

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

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TO: Budget and Finance Sub-Committee
FROM: Budget and Legislative Analyst 
SUBJECT: April 27, 2016 Budget and Finance Sub-Committee Meeting

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Item 3 File 16-0302	Department: General Services Agency - City Administrator's Office (CAO)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would approve a new contract between the City of San Francisco and Univar USA, Inc. (Univar) to purchase sodium hypochlorite for an amount not-to-exceed \$14,500,000 for a three-year term from June 1, 2016, through May 31, 2019. The contract allows two one-year options to extend the contract through May 31, 2021 for a not-to-exceed amount of \$24,000,000 and total term of five years. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • Sodium hypochlorite is a chemical compound which is used for water treatment. It is used by the San Francisco Public Utilities Commission (SFPUC) to disinfect the potable water supply used for drinking water, and to treat wastewater to destroy disease-causing pathogens. The San Francisco International Airport (Airport) also uses sodium hypochlorite for its wastewater treatment. • In December 2015, the City issued a request for qualifications to select a new contractor to procure sodium hypochlorite. Univar was the lowest cost bidder, with a proposed average price of \$0.41 per pound of sodium hypochlorite. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The estimated annual cost for sodium hypochlorite is \$4,833,333. The budget includes contingency of approximately 19.7 percent should the SFPUC or the Airport require additional quantities of sodium hypochlorite based on changing conditions. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • 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

Sodium hypochlorite is a chemical compound which is used for water treatment. It is used by the San Francisco Public Utilities Commission (SFPUC) to disinfect the potable water supply used for drinking water, and to treat wastewater to destroy disease-causing pathogens. The San Francisco International Airport (Airport) also uses sodium hypochlorite for its wastewater treatment.

The City has purchased sodium hypochlorite for the past 30 years, and has been using the same active ingredient for over 100 years. The current contract between the City and Olin Corporation (Olin) to purchase sodium hypochlorite was approved by the Board of Supervisors in 2011 for an initial three-year term from March 1, 2011 through February 28, 2014 with two one-year extensions through February 28, 2016 for a total not-to-exceed amount of \$23,500,000 (File 10-1578). Actual contract expenditures through March 2016 were \$18,682,515, as shown in Table 1 below.

Table 1: Sodium Hypochlorite Expenditures for Last Five Years

	SFPUC Water	SFPUC Wastewater	Airport	Total
Mar 2011 to Feb 2012	\$355,097	\$378,180	\$33,500	\$766,777
Mar 2012 to Feb 2013	1,669,232	1,709,537	0	3,378,769
Mar 2013 to Feb 2014	1,738,964	2,086,723	76,000	3,901,687
Mar 2014 to Feb 2015	1,873,394	1,992,946	45,000	3,911,340
Mar 2015 to Mar 2016 ¹	2,345,794	4,347,597	30,550	6,723,941
Total	\$7,982,482	\$10,514,983	\$185,050	\$18,682,515

In December 2015, the City issued a request for qualifications to select a new contractor to procure sodium hypochlorite. The City received responses from Olin and Univar USA, Inc. (Univar). Univar was the lowest cost bidder, with a proposed average price of \$0.41 per pound of sodium hypochlorite, compared to Olin’s proposed price of \$0.421 per pound. In February 2016, Olin challenged the award of the contract to Univar, which prevented the City from purchasing sodium hypochlorite from Univar. As a result, the Office of Contract Administration extended the contract with Olin to May 31, 2016 to ensure sufficient product is delivered and available to meet demand during this period. The SFPUC reports that Olin’s challenge was subsequently denied.

¹ According to the SFPUC, spending on sodium hypochlorite increased during March 2015 through February 2016 because weather conditions, including earlier than anticipated heat conditions and heavy rains, required the department to use additional quantities of sodium hypochlorite to treat water and wastewater.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new contract between the City and Univar to purchase sodium hypochlorite for an amount not-to-exceed \$14,500,000 for a three-year term from June 1, 2016, through May 31, 2019. The contract allows two one-year options to extend the contract through May 31, 2021 for a not-to-exceed amount of \$24,000,000 and total term of five years.

