rent beginning in 2022.

Risk Mitigation

To mitigate risks to the project's financial success, the proposed Ground Lease requires Port approval for any sublease between TZK Broadway and the hotel operator, which, as noted above, is expected to be Interstate Hotels and Resorts. The Port will rely, among other due diligent considerations, on the underwriting standards of private lenders who will provide $82 million of debt financing or approximately 57.7 percent of the project's total expected cost of $142 million. The remaining 42.3 percent of the project's total cost is expected to be financed by a combination of mezzanine financing,[6] and equity contributions from Interstate Hotels and Resorts and from TZK Broadway. If the hotel project fails, the proposed Ground Lease requires that minimum rent continue to be paid. If the theater-restaurant business fails, the sublease with Teatro ZinZanni would be terminated and TZK Broadway would be responsible for finding a suitable replacement tenant, with approval by the Port. Under the proposed Ground Lease, if the hotel project fails, TZK Broadway would be responsible for clearing the project site for another use, which must be approved by the Port.

Revenues Generated by the Proposed Development

The proposed development will generate one-time and ongoing revenues for the City, summarized in Exhibits 5 and 6 below. As shown below, the proposed development is expected to generate $8 million in development impact fees and $4.1 million in ongoing General Fund revenues.

[5] Report to Port from HVS Consulting and Valuation Services dated September 11, 2019.
[6] Mezzanine financing is a type of investment that is subordinate to debt but senior to equity.

Exhibit 5: Expected Revenue to the City from Development Impact Fees

Fee	Est. Amount
Jobs-Housing Linkage Fee	$3,333,400
Transportation Sustainability Fee	3,132,900
Public Art Requirement	711,600
Water & Wastewater Capacity Fees	500,000
Child Care Fee	258,200
Schools Fee	55,800
Bike Parking Fee	13,000
Total	**$8,004,900**

Source: Economic Planning & Systems report to Port dated April 12, 2019

Table 6: Expected Ongoing General Fund Revenues

Ongoing General Fund Revenues	
Transient Occupancy Tax	$3,070,700
Possessory Interest Tax	809,700
Property Tax in Lieu of VLF	184,200
Sales Tax	84,900
Gross Receipt Tax	Not Estimated
Total	**$4,149,500**

Source: BLA analysis of HVS Consulting & Valuation report to Port dated September 11, 2019

Possessory Interest Tax refers to property taxes, based on improvements to the land owned by the Port and the value of the lease.

Property Tax in Lieu of VLF refers the State's Vehicle License Fee revenues distributed to the City as property tax revenues.

The HVS report also assumes that the ownership of the project changes every twenty years, which would generate Property Transfer Tax at the time of sale. HVS estimated that the annualized revenue from those transactions to be $277,500.

According to the Port, the present value of the revenues to the Port expected from the parking lot currently operating at the proposed project site over the next 20 years is $13.95 million. By comparison, the proposed project's minimum rent to the Port over the same period is expected to be $17.8 million and actual rent to the Port, which includes the expected percentage rent, is projected to be $26.5 million.

POLICY CONSIDERATION

Fair Market Rent Determination

Administrative Code Section 23.30 requires the Port to determine the market rate for its leases that require Board of Supervisors approval. The Board of Supervisors' approval of the proposed project's Term Sheet in 2016 included a minimum annual rent beginning at $1,366,000 in the third year of operation, based on an April 2015 appraisal,[7] which the Port has escalated to $1,471,000 in the proposed Ground Lease to account for the passage of time. The negotiated construction period annual rent of $1 million takes into account that there is no project revenue during this period.

According to Mr. Tijani, the Port did not obtain a more recent appraisal than the April 2015 appraisal because that appraisal was the basis for the rent negotiations with the developer in the 2016 Term Sheet, which was endorsed by the Board of Supervisors (File 16-0541), and the Port worked with its economic consultant, HVS Consulting and Valuation Services, throughout negotiations to ensure that the percentage and participation rent rates were consistent with other hotel leases.

On May 5, 2015 the Board of Supervisors approved a resolution exempting the Port from pursuing a competitive solicitation to develop Seawall Lots 323 and 324 (File 15-0331). In doing so, the resolution waiving these requirements stated relocating Teatro ZinZanni to Port property was consistent with Chapter 90A of the Administrative Code, which states that the policy of the City is to “foster, promote, and sustain music and culture in San Francisco.”

The resolution waiving the competitive solicitation requirements for this project requested that the Port work with a third party real estate consultant during negotiations to ensure the Port receive fair market value for the lease. According to the May 2016 Feasibility Study prepared for the Port by HVS Valuation and Consulting, the proposed Ground Lease terms for the proposed hotel and theater project are competitive when compared to similar hotel ground leases in light of the other terms of the lease such as the possibility of participation in profits from refinancing and/or sale of the hotel. According to Mr. Tijani, the proposed Ground Lease’s annual minimum rent and annual percentage rent are based on negotiations and are competitive with recent leases in the San Francisco Bay Area, particularly for small or boutique hotels. Port staff ordered a hotel ground rent survey and reviewed the comparable rent structures. The comparable rent structures indicated that the base rent and percentage rent are at market rate given the economic profile for the project: (a) a site with limited development density, the height limit of 40 feet, required street vacation to make the project feasible (File 19-1181), required space for Teatro ZinZanni, and developing and maintaining a public park with no Port funding or rent credits for the park; and (b) comparable hotel ground leases typically do not have a landlord’s participation in tenant’s profits from refinancing or sale or transfer of the underlying project or hotel. According to Mr. Tijani, the hotel is expected to “change hands” multiple times during the term of the proposed Ground Lease. Under the proposed Ground Lease, the Port could participate in a share of each sale’s proceeds.

Because the Port’s determination that the rent rates in the proposed Ground Lease are market rate is reasonable, we recommend approval of the proposed resolution.

RECOMMENDATION

Approve the proposed resolution.

[7] The April 2015 appraisal found that the market rate rent for this site would be $1.1 million per year.

Item 2 **File 19-0972**	**Department:** Department of Environment (DOE)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would amend the Environment Code to require new construction and whole building major renovations of municipal buildings to exclude natural gas and include exclusively all-electric energy sources. It would also affirm the Planning Department's determination under the California Environmental Quality Act (CEQA).

