CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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April 15, 2022

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: April 20, 2022 Budget and Finance Committee Meeting

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Items 1 & 2 Files 22-0196 & 22-0197	Department: City Administrator's Office (ADM)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolutions would approve insurance brokerage services contracts between the Risk Management Division (Risk Management) and (1) Alliant Insurance Services, Inc. (Alliant), for an amount not to exceed $75,000,000 (File 22-0196); and (2) Arthur J. Gallagher and Co. Insurance Brokers of California, Inc. (Gallagher), for an amount not to exceed $30,000,000 (File 22-0197). The contracts would have a three-year term from July 1, 2022 through June 30, 2025, with three two-year options to extend through June 2031.

Key Points

- Risk Management uses insurance brokerage services to purchase insurance for City departments, including property, liability, and other forms of third-party insurance. In March 2021, Risk Management issued a Request for Qualifications (RFQ) for insurance brokerage and risk management services and qualified six firms for brokerage services, including Alliant and Gallagher.
- The City has an existing brokerage services contract with Alliant, which was approved by the Board of Supervisors in May 2017 and extended in November 2019. The City is now unable to insure Port assets under the larger citywide insurance pool due to the Pier 45 fire in May 2020. Risk Management has negotiated a new contract for citywide insurance brokerage services with Alliant, which excludes coverage of Port assets, and a separate contract with Gallagher, which is specific to Port assets.

Fiscal Impact

- The proposed contracts would have a combined not-to-exceed amount of $105,000,000 over the initial three-year terms. Insurance premiums have increased recently due to high inflation and significant losses by the global insurance market. Risk Management assumes 20 percent annual increases in FY 2022-23 and FY 2023-24 and a 15 percent increase in FY 2024-25. Risk Management believes the $75,000,000 not-to-exceed amount for the Alliant contract may be an underestimate that will need to be increased before three years.
- The funding for premiums is paid through work orders from the various City departments for which the insurance is being procured. Due to the volatility and complexity of the insurance market, quotes for premiums will not be available until 15 days before the contracts take effect in July 2022.

Recommendation

- Approve the proposed resolutions.

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 City Administrator's Risk Management Division (Risk Management) uses insurance brokerage services to purchase insurance for City departments, including property, liability, and other forms of third-party insurance. These brokers are responsible for assisting the City's Risk Management Division in evaluating City departments' insurance needs and assuring that City departments have the appropriate level of insurance coverage.

In March 2021, Risk Management issued a Request for Qualifications (RFQ) for insurance brokerage and risk management services and qualified six firms for brokerage services: (1) Alliant Insurance Services, Inc. (Alliant); (2) Aon; (3) Arthur J. Gallagher & Co. (Gallagher); (4) G2 Insurance Services, LLC; (5) Marsh USA, Inc.; and (6) Merriweather & Williams Insurance Services, Inc. All respondents were determined to be qualified and eligible for contracts.[1]

The City has an existing brokerage services contract with Alliant, which was approved by the Board of Supervisors in May 2017 (File 17-0341) and extended in November 2019 (File 19-0995). The contract is set to expire June 30, 2022, but may be extended through June 2026. According to Matt Hansen, Risk Management Director, the City is now unable to insure Port assets under the larger citywide insurance pool due to the Pier 45 fire in May 2020 and the unique characteristics of Port property. Risk Management has negotiated a new contract for citywide insurance brokerage services with Alliant, which excludes coverage of Port assets, and a separate contract with Gallagher, which is specific to Port assets.

DETAILS OF PROPOSED LEGISLATION

The proposed resolutions would approve insurance brokerage services contracts between Risk Management and (1) Alliant, for an amount not to exceed $75,000,000 (File 22-0196) and (2) Gallagher, for an amount not to exceed $30,000,000 (File 22-0197). Each contract would have an initial three-year term, from July 1, 2022 through June 30, 2025, with three two-year options to extend through June 2031.

As mentioned above, the contract with Gallagher would be specific to Port assets, while the contract with Alliant would be for City assets that are revenue generating, such as enterprise assets and the Fine Arts Museums. According to Director Hansen, the vast majority of insurance is purchased by the City's enterprise departments, predominantly the Airport, Port, SFMTA, and San Francisco Public Utilities Commission (SFPUC). It is also purchased for facilities that are

[1] The City has existing contracts for each of the respondents except for Marsh USA. The RFQ remains open to additional proposers through June 2023.

publicly financed and miscellaneous City facilities, such as City Hall. Insurance is purchased for specific assets, which may be added to, or removed from, the portfolio over the term of the contract. The City is self-insured for non-revenue generating assets.

FISCAL IMPACT

The proposed contracts would have a combined not-to-exceed amount of $105,000,000 over the initial three-year terms. According to Director Hansen, this amount is a rough estimate based on discussions with insurance brokers that reflects recent projected increases in insurance premiums due to high inflation and significant losses by the global insurance market. Due to the volatility and complexity of the insurance market, quotes for premiums will not be available until 15 days before the contracts take effect in July 2022. Risk Management will be negotiating with Alliant and Gallagher on the terms of the insurance policies up until that point. Actual expenditures will be based on the insurance purchased by City departments. The Gallagher contract will likely have higher premiums than the Alliant contract on a per-asset basis, due to the unique characteristics of Port property assets and the Port's recent large loss.

According to Kelly Hines-Hernandez, Risk Management Deputy Director, the total premium cost for the existing Alliant contract in FY 2021-22 is $24,185,484, which includes a $6,388,332 premium specific to Port properties and a $17,797,152 premium for other City properties. The estimated annual cost of $35,000,000 for the proposed contracts would be an approximately 45 percent increase over the FY 2021-22 amounts. This follows recent premium increases of approximately 65 percent in FY 2020-21 and 25 percent in FY 2021-22 under the existing Alliant contract. The Risk Management Division's estimated annual contract expenditures, based on their assumptions of 20 percent annual increases in FY 2022-23 and FY 2023-24 and a 15 percent increase in FY 2024-25, are shown in Exhibit 1 below.