FISCAL IMPACT

Under the proposed contract, Univar will provide sodium hypochlorite to the City at an average price of \$0.41 per pound, as shown in Table 2 below. The contract price is fixed over the first 12 months of the contract. After the first 12 months, the contractor may request annual price increases based on prices documented by: IHS Chemical Market Advisory Chemical Service, Global Chlor-Alkali Report, data reported on Caustic Soda Contract U.S. West Coast Average Contract Price, and the Contract Average Price, U.S. Gulf Coast for Chlorine.

As shown in Table 2 below, excluding the requested contingency amount, the total annual cost of the contract for the initial three-year term is \$4,036,401.

Table 2: Price per Pound of Sodium Hypochlorite for the Initial Three-Year Contract Term

	Number of Pounds	Price per Pound	Total
SFPUC Wastewater Enterprise	4,450,000	\$0.38	\$1,682,100
SFPUC Water Enterprise	5,019,000	\$0.38	1,897,371
SFPUC Water Enterprise (Small Delivery)	303,400	\$1.44	436,896
Airport	53,000	\$0.38	20,034
Total	9,825,900	\$0.41	\$4,036,401

The estimated annual cost for sodium hypochlorite for the initial three-year contract term is \$4,833,333, as shown in Table 3 below. The budget includes a contingency of approximately 19.7 percent should the SFPUC or the Airport require additional quantities of sodium hypochlorite based on changing conditions. As shown in Table 3 below, the total estimated cost of the initial three-year contract term is \$14,500,000.

Table 3: Estimated Cost of Sodium Hypochlorite through May 2019 for the Initial Three-Year Contract Term

	June 2016 to May 2017	June 2017 to May 2018	June 2018 to May 2019	Total
SFPUC Wastewater Enterprise	\$2,334,267	\$2,334,267	\$2,334,267	\$7,002,801
SFPUC Water Enterprise	1,682,100	1,682,100	1,682,100	5,046,300
Airport	20,034	20,034	20,034	60,102
<i>Subtotal</i>	<i>\$4,036,401</i>	<i>\$4,036,401</i>	<i>\$4,036,401</i>	<i>\$12,109,203</i>
Contingency @ 19.7%	\$796,932	\$796,932	\$796,932	\$2,390,796
Total	\$4,833,333	\$4,833,333	\$4,833,333	\$14,500,000*

* Totals may vary due to rounding

As stated above, the proposed contract with Univar includes two one-year options to extend the contract for a total not-to-exceed contract amount of \$24,000,000.

RECOMMENDATION

Approve the proposed resolution.

Item 4 File 16-0285	Departments: Office of Investment and Infrastructure (OCII)
EXECUTIVE SUMMARY	
<p>Legislative Objectives</p> <p>The proposed resolution would authorize OCII to execute a 75-year ground lease with Mercy Housing California 64, LP (Mercy), a California limited partnership, for Transbay Block 7, located at 255 Fremont Street/222 Beale Street.</p> <p>Key Points</p> <ul style="list-style-type: none"> • Block 7 in the Transbay Project Area is designated for 100 percent affordable housing to low income households. Mercy will construct 120 housing units, financed by loans from OCII and private lenders, federal tax credits, and other sources. Construction of the 120-unit affordable housing project at 255 Fremont Street/222 Beale Street will begin in June 2016 and is expected to be substantially complete by the spring of 2018. At completion of the project, the ground lease will be transferred from OCII to the Mayor’s Office of Housing and Community Development. • The ground lease is for an initial term of 75 years with the option to extend for 24 years for a total lease term of 99 years. Under the terms of the ground lease, Mercy must maintain the 120 housing units to be affordable to low income households. <p>Fiscal Impact</p> <ul style="list-style-type: none"> • California law sets annual ground lease rents for affordable housing projects at 10 percent of the appraised value. Base annual rent to be paid by Mercy to the City is \$15,000 per year. Annual residual rent of up to \$1,860,000 would be paid by Mercy to the City if Mercy has sufficient income after expenses to pay residual rent. Combined annual base and residual rent if \$1,875,000. Consistent with California law and City policy, the residual rent structure is intended to allow Mercy to rent to low income households at rent amounts significantly below market rate. • The combined annual base and residual rent of \$1,875,000 equals 10 percent of the appraised value of 255 Fremont Street/222 Beale Street for unrestricted use of \$18,750,000. <p>Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. 	