Key Points

- Chapter 9 of the City' s Environment Code sets the City's greenhouse gas emission limits to 80 percent below 1990 levels by 2050. Natural gas combustion in buildings currently comprises approximately 38 percent of San Francisco's greenhouse gas emissions. The City's municipal buildings generally obtain their electricity from the San Francisco Public Utilities Commission's Hetch Hetchy Power Enterprise, which is free from fossil fuel combustion and greenhouse gas emissions. Therefore, 100 percent of greenhouse gas emissions from municipal building operations are due to the use of natural gas.
- The proposed ordinance would amend Chapter 7 of the Environment Code to require new construction and whole building major renovations of municipal buildings to exclude natural gas and include exclusively all-electric energy sources. The new requirements would retroactively apply to any municipal building projects that have not applied for building permits by January 1, 2020. Municipal building projects primarily used for water, wastewater, and/or power utilities would be exempt from this requirement. The proposed ordinance allows municipal building projects to retain natural gas equipment if it services other buildings or is part of an emergency backup electricity system.

Fiscal Impact

- Construction costs for an all-electric building vary depending on the type of all-electric infrastructure installed, ranging from an estimated increase of $1 per square foot to an estimated decrease of $1 per square foot. Construction costs could potentially be lower when compared to the costs of installing natural gas infrastructure. Estimated annual energy savings varied based on the type of all-electric equipment installed. In addition, City projects could have reduced annual energy costs for municipal buildings that purchase Hetch Hetchy electricity at a lower rate than standard PG&E electricity rates.
- The proposed ordinance may have the greatest cost impact on capital projects that are currently in the design stage, because implementation of the ordinance could require redesign to an all-electric building.

Recommendation

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

MANDATE STATEMENT

According to City Charter Section 2.105, all legislative acts shall be by ordinance and require the affirmative vote of at least a majority of the members of the Board of Supervisors.

BACKGROUND

Chapter 7 of the City's Environment Code contains a number of "green building" standards for municipal buildings, defined as buildings owned or leased by the City. These standards include construction and operating requirements for energy efficiency, water conservation, toxics reduction, indoor environmental quality, and recycling and composting of waste.

Chapter 9 of the City' s Environment Code sets the City's greenhouse gas emission limits to 80 percent below 1990 levels by 2050. According to the Department of the Environment, natural gas combustion in buildings currently comprises approximately 38 percent of San Francisco's greenhouse gas emissions. Of that, approximately 35 percent is from privately owned buildings, and approximately three percent is from municipal buildings. The proposed legislation would address the three percent of the City's greenhouse gas emissions from municipal natural gas consumption.

According to the Department of the Environment's 2019 Building Code Update presentation, several public buildings in and around San Francisco have been built or designed without natural gas infrastructure. These include the Southeast Community Center, Golden Gate Park Golf Course Clubhouse, Claire Lilienthal Elementary School, Alameda Creek Watershed Center, Mission Branch Library, and San Francisco State University Housing Block 6.

The City's municipal buildings generally obtain their electricity from the San Francisco Public Utilities Commission's Hetch Hetchy Power Enterprise, which is free from fossil fuel combustion and greenhouse gas emissions. Therefore, 100 percent of greenhouse gas emissions from municipal building operations are due to the use of natural gas, via combustion onsite or the production of district steam.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend Chapter 7 of the Environment Code to require new construction and whole building major renovations of municipal buildings ("municipal building projects") to exclude natural gas and include exclusively all-electric energy sources. The new requirements would retroactively apply to any municipal building projects that have not applied for building permits by January 1, 2020.

Municipal building projects primarily used for water, wastewater, and/or power utilities would be exempt from this requirement. The proposed ordinance allows municipal building projects to retain natural gas equipment if it services other buildings or is part of an emergency backup electricity system.

The proposed ordinance would also affirm the Planning Department's findings that the actions of the ordinance comply with the California Environmental Quality Act (CEQA). According to the Planning Department, this legislation would have no impact under CEQA.

FISCAL IMPACT

Potential Impact on Construction Costs

According to a study conducted by the engineering consultant Arup in April 2019, on behalf of the Department of the Environment, costs to install all-electric infrastructure and appliances in municipal buildings could range from $1 per square foot less to $1 more per square foot more than average construction costs, depending on the type of electricity infrastructure.[1] These estimates are based on the differences in the types of equipment installed but not on changes in the infrastructure necessary to install the all-electric equipment.

Estimated annual energy savings varied based on the type of all-electric equipment installed. According to the Arup study, less efficient electric systems installed in an office building could increase energy costs by an estimated 3 percent per year; however, the more efficient electric systems installed in an office building could reduce energy costs by an estimated 9 percent per year.

A separate July 2019 study by energy consultants TRC and EnergySoft, on behalf of the statewide utility program California Energy Codes and Standards, a committee-run program of all four California Investor-Owned Utilities (and led by Southern California Edison), showed potential construction savings in all-electric buildings due in part to not installing natural gas infrastructure. According to Ms. Eden Brukman, Department of the Environment Senior Green Building Coordinator, the Arup study did not account for these savings, which may somewhat offset any potential construction increases to install electric HVAC systems. According to the TRC study, construction of a medium office building of 53,628 square feet would have savings of approximately $18,949, or approximately $0.35 per square foot, from not installing natural gas infrastructure. Therefore, when factoring in figures from both the Arup Study and the TRC Report, the potential impact on construction costs ranges from -$1.35/sq. ft. to +$0.65/sq. ft.

Electric usage and costs in new buildings could be offset through solar panels or other on-site renewable power generation.

[1] The April 2019 report compared two types of all-electric Heating, Ventilation, Air Conditioning (HVAC) systems to baseline systems: (1) Variable Air Volume (VAV) systems in which conditioned air is provided to each zone of the building at a constant temperature; and (2) Variable Refrigeration Flow (VRF) systems in which the flow of refrigerant to indoor units varies based on demand. The April 2019 report defined the baseline systems as (a) HVAC systems using VAV systems in which air cooling was provided by water-source chillers or condensed refrigerant liquid and heating was provided by natural gas with 82 percent efficiency; and (b) water heaters using natural gas with 94 percent efficiency. These baseline systems were compared to (a) HVAC systems using (1) electric VAV systems or (2) electric VRF systems; and (b) electric water heaters. On average, electric VAV systems had lower installation costs than the baseline systems, and electric VRF systems had higher installation costs than the baseline systems.

Potential Impact on Projects in Design Phase

According to Mr. Joe Chin, Public Works Project Manager, the proposed ordinance could impact the costs for capital projects that have completed design but not yet begun construction if design plans need to be revised for an all-electric building. According to a July 2019 memorandum from Public Works to the Department of Public Health, project costs could potentially increase for two health center projects that had completed design but had not yet begun construction. Because these two projects had already obtained building permits, they would not have been impacted by the proposed ordinance. However, if the projects would have been subject to the requirements of the proposed ordinance, Section 713 of the Environment Code allows City departments to request waivers from the green building requirements (including the requirements of the proposed ordinance) if compliance is cost prohibitive.