Exhibit 1: Estimated Annual Contract Expenditures

Broker	FY 2021-22 Actuals	FY 2022-23 Estimate (20% Increase)	FY 2023-24 Estimate (20% Increase)	FY 2024-25 Estimate (15% Increase)	Total 3-Year Estimate	Contract Not-to-Exceed Amount
Alliant	$17,797,152	$21,356,852	$25,627,899	$29,472,084	**$76,456,565**	**$75,000,000**
Gallagher	6,388,332[2]	7,665,998	9,199,198	10,579,078	**27,444,274**	**30,000,000**
Total	**$24,185,484**	**$29,022,581**	**$34,827,097**	**$40,051,162**	**$103,900,839**	**$105,000,000**

Source: Risk Management Division

As shown in Exhibit 1 above, the $75,000,000 not-to-exceed amount for Alliant may be a low estimate, and Risk Management may need to seek Board of Supervisors approval to increase the contract amount before the initial three-year term expires. According to Director Hansen, premium estimates have increased in recent months and, if beginning now, Director Hansen believes that Risk Management would be seeking authorization for a not-to-exceed amount of approximately $85-90 million to provide a buffer for market volatility.

[2] The FY 2021-22 expenditure amount shown for Gallagher is the expenditure amount for Port assets under the existing Alliant contract.

The funding for premiums is paid through work orders from the various City departments for which the insurance is being procured. Alliant and Gallagher passthrough insurance premiums negotiated with insurance carriers across the global market. According to Director Hansen, broker charges would be nearly identical if sold through other prequalified insurance brokers and they negotiate insurance from the same insurance markets.

RECOMMENDATION

Approve the proposed resolutions.

Item 3 File 22-0181	Department: Controller's Office

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would establish the City's FY 2021-22 appropriations limit at $10,105,172,121, as calculated by the Controller. The appropriations limit for FY 2021-22 is based on the amount of the FY 2020-21 appropriations limit and adjusted to reflect increases in: (1) the population and (2) the cost of living (calculated using the increase in the local assessment roll due to the addition of non-residential new construction).

Key Points

- The California Constitution places annual limits on the appropriations of tax proceeds made by the State, school districts, and local governments in California. The annual appropriations limit is based on the appropriations limit for the preceding fiscal year and adjusted for: (1) the change in population, and (2) the change in the cost of living. There are two definitions that local governments may use to calculate the cost-of-living adjustment: (1) the change in California per capita personal income, or (2) the change in the local assessment roll due to the addition of non-residential new construction. The City is allowed to choose whichever percentage change is higher. In FY 2020-21, the growth in personal income was 5.73 percent and the roll growth due to nonresidential new construction was 18.57 percent. The Controller's Office is using the change in non-residential new construction for the cost-of-living factor to calculate the appropriations limit.

Fiscal Impact

- The appropriations limit does not apply to tax proceeds appropriated for: (a) debt service, (b) federal mandates (such as Social Security and Medicare), and (c) qualified capital outlays. Consequently, the Controller excluded $589,990,136 from the City's total FY 2021-22 tax proceeds of $5,263,852,050, resulting in net tax proceeds subject to the appropriations limit of $4,673,861,914.
- The City's FY 2021-22 appropriations limit, as calculated by the Controller, is $10,105,172,121. The FY 2021-22 net tax proceeds of $4,673,861,914 are $5,431,310,207 less than the FY 2021-22 appropriation limit of $10,105,172,121.

Policy Consideration

- For the FY 2021-22 appropriations limit, the Controller elected to use the percentage change in the local assessment roll from the preceding year due to the addition of local nonresidential new construction to calculate the cost-of-living adjustment, and consequently calculating the appropriations limit at $10,105,172,121. Had the Controller elected to use the percentage change in per-capita personal income from the preceding year, the appropriations limit would have been calculated at $9,199,826,441.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

California Constitution Article XIII B states that each local government must set an annual appropriations limit as calculated using the preceding year's appropriations limit adjusted for: (1) the change in population and (2) the change in the cost of living.

BACKGROUND

Proposition 4, known as the Gann Initiative and approved by California voters in November 1979, added Article XIIIB to the California Constitution. Article XIIIB (later amended by State Proposition 111, as approved by the voters in June 1990) places annual limits on the appropriations of tax proceeds made by the State, school districts, and local governments in California. The annual appropriations limit is based on the appropriations limit for the preceding fiscal year and adjusted for: (1) the change in population and (2) the change in the cost of living.

Per Article XIIIB Section 9 and California Government Code Section 7901, the appropriations limit does not apply to any tax proceeds appropriated for: (a) debt service, (b) federal mandates for Social Security and Medicare, (c) qualified capital outlays, (d) other federal mandates, and (e) voter approved taxes.

California Government Code Section 7901(b) defines the change in population as the population growth for the calendar year preceding the beginning of the fiscal year for which the appropriations limit is to be determined. According to the California Department of Finance, in calendar year 2020, the population growth of the nine-county Bay Area was -0.64 percent.[1]

California Constitution Article XIIIB Section 8(e)2 allows the local government to use one of the two following definitions to calculate the cost-of-living adjustment:

> **Definition 1:** The percentage change in California per-capita personal income from the preceding year, estimated to be 5.73 percent in FY 2020-21, or
>
> **Definition 2:** The percentage change for the local jurisdiction in the assessment roll from the preceding year due to non-residential new construction, estimated to be 18.57 percent in 2020.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would establish the City's FY 2021-22 appropriations limit at $10,105,172,121, as calculated by the Controller. The appropriations limit for FY 2021-22 is based on the amount of the FY 2020-21 appropriations limit and adjusted to reflect increases in: (1) the population and (2) cost of living (calculated using the increase in the local assessment roll due to the addition of non-residential new construction).