MANDATE STATEMENT

City Administrative Code Section 23.30 provides that the Board of Supervisors, by resolution, may authorize the lease of real property owned by the City.

BACKGROUND

The Transbay Redevelopment Plan¹ was approved by the Board of Supervisors in June 2005, which provided for the redevelopment of a 40-acre area generally bounded by Mission, Main, Second and Folsom Streets, and included redevelopment of the previous Transbay Terminal at First and Mission Streets (File 05-0184; Ordinance No. 124-05). The Transbay Redevelopment Plan requires that 35 percent of the housing developed in the Transbay Project Area be affordable, including 25 percent for low income households and 10 percent for moderate income households.

Transbay Block 7 is a 29,209 square foot site located at 255 Fremont Street/222 Beale Street in the Transbay Project Area designated for affordable housing. A development team consisting of Golub Real Estate Corporation (Golub) (as the developer for the market rate units) and Mercy Housing California (as the developer for the affordable units) was selected by the former San Francisco Redevelopment Agency in December 2011 to develop two parcels in the Transbay Project Area – Transbay Block 6 at 280 Beale Street and Transbay Block 7 at 255 Fremont/222 Beale Street – based on a competitive Request for Proposals (RFP).²

Originally, the San Francisco Redevelopment Agency planned to use tax increment financing to pay for development of affordable housing as part of the development of Block 6 and Block 7. However, after the dissolution of the San Francisco Redevelopment Agency in February 2012, the availability of tax increment financing was uncertain, and the successor agency, the Office of Community Investment and Infrastructure (OCII), instead negotiated that Golub pay a development fee of \$24.3 million that would cover OCII's cost to subsidize the affordable units on Block 6 and a portion of the units in Block 7.

OCII approved a Disposition and Development Agreement (DDA) in April 2013 between Golub, Mercy Housing California, and OCII, in which the Transbay Joint Powers Authority³ transferred Block 6 and Block 7 to OCII. Golub then purchased Block 6 from OCII in October 2013 and paid the affordable housing fee of \$24.3 million to the City to fund the required affordable housing

¹ The Transbay Redevelopment Plan was initiated by the San Francisco Redevelopment Agency, which was dissolved by State mandate in 2012. A successor agency, the Office of Community Investment and Infrastructure (OCII) is now obligated to complete implementation of major redevelopment projects in San Francisco, including the Transbay Redevelopment Plan's enforceable obligations.

² Block 6 is comprised of a 32 story tower and a row of two story townhomes, all with market rate units, and a stand-alone eight-story building with affordable units. Block 7 is an eight-story affordable housing building.

³ In 2003, the State, entered into a Cooperative Agreement with the TJPA to transfer various State-owned parcels to the TJPA at no cost, and allow the TJPA to sell these parcels and use the sale proceeds to finance the Transbay Project.

component for Block 6 and a portion of Block 7, both of which would be developed by Mercy Housing California.

The construction of the affordable housing development for Block 6 was completed in the fall of 2015. Completion of market rate housing development for Block 6 is scheduled to be completed in 2016.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize OCII to execute a 75-year ground lease with Mercy Housing California 64, LP (Mercy), a California limited partnership, for Transbay Block 7, located at 255 Fremont Street/222 Beale Street.