Projects that were in early planning stages, and did not have detailed design documents, would likely not incur the same additional costs noted for projects that had completed designs.

Summary

Construction costs for an all-electric building vary depending on the type of all-electric infrastructure installed, ranging from an estimated increase of $1 per square foot to an estimated decrease of $1 per square foot. Construction costs could potentially be lower when compared to the costs of installing natural gas infrastructure. In addition, City projects could have reduced annual energy costs for municipal buildings that purchase Hetch Hetchy electricity at a lower rate than standard PG&E electricity rates.

RECOMMENDATION

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

Item 3 File 19-1212	Department: Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize the General Manager of the San Francisco Public Utilities Commission to execute a contract with CDM Smith Inc., for planning and design services, and possibly engineering support during construction, for a proposed Sunol Valley Water Treatment and Ozonation Project and Calaveras Substation upgrades. The proposed contract would have a six year term, from March 2020 through March 2026, and a not-to-exceed amount of $15,000,000.

Key Points

- The San Francisco Public Utilities Commission (SFPUC) owns San Antonio Reservoir and Calaveras Reservoir, both located in the East Bay, and water is treated and distributed through the Sunol Valley Water Treatment Plant. Water from the Plant is distributed to approximately 2.7 million customers in San Francisco City and County, Alameda County, Santa Clara County, and San Mateo County.
- During the last ten years, the reservoirs have experienced increase algae levels, which periodically impact the taste and odor of the water treated by the plant. SFPUC is upgrading the water treatment plant to address water taste and odor.
- SFPUC chose CDM Smith, Inc. to complete the planning and design for the proposed Sunol Valley Water Treatment and Ozonation Project through a competitive request for proposals.

Fiscal Impact

- The proposed resolution would authorize a contract with CDM Smith with a not-to-exceed amount of $15,000,000 for the design and planning of the proposed Sunol Valley Water Treatment and Ozonation Project. The project in its entirety is estimated to cost $165.1 million.
- The project is a part of San Francisco's the adopted ten year capital plan for Fiscal Years 2020-2029 as a part of the SFPUC Regional Water Treatment Program. The project costs have been incorporated into the adopted plan, which forecasts the enterprise's revenue requirements and any necessary rate increases to meet those revenue requirements.

Recommendation

- Approve 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 San Francisco Public Utilities Commission (SFPUC) owns San Antonio and Calaveras reservoirs. These reservoirs capture and store subsurface water supplies, and water can be treated and distributed at the Sunol Valley Water Treatment Plant. While the plant is owned by SFPUC, customers include residents in San Francisco City and County, Alameda County, Santa Clara County, and San Mateo County. Water from the Sunol Valley Water Treatment Plant is distributed to approximately 2.7 million customers. Approximately one third of the water goes to San Francisco residents, and two thirds goes to customers outside of San Francisco.

During the last ten years, the reservoirs have experienced increased algae levels which periodically impact the taste and odor of the water treated by the plant. Treating taste and odor issues can be addressed in several ways: ozonation, chlorination, powder activated carbon, granular activated carbon, and aeration.[1] SFPUC considered other water treatment options, but ozonation was deemed to be the safest and most effective option.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the General Manager of the San Francisco Public Utilities Commission to execute a contract with CDM Smith Inc., for the planning and design services, and possibly engineering support during construction, for a proposed Sunol Valley Water Treatment and Ozonation Project. The proposed contract would have a six year term, from March 2020 through March 2026, and a not-to-exceed amount of $15,000,000. The resolution was approved by the Public Utilities Commission on November 12, 2019.

CDM Smith was chosen to perform the design and planning services through a competitive Request for Proposals (RFP) process first advertised in June 2019. There were two responsive bidders and CDM Smith was ranked highest of the two bidders. According to Bryan Dessaure, Project Manager with SFPUC, SFPUC has worked with CDM Smith on multiple projects, including on the Harry Tracy Water Treatment Plant Long Term Improvements from 2007-2016. This project included upgrading the ozonation system and expanding plant capacity. While there are no formal performance evaluations, SFPUC staff reports that CDM Smith's work on this project was excellent and their work came in under budget. CDM Smith has committed to the Local Business Enterprise sub-consultant requirement by agreeing to a sub-consultant

[1] Ozonation treats water by infusing ozone into water; chlorination treats water by adding chlorine; powdered and activated carbon treat water by adding carbon to absorb organic and other compounds; and aeration treats water by circulating air through water.

participation of 10.9 percent, or 2.9 percentage points over the required 8 percent Local Business Enterprise participation.

FISCAL IMPACT

The proposed contract provides for CDM Smith to provide planning and design for the proposed Sunol Valley Water Treatment and Ozonation Project ozonation system and Calaveras Substation upgrade. The contract allows for optional services to be provided by CDM Smith, including property acquisition and engineering support during construction. According to SFPUC staff, CDM Smith is expected to provide engineering support during construction, but engineering support was specified as “optional” in the contract because the time and cost estimate for the engineering support work will not be known in detail until completion of the design work. Table 1, below, shows the budget for services to be provided.

Table 1: Budget for Planning and Design Services to be provided by CDM Smith, Inc.

Task	Budget
Contract management	$1,400,000
Ozone planning & design	7,700,000
Calaveras substation planning & design	2,600,000
Engineering and property acquisition support during construction (optional)	2,800,000
Other direct costs	300,000
Markups	200,000
Total	**$15,000,000**

Source: SFPUC

The Sunol Valley Water Treatment and Ozonation Project, which has an estimated project budget of $165.1 million, is included in the proposed FY 2020-2029 Ten Year Capital Plan as a part of the SFPUC Regional Water System Improvement Program. The project costs have been incorporated into the adopted plan, which forecasts the enterprise’s revenue requirements and any necessary rate increases to meet those revenue requirements.

RECOMMENDATION

Approve the proposed resolution

Item 6 **Files 19-1265**	**Department:** Mayor's Office of Housing & Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would (1) approve the purchase and sale agreement between the City and Turk 500 Associates (a limited partnership in which the Tenderloin Neighborhood Development Corporation is the sole member) for the City to acquire 500 Turk Street; (2) approve an amended and restated loan agreement between the Mayor's Office of Housing and Community Development (MOHCD) and Turk 500 Associates in an amount not-to-exceed $32.4 million; (3) approve a ground lease between MOHCD and Turk 500 Associates; and (4) confirm that the loan agreement and ground lease are consistent with the City's General Plan.