[1] Chapter 1222 of the California State Statutes of 1980 allows the City to use the greater of its percentage change in population from the preceding year or the percentage change of the nine-county Bay Area. The percentage change of the Bay Area population of -0.64 percent was greater than the percentage change of the City's population of -1.70 percent.

FISCAL IMPACT

Cost of Living Factor

Cost of living is determined by using either the change in California per capita personal income or the increase in the local assessment roll due to the addition of non-residential new construction. According to the Controller's Office, the City may choose whichever percentage change is higher.

As mentioned above, in FY 2020-21, the growth in personal income was 5.73 percent and the roll growth due to nonresidential new construction was 18.57 percent. Consequently, the Controller's Office is using the non-residential construction growth for the cost-of-living factor to calculate the appropriations limit.

Appropriations Subject to Limit

As mentioned above, the appropriations limit does not apply to tax proceeds appropriated for: (a) debt service, (b) federal mandates (such as for Social Security and Medicare), and (c) qualified capital outlays. Consequently, the Controller excluded $589,990,136 from the City's total FY 2021-22 tax proceeds of $5,263,852,050, as shown in Exhibit 1 below, resulting in net tax proceeds subject to the appropriations limit of $4,673,861,914.

Exhibit 1: Tax Proceeds Subject to the Proposed Appropriations Limit

FY 2020-21 Total Tax Proceeds[2]	**$5,263,852,050**
Exclusions	
(a) Debt Service	(291,499,838)
(b) Federal Mandate for Social Security/Medicare	(120,162,413)
(c) Qualified Capital Outlays	(178,327,886)
Subtotal Exclusions	**$589,990,136**
FY 2021-22 Net Tax Proceeds Subject to Appropriations Limit	**$4,673,861,914**

Source: Controller's Office

Article XIIIB allows voters to approve an increase to the appropriations limit for up to four years. In the past four years, voters approved eight measures: the Tax on Cannabis Businesses (Proposition D in November 2018), the Homeless Gross Receipts Tax (Proposition C in November 2018), the Traffic Congestion Mitigation Tax (Proposition D in November 2019), the Vacancy Tax (Proposition D in March 2020), the Parcel Tax for San Francisco Unified School District (Proposition J in November 2020), the Real Estate Transfer Tax (Proposition I in November 2020), the Executive Compensation Tax (Proposition L in November 2020), and the Business Tax Overhaul (Proposition F in November 2020). These adjustments raise the FY 2021-22 appropriations limit by $1,744,826,544.

[2] Includes property taxes, business taxes, excess Education Revenue Augmentation Fund (ERAF) revenues, other local taxes, and interest.

As shown in Exhibit 2 below, the City's FY 2021-22 appropriation limit, as calculated by the Controller, is $10,105,172,121. The FY 2021-22 net tax proceeds of $4,673,861,914 are $5,431,310,207 less than the FY 2021-22 appropriations limit of $10,105,172,121.

Exhibit 2: Proposed FY 2021-22 Appropriations Limit

Base FY 2020-21 Appropriations Limit	**$7,096,395,744**
Adjustment Factors	
Increase in Population	-0.64%
Roll Growth due to New Nonresidential Construction	18.57%
Subtotal	**$8,360,345,577**
Voter Approved Limit Changes	1,744,826,544
FY 2021-22 Appropriations Limit	**$10,105,172,121**

Source: Controller's Office

POLICY CONSIDERATION

As previously mentioned, the Controller has discretion to calculate the cost-of-living adjustment factor using one of two definitions:

Definition 1: The percentage change in California per-capita personal income from the preceding year, estimated to be 5.73 percent in FY 2020-21, or

Definition 2: The percentage change for the local jurisdiction in the assessment roll from the preceding year due to non-residential new construction, estimated to be 18.57 percent in 2020.

Exhibit 3 below shows the FY 2021-22 appropriations limit using both definitions.

Exhibit 3: FY 2021-22 Appropriations Limit by Definition

	Definition 1: Per Capita Personal Income	Definition 2: Local Assessment Roll from Non-Residential New Construction
FY 2020-21 Appropriations Limit	**$7,096,395,744**	**$7,096,395,744**
Adjustment Factors		
Increase in Population	-0.64%	-0.64%
Increase in Per-Capita Personal Income	5.73%	-
Increase in Local Assessment Roll	-	18.57%
Subtotal	**$7,454,999,897**	**$8,360,345,577**
Voter Approved Limit Changes	1,744,826,544	1,744,826,544
FY 2021-22 Appropriations Limit	**$9,199,826,441**	**$10,105,172,121**

For the FY 2021-22 appropriations limit, the Controller elected to use the percentage change in the local assessment roll from the preceding year due to the addition of local nonresidential new construction to calculate the cost-of-living adjustment, consequently calculating the appropriations limit at $10,105,172,121, as shown in Exhibit 2 above. Had the Controller elected to use the percentage change in per-capita personal income from the preceding year, the appropriations limit, as shown in Exhibit 3 above, would have been calculated at $9,199,826,441, which is (a) $905,345,680 less than the proposed appropriations limit of $10,105,172,121 and (b)

$4,525,964,527 more than the Controller's calculation of net tax proceeds subject to the appropriations limit of $4,673,861,914, as shown in Exhibit 1 above.

RECOMMENDATION

Approve the proposed resolution.

Item 4 File 22-0245	Department: Public Utilities Commission (SFPUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the San Francisco Public Utilities Commission's (SFPUC) updated emergency declaration for Stern Grove site restoration to a new total not to exceed amount of $20,000,000 and authorizes the General Manager to use any source of available water enterprise funds, including issuing water revenue bonds.