Table 1: Ground Lease Terms

Term of Lease	75 years to approximately May 2091
Option to Extend	24 years to approximately May 2115
Base Annual Rent Payable by Mercy Housing to the City	\$15,000 during initial term of lease
Residual Rent Payable by Mercy Housing to the City (due only if property generates surplus cash)	\$1,860,000 during initial term of lease
Total Annual Rent Payable by Mercy Housing to the City	\$1,875,000 during initial term of lease

Under the proposed ground lease, Mercy will construct and maintain 119 units of affordable housing and one manager’s unit, totaling 120 housing units, on this site. 36 of the 119 affordable units will be affordable to households earning 40 percent of the Area Median Income, and 83 of the 119 affordable units will be affordable to households earning 50 percent of the Area Median Income.⁴ One unit will be a manager’s unit. The composition of the units is as follows:

- 53 one-bedroom units;
- 43 two-bedroom units;
- 23 three-bedroom units; and
- One two-bedroom manager’s unit.

The proposed development also includes a ground floor child care facility, and shared open space area.

⁴ 40 percent of the Area Median Income for a family of four in 2016 is \$43,100; and 50 percent of the Area Median Income for a family of four in 2016 is \$53,850.

The proposed ground lease between OCII and Mercy gives Mercy a leasehold interest in the property which allows Mercy to obtain financing to construct the 120-unit affordable housing project at 255 Fremont Street/222 Beale Street. Estimated project costs are \$65 million. Financing obtained by Mercy for the project comes from federal tax credits, OCII loans, and a private loan from Wells Fargo.

Construction of the 120-unit affordable housing project at 255 Fremont Street/222 Beale Street will begin in June 2016 and is expected to be substantially complete by the spring of 2018. Upon completion of the project, OCII would transfer the affordable housing loan obligation, asset and ground lease to the Mayor's Office of Housing and Community Development (MOHCD), which is the City's designated successor Housing Agency in accordance with State Dissolution Law.

At the end of 75 years, Mercy has the option to extend the ground lease for an additional 24 years and is required to retain the affordability restrictions on the 120 units. After expiration of the ground lease, Mercy would retain ownership of the building and the City would retain ownership of the land.

Under the proposed resolution, the Board of Supervisors would find that:

- This ground lease provides housing for low income families;
- This ground lease is consistent with the Transbay Project Area Plan;
- The less than fair market value rent of \$15,000 per year for 75 years is necessary to achieve affordability to low income households; and
- The present value of the rent payments of \$15,000 per year for 75 years is equivalent to the current value of the property because the property value is decreased due to the low income generated by the affordable rents.⁵

FISCAL IMPACT

Base annual rent to be paid by Mercy to the City is \$15,000 per year. Annual residual rent of up to \$1,860,000 would be paid by Mercy to the City if Mercy has sufficient income after expenses to pay residual rent. The combined annual base and residual rent of \$1,875,000 equals 10 percent of the appraised value of 255 Fremont Street/222 Beale Street for unrestricted use of \$18,750,000.⁶

According to Ms. Sally Oerth, OCII Deputy Director, the residual rent structure under the proposed ground lease is standard for affordable housing projects. By allowing Mercy to pay residual rent only if Mercy's income after expenses is sufficient to pay the residual rent, Mercy

⁵ The present value of the property is calculated to be \$292,275, based on base rent of \$15,000 per year over 75 years, discounted by 5 percent per year.

⁶ The appraisal was conducted by Joseph Napoliello, MAI (Member of the Appraisal Institute), in September 2015, based on the value of the property if use were not restricted to affordable housing. California Health and Safety Code Section 33433, which governs development of properties in accordance with a redevelopment plan, states that annual rent of properties leased as part of a redevelopment plan is 10 percent of the unrestricted fair market value.

is able to rent the 120 affordable housing units to low income families at less than fair market value rent.

RECOMMENDATION

Approve the proposed resolution.