Key Points

- Tenderloin Neighborhood Development Corporation (TNDC) purchased 500 Turk Street in December 2016 for a purchase price of $12.25 million, paid by a mortgage from Enterprise Community Loan Fund. TNDC will develop 107 units of income-restricted housing and one resident manager unit.
- MOHCD made two loans to TNDC for development of 500 Turk Street between 2017 and 2018 totaling $20.47 million, including a loan of $3, million to pay predevelopment costs and a loan of $17.47 million to pay the balance of the mortgage with Enterprise Community Loan Fund and additional predevelopment costs.
- The proposed resolution increases the loan amount by $11.9 million, from $20.47 million to $32.4 million. Turk 500 Associates must repay the loan by the 57th anniversary date of the deed of trust, but no later than December 31, 2077. No interest will be charged on the loan.
- MOHCD will purchase 500 Turk Street from TNDC and ground lease the property to TNDC for an initial term of 75 years, and an option to extend for an additional 24 years, totaling 99 years The City will credit the 500 Turk Street purchase price of $12.25 million against the loan, reducing the loan amount from $32.4 million to $20.15 million.

Fiscal Impact

- Total project costs are $95.3 million. Of this amount, $32.4 million are City loans funded by Proposition A General Obligation Bonds, and Affordable Housing Inclusionary fees. Of the $32.4 million City loan, $1.25 million is a bridge loan pending a Federal Home Loan Bank loan to TNDC, reducing the total City loan from $32.4 million to approximately $31.2 million. The balance of total project costs will be funded by approximately $64.1 million in Federal, State, and private loans and grants to TNDC.
- The City subsidy to the 500 Turk Street project is $288,426 per unit. According to MOHCD, the City subsidy per unit is determined by total available financing, unit count, target population, subsidies for other projects of comparable size, and other factors.

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

Low-Income Housing at 500 Turk Street

The City is partially funding the development of affordable housing at 500 Turk Street (also known as 555 Larkin/500-520 Turk Street), which will be co-located with a community-serving retail space. The site will be developed by the Tenderloin Neighborhood Development Corporation (TNDC) and will be owned by the City. The development will be a mixed use eight-story building, with 107 units of income-restricted housing and one resident manager unit.

The 108-unit building will consist of 23 studios, 21 one-bedroom units, 50 two-bedroom units and 14 three-bedroom units, plus one of the 1-bedrooms serving as the manager's unit. Of these units, 27 will be project-based voucher units reserved for families relocating from HOPE SF sites.[1] The ground floor will house 2,380 sq. feet of commercial retail space. All units (minus the manager's unit) are income restricted to households that earn between 30%-80% Area Median Income (AMI), averaging no more than 60% MOHCD AMI. The property will be managed by TNDC. Construction is expected to occur February 2020 to January 2023. There will be no car parking. There will be a ground floor common usable open space through an inner courtyard, as well as a roof deck.

Acquisition of 500 Turk Street

The Tenderloin Neighborhood Development Corporation purchased 500 Turk Street in December 2016 for a purchase price of $12.25 million[2], using a private mortgage from Enterprise Community Loan Fund, Inc., which was approved by the Citywide Affordable Housing Loan Committee.[3] MOHCD made two loans to TNDC between 2017 and 2018, including a loan of $3 million to pay predevelopment costs and a loan of $17.5 million to pay the balance of the mortgage with Enterprise Community Loan Fund and additional predevelopment costs.[4]

[1] The U.S. Department of Housing and Urban Development funds tenant-based vouchers to be used by eligible households to subsidize rent in the private market (also called "Section 8"), and project-based vouchers, in which the rent subsidy is allocated to a specific unit of housing rather than an eligible household.

[2] The purchase price of $12.25 million was consistent with the June 2016 appraisal by Watts, Chon and Partners, Inc., a commercial real estate appraiser.

[3] The Citywide Affordable Housing Loan Committee consists of the MOHCD Director, the Office of Community Investment and Infrastructure (OCII) Executive Director, and the Department of Homelessness and Supportive Housing Deputy Director for Programs.

[4] At the time, these loans were not believed to require Board of Supervisors' approval.

Selection of Developers

In April 2016, MOHCD released a Notice of Funding Availability (NOFA) supported by the 2015 voter-approved Proposition A General Obligation Housing Bond for $15 million of predevelopment funding for the development of affordable multifamily rental housing. The total amount of available funding included $6 million for projects located in the Mission District and $9 million for projects located elsewhere in the City. MOHCD selected TNDC to develop 500 Turk Street. Six responses were evaluated by a selection panel,[5] with the proposal by TNDC and Turk 500 Associates, L.P. ("Turk 500 Associates", which is a California limited partnership whose general partner is Turk 500 GP LLC, a California limited liability company, with Tenderloin Neighborhood Development Corporation as the sole member and manager) scoring the third highest. MOHCD awarded $3 million of the $15 million NOFA to TNDC to fund predevelopment of the 500 Turk Street project.

Qualifying applicants must have successfully developed at least one affordable rental housing development of at least 50 units that was financed with low-income housing tax credits. Qualifying applicant teams must also consist of at least one nonprofit housing developer, a construction manager, an architectural firm, a San Francisco-based service provider and a property management firm. The proposed affordable housing development at 500 Turk Street is consistent with the 2016 NOFA.

DETAILS OF PROPOSED LEGISLATION

File 19-1265: The proposed resolution would (1) approve the purchase and sale agreement between Turk 500 Associates and the City for the acquisition of 500-520 Turk Street/555 Larkin Street ("500 Turk Street") by the City from TNDC, placing 500 Turk Street under the jurisdiction of MOHCD; (2) approve an amended and restated loan agreement between the MOHCD and Turk 500 Associates in an amount not-to-exceed $32,400,000; (3) approve a ground lease between MOHCD and Turk 500 Associates at 500 Turk St. of $15,000 per year with a 75 year term and one option to extend for 24 years; and (4) confirm that the loan agreement and ground lease are consistent with the City's General Plan. The purpose of this loan is to finance the construction of 108 affordable housing units (including one manager's unit).