Key Points

- In August 2021, SFPUC work crews caused a water valve leak, which flooded Stern Grove, damaged trees, undermined slopes and storm water pathways, and flooded the concert meadow and three backstage buildings.
- As remediation work progressed, far more extensive damage than was initially visible was uncovered. On February 15, 2022, the SFPUC General Manager issued an updated emergency declaration to reflect the increase in the scale and scope of the work. SFPUC and its contractor estimate the restoration and repair will cost $20,000,000.
- Restoration of the concert area is expected to be completed by June 2022, in time for the outdoor concert series. Restoration of the tennis courts is expected by December 2022. All work is expected to be complete in Summer 2023.

Fiscal Impact

- The $20,000,000 will be sourced from the Local Water Conveyance and Distribution System Program bond proceeds These bond proceeds were initially earmarked to fund design and replacement of up to 15 miles of water distribution piping per year.

Policy Consideration

- The emergency declaration exempts the project from Chapters 6, 12A, 12B, 12C, and 14B of the Administrative Code. Anvil Builders nonetheless committed to using local LBE subcontractors for the traffic control and hauling portions of the work. The Board may wish to request SFPUC provide evidence of the degree to which Anvil fulfills this stated commitment at the completion of this project.

Recommendation

- Approve the resolution.

MANDATE STATEMENT

Administrative Code Section 6.60 provides that City contracts entered into for emergency work may be executed in the most expeditious manner. However, declarations of emergencies where the repair work is anticipated to be $250,000 or more are subject to Board of Supervisors approval. Section 6.60(d) also states that if the emergency does not permit Board of Supervisors approval of the emergency before work is commenced or the contract(s) entered into, such approvals from the Board of Supervisors shall be obtained as soon as possible, with the proposed resolution approving the emergency determination submitted to the Board of Supervisors within 60 days of the department head's emergency declaration.

BACKGROUND

Stern Grove Damage

In August 2021, the San Francisco Public Utilities Commission's (SFPUC) City Distribution Division crews were working on a water transmission pipeline on 22nd Avenue and Sloat Boulevard. During their work, an air valve failed, which caused flooding in Stern Grove and around the worksite. The Stern Grove flooding damaged trees, undermined slopes and storm water pathways, and flooded the Stern Grove concert meadow, three backstage buildings, and tennis courts.

Procurement Process

The Acting SFPUC General Manager declared a state of emergency in a letter to the PUC Commission President on August 26, 2021. The SFPUC submitted a resolution declaring a state of emergency to the Board of Supervisors on October 8, 2021, which falls within the 60-day requirement of Administrative Code Sec. 6.60(d). The declaration of emergency allows the Department to contract without undergoing a competitive solicitation.

Because the emergency repair work was beyond the capabilities of City staff, SFPUC initially engaged Hernandez Engineering, Inc. through an existing $706,000 Job Order Contract (JOC) to remove debris and restore backstage buildings. However, because the scope of work was greater than the existing contract authority with Hernandez Engineering, SFPUC contracted with Anvil Builders in September 2021 for an amount of up to $3 million. According to SFPUC, Anvil was selected based on the quality and timely completion of prior work performed on other major SFPUC projects and the firm's safety record. In November 2021, the Board of Supervisors approved File 21-1082, a resolution that authorized the declaration of emergency and associated contracts for a not to exceed amount of $4,000,000 to allow SFPUC to complete necessary restoration and repair. In December 2021, the SFPUC amended the emergency agreement with Anvil to increase the amount to $3,294,000.

Exhibit 1 below shows spending on the Stern Grove emergency work through January 2022.

Exhibit 1: Stern Grove Emergency Spending as of January 31, 2022

Initial Cleanup	$1,367,000
Tree Removal	$1,133,000
Building/Flood Cleanup Investigation	$250,000
Salving Rock Wall	$219,000
Total	$2,969,000

Source: SFPUC

Updated Damage Assessment

As remediation work progressed, far more extensive damage than was initially visible was uncovered. On February 15, 2022, the SFPUC General Manager issued an updated emergency declaration to reflect the increase in the scale and scope of the work. SFPUC and its contractor estimate the restoration and repair will cost $20,000,000.

Restoration of the concert area is expected to be completed by June 2022, in time for the outdoor concert series. Restoration of the tennis courts is expected by December 2022. All work is expected to be complete in Summer 2023.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the SFPUC General Manager's updated emergency declaration to a new total not to exceed amount of $20,000,000 and authorizes the General Manager to use any source of available water enterprise funds, including issuing water revenue bonds

The original and revised estimated cost of the work is shown in Exhibit 2 below. SFPUC and Anvil Builders have determined that remediation of the damage will require rebuilding the slope using engineered soils; rebuilding drainage systems, removal and reinstallation of historical rock walls; restoration of turfgrass; replacement of furnishings at the ancillary buildings, removal and replanting of 63 eucalyptus trees, and restoration of the parking lot and tennis courts. As of this writing, the contractors had completed the initial cleanup and tree removal, additional building cleanup, and the salvaging of the historical rock wall, which cost $2,969,000.

SFPUC is currently finalizing the scope and project specifications for the site, which will then be submitted to Anvil for pricing, and hence the itemized scope may undergo further modification. However, SFPUC does not anticipate the need for any additional funding.

Exhibit 2: Revised Cost Estimates

Original Scope	
Soil & Tree Removal	$1,000,000
Slope Stabilization	$2,500,000
Concert Meadow Restoration	$500,000
Total, Original Scope	**$4,000,000**
Revised Scope	
Initial Cleanup	$1,367,000
Tree Removal	$1,133,000
Building/Flood Cleanup Investigation	$250,000
Salving Rock Wall	$219,000
Meadow Restoration	$350,000
Building Restoration	$3,237,000
Slope Restoration	$5,183,000
Drainage System and Retaining Walls	$2,141,000
Shoring System to Protect Existing Sewer	$3,500,000
Landscaping and Tree Planting	$673,000
Site Restoration and Final Cleanup	$1,947,000
Total, Revised Scope	**$20,000,000**

Source: SFPUC

SFPUC capital projects typically include a 10 percent construction contingency, but due to the unknowns of the remaining work, SFPUC has included a 22 percent contingency. The contract contingency is included in the itemized estimates shown in Exhibit 2 above.