Purchase Agreement

MOHCD plans to acquire the land at 500 Turk Street upon approval of the $32,400,000 total loan amount for the affordable housing project. According to the proposed purchase and sale agreement between the City and Turk 500 Associates, the City previously provided loans totaling $20,474,731 to pay predevelopment costs, the outstanding balance of the Enterprise Community Loan Fund loan, and other acquisition and predevelopment costs. Under the

[5] The selection panel consisted of the MOHCD Deputy Director, MOHCD Construction Representative, MOHCD Director of Real Estate – Special Initiatives, MOHCD Director of Community Development, the Housing Program Manager from the Office of Community Investment and Infrastructure, the Deputy Director of the Department of Homelessness and Supportive Housing, the Fiscal and Performance Manager from the Department of Homelessness and Supportive Housing, the Project Director from the San Francisco Office of Economic and Workforce Development.

proposed purchase agreement, Turk 500 Associates would convey 500 Turk Street to the City for a purchase price of $12,250,000, which would be a credit against the unpaid balance of the original loan of $20,474,731. According to the 2019 appraisal for the property conducted by Mateo Advisors, the purchase price of $12,250,000 is below market rate.

Amended and Restated Loan Agreement

The original loan agreement in 2017 between MOHCD and Turk 500 Associates was for $3,000,000 for predevelopment costs. MOHCD amended the original loan agreement in 2018 to increase the loan amount by $17,474,731 to pay the outstanding balance of the Enterprise Community Loan Fund loan and other costs, for a total original and amended loan agreement of $20,474,731.

Under the proposed amended and restated loan agreement, the loan amount to Turk 500 Associates would increase by $11,925,269 to $32,400,000.

Table 1: Sources and Uses of Loan Funds

Sources	
Proposition A General Obligation Bonds	$26,154,731
Affordable Housing Fund Inclusionary Fees [a]	6,245,269
Total Sources	$32,400,000
Uses	
Predevelopment Loan	$3,000,000
Property Acquisition and Other Costs	17,474,731
Subtotal, Prior Loans	20,474,731
Proposed Loan Increase	11,925,269
Total Uses	$32,400,000

Source: Amended and Restated Loan Agreement

[a] According to the amended and restated loan agreement, the Affordable Housing Fund will provide a bridge loan, funded by Affordable Housing Inclusionary fees, pending receipt of expected loan funds from the Federal Home Loan Bank.

Turk 500 Associates must repay the loan by the 57th anniversary date of the deed of trust, but no later than December 31, 2077. No interest will be charged on the loan. As noted above, the City will credit the 500 Turk Street purchase price of $12,250,000 against the loan, reducing the loan amount from $32,400,000 to $20,150,000.

Affordability Restrictions

The amended and restated loan agreement includes a Declaration of Restrictions that controls the affordability of the units in the proposed development. All units (minus the manager's unit) are income restricted to households that earn between 30 percent - 80 percent Area Median Income (AMI), averaging no more than 60 percent MOHCD AMI.

Ground Lease

The proposed 500 Turk Street ground lease between the City and Turk 500 Associates is for 75 years, with a 24-year option to extend, totaling 99 years.

Rent

Consistent with MOHCD policy for ground leases for affordable housing, annual rent equals 10 percent of the purchase price of $12,250,000, or $1,225,000. Annual rent consists of base rent of $15,000 per year, plus residual rent. Residual rent is paid in the event that the property generates net revenues after all operating expenses and mandatory debt payments have been met. According to the cash flow analysis provided by MOHCD for the 500 Turk Street project, Turk 500 Associates will not have sufficient net revenues to pay residual rent to MOHCD during the first 20 years of the project.

FISCAL IMPACT

Affordable Housing Development at 500 Turk Street

The total development costs for the 108 units of housing and 2,380 sq. feet of commercial space are $95,340,657 including the $12.25 million land purchase ($83,090,657 not including the land purchase), shown in Table 2 below. Of the approximate $95.3 million, $31.15 million are City funds, $13.7 million are State funds, and $50.45 million are private funds.

Table 2: 500 Turk Street Total Development Sources and Uses of Funds

Sources	**City Funds**	**State Funds**	**Other Funds**	**Total**
MOHCD (Table 1 above)	$32,400,000			$32,400,000
Bridge Loan (Table 1 above)	(1,250,000)			-1,250,000
Federal Home Loan Bank			1,250,000	1,250,000
Affordable Housing Sustainable Communities		13,700,000		13,700,000
Private Debt			10,591,000	10,591,000
Deferred Developer Fees			6,717,361	6,717,361
General Partner & Limited Partner Equity			31,650,395	31,650,395
Interim Income			281,901	281,901
	$31,150,000	$13,700,000	$50,490,657	$95,340,657
Uses				
Property Purchase and Associated Costs	$13,886,994		$216,901	$14,103,895
Soft Costs (incl. 5% contingency)	11,962,672		2,360,611	14,323,283
Construction (incl. 5% contingency)	4,020,334	13,700,000	37,176,042	54,896,376
Reserves			2,269,742	2,269,742
Developer Fees	1,280,000		8,467,361	9,747,361
	$31,150,000	$13,700,000	$50,490,657	$95,340,657

Source: Amended and Restated Loan Agreement

Funding Sources

MOHCD previously entered into loan agreement with TNDC for $3,000,000 to pay for initial planning and development costs for 500 Turk Street; MOHCD amended the original loan, increasing the loan amount by $17,474,731 to pay off the Enterprise loan that was used to purchase the site and to pay other initial development costs, for a total loan amount of $20,474,731. The proposed amended and restated loan agreement increases the total City loan by $11,925,269, for a total City loan of $32,400,000.[6] Sources of funds for the proposed amended and restated loan of $32,400,000 include:

- $26,154,731 in General Obligation bonds authorized under Proposition A; and
- $6,245,269 in Affordable Housing Fund Inclusionary fees, paid by developers of market rate housing.

State funding for the project include $13,700,000 in Affordable Housing and Sustainable Communities (AHSC) Program loan to Turk 500 Associates.

Turk 500 Associates, L.P. funding for the project consists of $50,490,657, including:

- $1,250,000 expected loan from the Federal Home Loan Bank of San Francisco: Affordable Housing Program.
- $31,650,395 in equity contributions, of which (a) $500,000 is general partner equity provided by Turk 500 Associates, which serves as the general partner in the limited partnership, Turk 500 Associates, L.P., and (b) $31,150,395 is limited partner equity provided by the federal low-income housing tax credit investor, serving as the limited partner in the limited partnership).[7,8]
- $6,717,361 is deferred developer fees, which are fees that would otherwise be paid to the developer for managing, planning, and construction of the affordable housing project.[9]
- $10,591,000 in a permanent loan.
- $281,901 in income from the commercial tenant occupying the property prior to the beginning of construction.

[6] As noted above, $1,250,000 of the City loan of $32,400,000 is a bridge loan pending receipt of expected loan funds of $1,250,000 from the Federal Home Loan Bank of San Francisco: Affordable Housing Program.

[7] Under Internal Revenue Service (IRS) regulations and for the purpose of eligibility for low income housing tax credits, the non-profit (tax exempt) partner in the limited partnership serves as the general manager and retains a nominal percentage interest, and the investors (which are not tax exempt) serve as limited partners, obtaining the majority financial interest, including profits, losses, deductions, and credits. According to TNDC's financial statements, TNDC is affiliated with Turk 500 Associates, LLC, which is the general partner in the limited partnership, Turk 500 Associates L.P. Turk 500 Associates LLC has a 1 percent ownership interest and Turk 500 Associate L.P. had a 99 percent ownership interest in the limited partnership.

[8] The IRS allocates a specific amount of federal low income housing tax credits to each state, which in California are allocated to local jurisdictions and affordable housing developers by the State Treasurer's California Tax Credit Allocation Committee.

[9] Deferred developer fees are included in the project budget both as a source and use of funds; the deferred developer fee is included in the eligible basis for calculating tax credits.

The City's Subsidy per Housing Unit

The total per housing unit City subsidy is $288,426, as shown in Table 3 below. This subsidy amount includes the 108 housing units. The total development cost for the 108 units plus commercial space (including the purchase of the property) is $95,340,657, or $882,784 per unit.

Table 3: City Subsidy for Affordable Housing Units

Number of units	108
Total residential area (sq. ft.)	82,805
Total City subsidy	$31,150,000
City Subsidy per unit	$288,426
City Subsidy per sq. ft.	$377

Source: MOHCD

According to Ms. Amy Chan, Director of Policy and Legislative Affairs for MOHCD, the City subsidy per unit is determined on a project-by-project basis. When evaluating the level of subsidy, MOHCD compares the project to similar projects in size, unit count, target population, construction type and overall development costs. Financing factors also considered are: if the project budget includes acquisition costs, the amount of non-city sources leveraged, tax credit pricing and loan interest assumptions, target affordability levels, and if a rental or operating subsidy are part of the program, which helps maximize the amount of debt the project can leverage.

Operating Revenues and Expenses

According to the 20-year cash flow analysis for the 500 Turk Street project, the project will have sufficient revenues to cover operating expenses, operating reserves, permanent loan payments, management fees, and partial principal payments on the MOHCD and California Department of Housing and Community Development loan. Project revenues consist of tenant rents, project-based vouchers allocated by the San Francisco Housing Authority for 27 units or 25 percent of the total units, and commercial space rents. As noted above, the 500 Turk Street project is not expected to generate sufficient net revenues to make residual rent payments under the proposed Ground Lease.

RECOMMENDATION

Approve the proposed resolution.

Item 8 **Files 19-1300**	**Department:** Mayor's Office of Housing & Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would (1) approve a loan agreement between the Mayor's Office of Housing and Community Development (MOHCD) and Maceo May Apts, L.P., a California limited partnership consisting of Chinatown Community Development Center and Swords to Plowshares, in an amount not to exceed $24,255,000, and (2) confirm that the loan agreement and ground lease are consistent with the City's General Plan.

Key Points

- The Disposition and Development Agreement between the Treasure Island Development Authority (TIDA) and Treasure Island Community Development, LLC, the master developer for the Treasure Island project that includes 1,684 affordable units. The Maceo May Apartments project would develop 104 affordable housing units, including 39 replacement units for veteran households on the Island and 65 new units for formerly homeless veterans.
- TIDA selected Swords to Plowshares, a veterans' support organization, to develop the first affordable housing project, in large part because TIDA is applying for State Veterans Housing and Homelessness Prevention Program funds. Swords to Plowshares formed a limited partnership with Chinatown Community Development Center – Maceo May Apts. L.P. – to develop the 104 affordable housing units.
- TIDA will ground lease the land to Maceo May Apts. L.P, for a term of up to 99 years. According to MOHCD staff, the ground lease does not require Board of Supervisors approval.

Fiscal Impact

- Total project costs are $74.2 million. Of this amount, $24.3 million are City loans funded by excess Educational Revenue Augmentation Funds (ERAF), federal Housing and Urban Development (HUD) grant funds, Inclusionary Housing fees, and the City's Low and Moderate Income Housing fund. The balance of total project costs will be funded by approximately $49.9 million in Federal, State, and private loans and grants to Maceo May Apts, L.P.
- The City subsidy to the Maceo May Apartments project is $231,000 per unit. According to MOHCD, the City subsidy per unit is determined by total available financing, unit count, target population, subsidies for other projects of comparable size, and other factors.

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

Low-Income Housing on Treasure Island

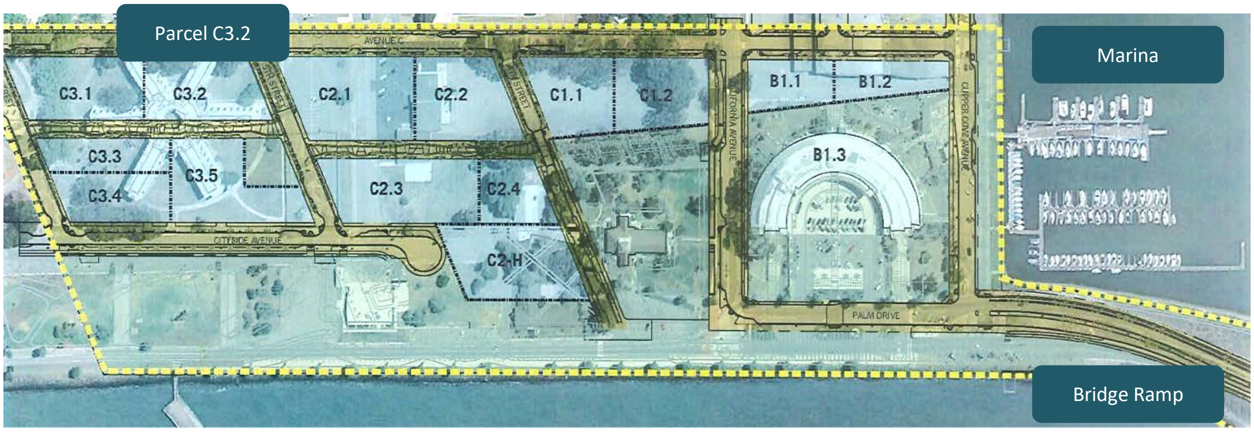
The City is funding the first phase of development of affordable housing on Treasure Island as part of the Treasure Island/Yerba Buena Island Redevelopment Plan. The Treasure Island/Yerba Buena Development Project is part of the Treasure Island Development Authority's (TIDA) ongoing project to transition Treasure Island and a portion of Yerba Buena Island from a former military base to a residential and commercial development. In June 2011, the Board of Supervisors approved the Disposition and Development Agreement (DDA) between TIDA and Treasure Island Community Development, LLC (TICD), the master developer for the Treasure Island development project (File 11-0291).