SFPUC Project Oversight

Due to the expansion of the project budget and given that SFPUC was authorized to exercise unilateral discretion in selecting Anvil Builders to carry out site repair and restoration, our Office requested evidence that SFPUC is conducting necessary due diligence and oversight of ongoing work, such as on-site verification of quality and completion of all billed work. SFPUC provided evidence of recurrent meetings with Anvil staff to develop and vet the new cost proposals. In addition, we have received documentation of on-site visits being conducted by SFPUC. We are not able to independently verify the legitimacy of the revised costing estimates or the nature of the on-site inspections conducted by SFPUC staff.

Anvil Builders developed the cost estimates based on construction drawings and specifications provided by SFPUC. SFPUC has stated that cost proposals and construction schedules were internally reviewed by Heather Manders, SFPUC Project Engineer, Ryan Freeborn, SFPUC Project Manager, and Mauli Vora, SFPUC Construction Resident Engineer. Cost proposals were evaluated by these SFPUC staff to ensure markups conformed to the markup limits set by SFPUC policy. Reviewers also compared itemized cost estimates to other projects of similar size and complexity and determined that Anvil's estimates were in conformity with prevailing industry standards.

As required by the original emergency declaration for this project, once the emergency work is completed, the SFPUC will submit a report to the Board of Supervisors providing photos and details of the improvements and repairs made to the site.

FISCAL IMPACT

Funding Source

The $20,000,000 in estimated costs will be sourced from the Local Water Conveyance and Distribution System Program: $11 million from proceeds raised through the issuance of the 2019 Water Revenue Bonds and $9 million from the 2021 Water Revenue Bonds. The original use of these bond proceeds was to fund design and construction of water main replacement projects as part of SFPUC's long term capital improvement program to replace up to 15 miles of water distribution piping in San Francisco per year.

POLICY CONSIDERATION

Emergency funding authorization exempted SFPUC from Chapters 6, 12A, 12B, 12C, and 14B of the Administrative Code.[1] At that time, Anvil Builders made a commitment to utilize LBE subcontractors for the traffic control and trucking or hauling portions of the work. The SFPUC states this commitment has been met by hiring a local small business to conduct traffic control during construction. The Department should also provide evidence of compliance in the final report submitted Board of Supervisors once repairs are complete.

RECOMMENDATION

Approve the proposed resolution.

[1] Chapter 6 pertains to public works contracting policies and procedure, requirements of Chapter 6 of the Administrative Code, nondiscrimination clauses of Chapters 12A, 12B, and 12C to nondiscrimination requirements in hiring practices, and Chapter 14B to the local hiring provisions of the Administrative Code.

Item 5 File 22-0236	Department: Airport

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the fourth modification to the existing contract between the Airport and Hallmark to: (a) exercise the third of three two-year options to extend the contract from July 1, 2022 through June 30, 2024 and (b) increase the contract amount by $11,950,408, from $41,111,970 to a new total not to exceed amount of $53,062,378.

Key Points

- In 2016, the Airport consolidated three related services into one management contract: (a) the Airport Information Desk, (b) customer assistance in the international terminal, and (c) lost and found. The Board of Supervisors approved a contract between the Airport and Hallmark to provide these services in December 2019 following a competitive solicitation. Services are provided by Hallmark, who staff the international terminal and lost and found, and Polaris, an LBE subcontractor that staffs the Airport information desk.

Fiscal Impact

- Total actual and projected expenditures through June 30, 2022 as well as budgeted expenditures through June 2024 are $50,073,570. The proposed two-year extension is budgeted at $11,950,407. Annual contract costs of $6 million consist primarily of salary and benefits ($4.4 million) and a fixed management annual fee of $1.4 million.
- To accommodate potential increases in staffing beyond the currently budgeted amounts, as well as potential increases in labor rates, the proposed resolution's not to exceed amount includes a 25 percent contingency, or $2,988,808. The total not to exceed amount of the proposed contract is $53,062,378. Costs are funded by Airport revenues.
- Budgeted staffing is decreasing from 91.70 FTE in the current fiscal year to 68.30 FTE in each year of the proposed extension.

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

In 2016, the Airport Commission consolidated three related services into one management contract, including: (a) the Airport Information Desk, (b) customer assistance in the Federal Inspection Services area, and (c) lost and found. On March 16, 2016, the Airport issued a Request for Proposals (RFP) to award this "Airport Information and Guest Assistance Services" contract, and ultimately selected the highest ranking of the two proposers that responded to the RFP: Hallmark Aviation Services, L.P. (Hallmark).

In December 2016, the Board of Supervisors approved the contract between the Airport and Hallmark in an amount not-to exceed $11,550,000 for an initial 18-month term to commence January 1, 2017 through June 30, 2018. The contract contained three two-year options to extend the professional services agreement through June 30, 2024. In May 2018, the Board of Supervisors approved the first modification to the contract to exercise the first of the three two-year extension options for a term from July 1, 2018 through June 30, 2020 and an increase in the contract amount from $11,500,000 to $27,353,224.

On July 1, 2019, the Airport Director administratively approved the second modification to the contract to increase the labor rate to the new Quality Standards Program (QSP) rate. The QSP rate changes every year, such that the minimum hourly wage is at all times $0.50 an hour above the current San Francisco Minimum Wage.