The DDA's Housing Plan requires approximately 8,000 new residential units, at least 25 percent of which will be made affordable to low and moderate-income households. According to the Housing Plan, 1,684 units are 100 percent affordable housing projects and the balance are below market rate inclusionary rental or ownership units; of the 1,684 affordable housing units, a minimum of 435 are reserved for homeless households, including 250 replacement units for current Treasure Island households who were formerly homeless and who will be displaced by the Treasure Island/Yerba Buena Development Project. The 250 replacement units must be developed before any new affordable units are developed.

The DDA allows the master developer to select development partners for the Treasure Island/Yerba Buena Island Development Project. In 2018, four nonprofits[1] were authorized to develop affordable housing projects, including selecting development partners. According to the March 2018 staff report to the TIDA Board of Directors, TIDA selected Swords to Plowshares, a veterans' support organization, to develop the first affordable housing project, in large part because TIDA is applying for State Veterans Housing and Homelessness Prevention Program funds. Swords to Plowshares formed a limited partnership with Chinatown Community Development Center – Maceo May Apts. L.P. – to develop parcel C3.2, shown in the Exhibit 1 below.

[1] The four non-profit supportive housing operators selected by the master developer were Swords to Plowshares, Community Housing Partnership, Catholic Charities, HealthRight360.

Exhibit 1: Parcel C3.2 for Development of Maceo May Apartments



Source: March 2018 Staff Report to TIDA Board of Directors

The Maceo May Apartments Project

The Maceo May Apartments will be a mixed use six-story building, with 104 units of income-restricted housing and one resident manager unit. The 105-unit building will consist of 24 studios, 47 one-bedroom units and 33 two-bedroom units. Of these units, 39 will serve as replacement housing for Swords to Plowshares' 39 existing veteran households on the island. In addition to the replacement housing, the Maceo May Apartments will add 65 new project-based Veterans Affairs Supportive Housing (VASH) units for formerly homeless veterans.[2]

All units (except the manager's unit) are income restricted to households that earn less than 80 percent MOHCD AMI. The property will be co-managed by Chinatown Community Development Center and Swords to Plowshares. Building amenities include a community room with attached kitchen, offices for staff providing property management and resident services, and 19 parking spaces. Construction is expected to occur from 2020 to 2022.

Acquisition of Land and Ground Lease

The Treasure Island Development Authority (TIDA) acquired the property from the United States Navy for the purpose of residential and commercial development. According to Ms. Cindy Heavens, Senior Project Manager at the Mayor's Office of Housing and Community Development, a ground lease between TIDA and the Maceo May Apts. L.P. will be submitted to the Executive Director of TIDA for approval.[3] According to Ms. Heavens, that ground lease terms will be consistent with the Option to Lease Agreement previously executed by TIDA's Executive Director, and with the Mayor's Office of Housing and Community Development (MOHCD) ground leases for affordable housing, including a term of up to 99 years, annual rent consisting of $15,000 base rent and residual rent in the event that the project generates net

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[2] The federal Department of Housing and Urban Development (HUD) allocates housing vouchers to local housing authorities, including tenant-based vouchers to subsidize households' rent in the private market, and project-based vouchers to subsidize specific housing units. The Veterans Affairs Supportive Housing (VASH) project-based vouchers subsidize supportive housing for veterans.

[3] According to Ms. Cindy Heavens, who consulted with City legal counsel, the ground lease does not require Board of Supervisors approval.

revenues. According to MOHCD, the Maceo May Apartments project is not expected to generate sufficient net revenues to make residual rent payments under the proposed Ground Lease.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would (1) approve and authorize the execution of a Loan Agreement between MOHCD, acting on behalf of the City and County of San Francisco, and Maceo May Apts, L.P., a California limited partnership consisting of Chinatown Community Development Center and Swords to Plowshares, in an amount not to exceed $24,255,000 for a minimum term of 57 years to finance the construction of the Maceo May Apartments, a 100% affordable, 105-unit multifamily rental housing development (plus 1 staff unit) for low and moderate income veteran households, and (2) confirm that the loan agreement and ground lease are consistent with the City's General Plan. The purpose of this loan is to finance the construction of 104 affordable housing units and one residential manager unit.

Loan Agreements

The original loan agreement provided by MOHCD in 2018 was for $6,562,000 for predevelopment costs. MOHCD proposes to amend the original loan agreement to increase the loan amount by $17,693,000 to complete development and construction, including permanent financing. Under the proposed amended loan agreement, the total loan amount to Maceo May Apts L.P. would increase to $24,255,000, shown in Exhibit 2 below.

Exhibit 2: MOHCD Loans to Maceo May Project

Sources	
Excess Educational Revenue Augmentation Fund (ERAF)	$11,000,000
HUD HOME Grant	$3,600,000
Low and Moderate Income Housing Fund	$2,000,000
Affordable Housing Fund Inclusionary Housing Fees	$7,655,000
Total Sources	$24,255,000
Uses	
Predevelopment loan	$6,562,000
New loan (File 19-1300)	$17,693,000
Total Uses	$24,255,000

Source: Proposed Loan Agreement

* According to the proposed loan agreement, a portion of the funding provided by the Affordable Housing Fund will function as a bridge loan funded by Affordable Housing Inclusionary fees, pending receipt of expected loan funds from the Federal Home Loan Bank Affordable Housing Loan Program.

Maceo May Apts L.P. must repay the loan by the 57th anniversary date of the deed of trust. Interest will accrue on the principal balance outstanding from time to time at the rate of 1% per annum, from the date of the close of escrow through the date of full payment of all amounts owed.

Affordability Restrictions

The proposed loan agreement includes a Declaration of Restrictions that controls the affordability of the units in the proposed development for the life of the project, which means the period of time in which the project continues to operate as a multi-family apartment project substantially similar to its current condition in terms of square footage and number of units, and in the event the project is substantially damaged or destroyed by fire, the elements, an act of any public authority or other casualty, and is subsequently replaced by a multi-family residential project substantially similar to its current condition in terms of square footage and number of units, the life of such replacement project will be deemed to be a continuation of the life of the project. All units (except the manager's unit) are income restricted to households that are less than 80% MOHCD AMI.

FISCAL IMPACT

Affordable Housing Development at Parcel C3.2

The total development cost for the 105 units of housing is $74,175,996, as shown in Table 2 below. Of the approximate $74.2 million, $24.25 million (32.7%) are City funds, $10 million (13.5%) are State funds, and $39.2 (53.8%) million are private funds.

Exhibit 3: Maceo May Apartments Total Development Sources and Uses of Funds

Sources	City	State	Private	Total
MOHCD Loans	$24,255,000			$24,255,000
State Veterans Housing & Homelessness Prevention (VHHP)		10,000,000		10,000,000
General Partner Equity			548,393	548,393
Permanent Loan			9,501,482	9,501,482
Equity Contribution for Sale of 4% Low Income Housing Tax Credits			29,093,852	29,093,852
Deferred Developer Fee			777,269	777,269
	$24,255,000	$10,000,000	$39,920,996	$74,175,996
Uses				
Acquisition costs	$15,000			$15,000
Soft Costs (incl. 7.2% contingency)	11,527,764			11,527,764
Construction (incl. 5.4% contingency)	9,311,811	10,000,000	38,595,334	57,907,145
Reserves	1,226,087			1,226,087
Developer Fees	2,174,338		1,325,662	3,500,000
Totals	**$24,255,000**	**$10,000,000**	**$39,920,996**	**$74,175,996**

Source: MOHCD

Funding Sources

MOHCD previously entered into loan agreement with Maceo May Apts L.P. for $6,562,000 to pay for initial planning and development costs; MOHCD's proposes to amended the original loan, increasing the loan amount by $17,693,000 to complete development and construction activities, including permanent financing related to the Project, for a total City loan amount of

$24,255,000.[4] Sources of funds for the proposed amended and restated loan of $24,255,000 include:

- $11,000,000 in Excess Education Revenue Augmentation Funds, appropriated under the Affordable Housing Production and Preservation Fund;
- $3,600,00 in HUD HOME Grant Funds;[5]
- $2,000,000 in Low and Moderate Income Housing Funds (LMIHF);[6]
- $7,655,000 in Affordable Housing Fund Inclusionary fees, paid by developers of market rate housing.

State funding for the project includes $10,000,000 in State Veterans Housing & Homelessness Prevention (VHHP) Program loans to Maceo May Apartments L.P.

Maceo May Apts L.P. funding for the project consists of $39,920,996 including:

- $29,642,245 in equity contributions, of which (a) $548,393 is general partner equity, and (b) $29,093,852 is limited partner equity provided by the federal low-income housing tax credit investor, serving as the limited partner in the limited partnership).[7,8]
- $777,269 is deferred developer fees, which are fees that would otherwise be paid to the developer for managing planning and construction of the affordable housing project.[9]

The City's Subsidy per Housing Unit

The total per housing unit City subsidy is $231,000, as shown in Table 3 below. This subsidy amount includes the 105 housing units. The total development cost for the 105 units is $74,175,996, or $706,538 per unit.

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[4] As noted above, $1,040,000 of the City loan of $24,255,000 is a bridge loan pending receipt of $1,040,000 in a Federal Home Loan Bank Affordable Housing Program Loan.

[5] The HOME Investment Partnerships Program (HOME) provides formula grants for cities and counties to fund the construction, acquisition of rehabilitation of affordable housing.

[6] LMIH Fund monies are from repayment of loans previously made by former redevelopment agency housing assets transferred to the City and County of San Francisco.

[7] Under Internal Revenue Service (IRS) regulations and for the purpose of eligibility for low income housing tax credits, the non-profit (tax exempt) partner in the limited partnership serves as the general manager and retains a nominal percentage interest, and the investors (which are not tax exempt) serve as limited partners, obtaining the majority financial interest, including profits, losses, deductions, and credits. CCDC is affiliated with CCDC-Maceo May Apts LLC, which is the general partner in the limited partnership Maceo May Apts, L.P. CCDC has a 49.95% ownership interest and CCDC-Maceo May Apts. LLC has a .005% interest. Similarly, Swords to Plowshares is affiliated with Swords-Maceo May Apts LLC, which is the general partner in Maceo Map Apts L.P. Swords to Plowshares has a 49.995% ownership interest, and Swords-Maceo May Apts LLC has a .005% ownership interest in the limited partnership.

[8] The IRS allocates a specific amount of federal low income housing tax credits to each state, which in California are allocated to local jurisdictions and affordable housing developers by the State Treasurer's California Tax Credit Allocation Committee.

[9] Deferred developer fees are included in the project budget both as a source and use of funds; the deferred developer fee is included in the eligible basis for calculating tax credits.

Table 3: City Subsidy for Affordable Housing Units

Number of units	105
Total residential area (sq. ft.)	68,488
Total City subsidy	$24,255,000
City Subsidy per unit	$231,000
City Subsidy per sq. ft.	$354

Source: MOHCD

According to Ms. Amy Chan, Director of Policy and Legislative Affairs for MOHCD, the City subsidy per unit is determined on a project-by-project basis. When evaluating the level of subsidy, MOHCD compares the project to similar projects in size, unit count, target population, construction type and overall development costs. Financing factors also considered are: if the project budget includes acquisition costs, the amount of non-city sources leveraged, tax credit pricing and loan interest assumptions, target affordability levels, and if a rental or operating subsidy are part of the program, which helps maximize the amount of debt the project can leverage.

Operating Revenues and Expenses

According to the 20-year cash flow analysis for the Maceo May Apartments project, the project will have sufficient revenues to cover operating expenses, operating reserves, construction loan payments, management fees, and partial principal payments on the MOHCD and California Department of Housing and Community Development loans. Project revenues consist of tenant rents, income from project-based Veterans Affairs Supportive Housing vouchers allocated by the San Francisco Housing Authority and Continuum of Care funding, administered through the Department of Homelessness and Supportive Housing, for 102 units or 97 percent of the total units. One unit is supported by a Section 8 tenant-based voucher, and 1 unit is an unsubsidized household at 50% AMI. According to Ms. Heavens, here is no local operating subsidy. As noted above, the Maceo May Apartments project is not expected to generate sufficient net revenues to make residual rent payments under the proposed Ground Lease.

RECOMMENDATION

Approve the proposed resolution.