In July 2020, the Board approved the third modification to the contract between the Airport Commission and Hallmark to: (a) increase the contract amount by $13,758,746, from $27,353,224 to a total not to exceed amount of $41,111,970; and (b) extend the contract term by two years from July 1, 2020 through June 30, 2022. Due to the pandemic's fiscal impact on the Airport's budget, the modification also reduced the management fee by five percent annually from $1,485,648 to $1,411,366 for the remainder of the term.

On March 1, 2022 the Airport Commission approved the contract's Modification No. 4, which is now under consideration for approval by the Board of Supervisors.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Modification No. 4 to the contract between the Airport and Hallmark Aviation Services, L.P. for Airport Information and Guest Assistance Services, extending the term for two more years from July 1, 2022 through June 30, 2024 for a term total

of 7.5 years from January 1, 2017 through June 30, 2024, and increasing the contract amount by $11,950,408, from $41,111,970 to a new total not to exceed amount of $53,062,378.

The proposed resolution would exercise the third and final two-year extension option under the original contract. It would also incorporate a higher labor rate of $19.05 according to the new QSP Rate effective July 1, 2021 (an increase of $0.31 per hour from the July 1, 2020 QSP rate of $18.74).

Services Provided

The Airport Information and Guest Assistance Services contract is comprised of three services:

(a) Airport Information Desk Program, providing information to the public on airport services, transportation, visitor attractions, and other services at 11 information desks in Airport Terminals 1, 2, and 3 and the International Terminal. This service is performed by Polaris Research and Development, Inc. (Polaris), which is a Local Business Enterprise subcontracted by Hallmark. Polaris provided these services to the Airport prior to the 2016 contract consolidation.

(b) Guest Assistance in the International Terminal, consisting primarily of queue management and assistance with Automated Passport Control kiosks, and

(c) Airport's Lost and Found program, which aims to reunite customers with their belongings and is operated 24 hours daily, 365 days a year.

Performance Monitoring

Under the existing contract, Airport staff conducts a quarterly review of Hallmark's performance based on 10 criteria, including staff on duty at all locations, reports of transit pass sales, customer service ratings, complaint investigations, and foreign language requirements. Hallmark received an "Outstanding" five out of five score on each of these metrics in the 2021 fourth quarter performance audit. This is the same performance score as Hallmark received in the fourth quarter of 2019.

FISCAL IMPACT

According to Appendix B of the contract, the Airport will reimburse the contractor for actual costs, supported by documentation. Actual and projected contract expenditures from January 2017 through June 2022 are $38,123,163, as shown in Table 1 below.

Table 1. Total Contract Expenditures from January 1, 2017 through June 30, 2024

Actual and Projected Expenditures	Management Fee	Hallmark Salaries and Benefits	Polaris Salaries and Benefits	Other Operating Expenses	Total
FY 2016-17 (6 months)	$742,824	$1,454,691	$1,002,094	$55,852	$3,255,460
FY 2017-18	1,485,648	2,914,376	2,110,609	76,034	6,586,667
FY 2018-19	1,485,648	3,679,852	2,212,094	162,229	7,539,823
FY 2019-20	1,485,648	3,311,304	2,127,824	163,825	7,088,600
FY 2020-21	1,411,366	3,471,122	1,739,608	154,007	6,776,105
FY 2021-22	1,411,366	3,498,764	1,814,793	151,582	6,876,507
Subtotal	$8,022,500	$18,330,108	$11,007,023	$763,528	$38,123,163
Budgeted Expenditures					
FY 2022-23	$1,411,366	$2,331,214	$2,048,072	$184,552	$5,975,204
FY 2023-24	1,411,366	2,331,214	2,048,072	184,552	5,975,204
Subtotal	$2,822,732	$4,662,428	$4,096,144	$369,104	$11,950,407
Subtotal	**$10,845,232**	**$22,992,535**	**$15,103,167**	**$1,132,632**	**$50,073,570**
Contingency (25%)					$2,988,808
Total					**$53,062,378**

Source: Airport

Notes: Other operating expenses include staff bonuses, uniforms, dry cleaning. Some totals do not sum due to rounding.

As shown above, the proposed two-year extension is budgeted at $11,950,407. To accommodate potential increases in staffing beyond the currently budgeted amounts as well as potential increases in labor rates, the proposed resolution's not to exceed amount includes a 25 percent contingency, or $2,988,808. The total not to exceed amount of the proposed contract is $53,062,378.

The contract is funded by Airport operating revenues.

Management Fee

The management fee in the contract is a fixed fee of $1,485,648, which in the original contract and first modification equaled 24 percent of salaries and benefits. In 2020, in response to the financial impact of the COVID-19 pandemic, the City requested that all service contractors reduce management fees by at least five percent annually under their contracts. Accordingly, Modification No. 3 to the contract reduced the management fee by five percent annually to $1,411,366, and it remains at that reduced level through the proposed two year term extension under contract Modification No. 4. Under the proposed contract modification, the management fee represents 32 percent of salaries and benefits.

Staffing Reduction

The Airport estimates that the budget for FY 2022-23 will decline from the previous year amount of $6,876,507 by 13 percent to $5,975,204, with salaries and benefits accounting for the bulk of these reductions. Hallmark will cut 18.0 budgeted Full Time Equivalent (FTE) positions and Polaris will cut 5.40 FTEs, as shown in Table 2, below. The reduced staffing levels are driven by Airport revenue availability and the demand for services and are expected to remain the same in both years of the proposed extension. According to the Controller's March 2022 Status of the Re-Opening of the San Francisco Economy, in January 2022 domestic enplanements were less than 60 percent, and international enplanements were less than 40 percent, of January 2019 values.

Table 2. Budgeted Full Time Equivalent (FTE) Positions

	Hallmark	Polaris	Total
FY 2016-17 (6 months)	39.30	19.70	59.00
FY 2017-18	78.60	39.40	118.00
FY 2018-19	72.70	37.60	110.30
FY 2019-20	72.70	37.60	110.30
FY 2020-21	44.20	36.70	80.90
FY 2021-22	55.00	36.70	91.70
FY 2022-23	37.00	31.30	68.30
FY 2023-24	37.00	31.30	68.30

Source: Contract and Modifications

RECOMMENDATION

Approve the proposed resolution.

Items 7 & 8 **Files 22-0346 & 22-0347**	**Department:** Mayor's Office of Housing and Community Development (MOHCD)

EXECUTIVE SUMMARY

Legislative Objectives

- File 22-0347: is a resolution that would: (1) approve a loan agreement between MOHCD and Mercy Housing California 82, L.P., a California limited partnership formed by parent entity Mercy Housing California, in an amount not to exceed $33,452,317 to finance the construction of 78 Johnson Street, a multifamily affordable rental housing project.
- File 22-0346: is a resolution that would authorize TIDA to execute a $60 million Standard Agreement and other related documents with the State Housing and Community Development Department (HCD) under the California Housing Accelerator Program.

Key Points

- The proposed project includes 138 units: 71 will serve as replacement housing for Catholic Charities' 71 existing households on the island and 23 will serve as replacement housing for existing Treasure Island residents. In addition to the replacement housing, the project will add 43 new affordable lottery units.
- The City was not awarded tax-exempt bond financing from the California Debt Limit Allocation Committee (CDLAC) for the 78 Johnson Street project. HCD awarded funding of $55.6 million in February 2022, which was part of a pool of Housing Accelerator Funds established to fund projects that did not meet CDLAC's funding criteria.

Fiscal Impact

- MOHCD previously entered into a loan agreement with Mercy Housing California 82, L.P. for $4,500,000 to pay for initial planning and development costs; MOHCD proposes to amend the existing agreement, increasing the loan amount by $28,952,317 to complete development and construction activities, including permanent financing related to the Project, for a total City loan amount of $33,452,317, primarily funded by general obligation bonds.
- The total development cost for the 138 units is $117,273,831, or $849,810 per unit. The total per housing unit City subsidy is $242,408.

Recommendations

1. Amend File 22-0346 to correctly state that the Standard Agreement award not to exceed amount is $55,601,514.
2. Approve Files 22-0347 and 22-0346 as amended.

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

Affordable Housing on Treasure Island

The City is funding the second affordable housing development on Treasure Island as part of the Treasure Island/Yerba Buena Island Redevelopment Plan. The Treasure Island/Yerba Buena Development Project (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 2011, the Board of Supervisors approved the Development Agreement between the City and Treasure Island Community Development, LLC (TICD), the principal developer for the Treasure Island development project, and the Disposition and Development Agreement (DDA) between TIDA and TICD (Files 11-0226 and 11-0291).

The DDA's Housing Plan requires approximately 8,000 new residential units, including up to 2,173 units (27 percent) affordable to low and moderate-income households. According to the Housing Plan, up to 1,866 units are 100 percent affordable housing projects, and the balance (307 units) are below market rate inclusionary rental or ownership units; of the 1,866 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.

Existing Residents of Market Rate Housing

Households residing in market rate housing on Treasure Island at the time the DDA was executed are entitled to transition benefits in the form of: (a) a Transition Unit in one of the affordable housing projects (regardless of income) and moving services; (b) a lump sum payment; or (c) down payment assistance. As of February 2022, TIDA estimated that 164 households were eligible for a Transition Unit. Transition Units are not income restricted at initial occupancy but become income restricted after all eligible households have received transition benefits. Transition Unit rents are based on tenants' current rents and annually adjusted according to allowable rent increases by the Rent Board. Once all legacy households have exercised their transition benefits and to not live in the Transition Units, rent will be based on 30 percent of income.

In addition, households residing in market rate housing who moved to Treasure Island after the DDA was executed (and before December 2019) receive preference for affordable housing lottery units if they qualify based on income.

Affordable Housing Projects

The DDA allows the master developer and TIDA to select development partners for the Treasure Island/Yerba Buena Island Development Project. In 2018, four nonprofits[1], who are all members of One Treasure Island,[2] were authorized to develop affordable housing projects, including selecting development partners.[3] Swords to Plowshares was the first project selected to proceed and it selected Chinatown Community Development Center as its development partner for the Maceo May Apartments project.[4] Catholic Charities was the second project selected to proceed, and it selected Mercy Housing California, a One Treasure Island member, as its development partner for the proposed 78 Johnson Street project. The third and fourth affordable housing projects will replace the remaining units for formerly homeless Treasure Island residents (HealthRight 360 and HomeRise units).

The 78 Johnson Street Project

The proposed project will be a seven-story building, with 138 units, including 23 one-bedroom units, 60 two-bedroom units, 40 three-bedroom units, 14 four-bedroom units, and one manager's unit. Of these units, 71 will serve as replacement housing for Catholic Charities' 71 existing households on the island and 23 will serve as replacement housing (Transition Units) for existing Treasure Island residents. In addition to the replacement housing, the project will add 43 new affordable lottery units.

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

[2] One Treasure Island (One TI) (formerly known as the Treasure Island Homeless Development Initiative or TIHDI), is a California nonprofit public benefit corporation that was formed in June 1994 for the purpose of utilizing the structural and economic development resources of the former NSTI to create a vibrant, inclusive community that provides pathways for economic advancement for lower-income and formerly homeless San Franciscans. One Treasure Island is a membership organization committed to fostering an equitable, inclusive, and thriving community for all Treasure Island residents, employees, businesses, and visitors emphasizing inclusion by lower-income households and those who have experienced homelessness.

[3] TIDA and TIHDI (now One Treasure Island, or One TI) entered into a Base Closure Homeless Assistance Agreement, commonly referred to as the TIHDI Agreement. The Agreement grants TIHDI Member Organizations the right to develop 435 new units on Treasure Island and promises to provide them with developable lots for that purpose. An exhibit to the TIHDI Agreement was TIHDI Transition Housing Plan which provides for the programs and residents of the One TI member organization operated existing housing that will be transitioned to the new buildings on TIDA ground-leased lots.

[4] Swords to Plowshares, a veterans' support organization, formed a limited partnership with Chinatown Community Development Center – Maceo May Apts. L.P to develop the project. In January 2020, the Board of Supervisors approved a loan agreement between MOHCD and Maceo May Apts, L.P., to provide permanent gap financing for the project (File 19-1300). The Maceo May Apartments project includes 104 affordable housing units, including 39 replacement units for veteran households on the island and 65 new units for formerly homeless veterans.

The project's area median incomes (AMI) range from 60 percent Mayor's Office of Housing and Community Development (MOHCD) defined AMI up to 85 percent MOHCD AMI for the new affordable lottery units. The Transition Units will not initially be income restricted. The property will be managed by Mercy Housing Management Group, an affiliate of Mercy Housing California. Building amenities will include a community room, teen room, offices for staff providing property management and resident services, and 25 parking spaces. Construction is planned to begin in May 2022 and be completed by March 2024.

Acquisition of Land and Ground Lease

TIDA acquired the property from the United States Navy for the purpose of residential and commercial development. According to Cindy Heavens, Senior Project Manager at MOHCD, a ground lease between TIDA and Mercy Housing California 82, L.P. will be submitted to the Executive Director of TIDA for approval. According to Senior Project Manager Heavens, the ground lease terms will be consistent with the Option to Lease Agreement previously executed by TIDA's Executive Director, and with the 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 revenues. According to MOHCD, the 78 Johnson Street Project is not expected to generate sufficient net revenues to make residual rent payments under the proposed Ground Lease.

California Housing Accelerator Fund

In 2021, the City applied for tax-exempt bond financing from the California Treasurer's California Debt Limit Allocation Committee (CDLAC) for the 78 Johnson Street project. However, none of the 11 affordable housing applications submitted by the City to CDLAC in 2021, including the proposed project, were approved due to changes to CDLAC regulations that made San Francisco projects less competitive due to high construction costs.

In October 2021, the California Department of Housing and Community Development (HCD) announced the availability of $1.6 billion in California Housing Accelerator funding for Tier I projects, defined as shovel-ready projects that received one or more awards from other HCD programs but were stalled due to their inability to access tax-exempt bond allocations or low-income housing tax credits. The 78 Johnson Street project was designated as a Tier I project under the program criteria and was awarded accelerator funds in an amount up to $55.6 million in February 2022. According to the MOHCD loan evaluation for the proposed $33.4 million gap loan, construction closing must occur by the first week of May 2022 to hold general contractor pricing.

DETAILS OF PROPOSED LEGISLATION

File 22-0347

The proposed resolution would: (1) approve loan agreement between MOHCD and Mercy Housing California 82, L.P., a California limited partnership formed by parent entity Mercy Housing California, in an amount not to exceed $33,452,317 for a minimum term of 57 years to finance the construction of the 78 Johnson Street Project, a 100 percent affordable, 138-unit multifamily rental housing development (including 1 staff unit) for low and moderate income

families, and (2) confirm that the loan agreement is consistent with the City's General Plan and policy priorities of Planning Code Section 101.1.

File 22-0346

The proposed resolution would authorize TIDA to execute a Standard Agreement and other related documents with HCD under the California Housing Accelerator Program. The Standard Agreement includes an award not to exceed $55.6 million as a loan to Mercy Housing California 82, L.P. for construction of the 78 Johnson Street Project.

Loan Agreement and Amendments (File 22-0347)

The original loan agreement provided by MOHCD in 2019 was for $2 million for predevelopment costs. In June 2021, MOHCD amended the agreement to increase the predevelopment loan by $2.5 million to $4.5 million. MOHCD proposes to amend the loan agreement a second time to increase the loan amount by $28,952,317 to complete development and construction, including permanent financing. Under the proposed amended loan agreement, the total loan amount to Mercy Housing California 82, L.P. would increase to $33,452,317

Mercy Housing California 82, L.P. must repay the loan by the later of: (a) the 57th anniversary date of the deed of trust or (b) the 55th anniversary of the date on which construction financing is converted into permanent financing. Interest will accrue on the principal balance outstanding from time to time at the rate of 3 percent per annum.

Bridge Loans

The loan amount includes two bridge loans: (a) an Affordable Housing Program (AHP) bridge loan of up to $1,250,000; and (b) a TIDA Infrastructure and Revitalization Financing District (IRFD) loan of up to $5.0 million. The AHP bridge loan will be repaid if the project sponsor is awarded a loan from a Federal Home Loan Bank. The IRFD bridge loan will be repaid when IRFD bond proceeds are available. IRFD bond proceeds will replace a portion of the 2019 General Obligation Bond funds when they are available, and the Loan Agreement will be amended.

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. Income restrictions vary depending on the unit size and the tenant type (i.e., existing formerly homeless Treasure Island tenant, existing Treasure Island tenant residing in market rate housing, and tenant in new affordable unit), as follows:

- The 71 units for formerly homeless Treasure Island residents must be occupied by tenants whose income does not exceed 40 percent MOHCD Area Median Income (AMI).
- The 23 Transition Units for existing Treasure Island residents living in market rate housing at the time the DDA was executed are not initially income restricted. After all eligible households have exercised their transition benefits, the maximum income level restriction ranges from 130 percent MOHCD AMI for a one-bedroom unit up to 145 percent MOHCD AMI for a four-bedroom unit.

- The remaining 43 new affordable lottery units have maximum income level restrictions as low as 60 percent MOHCD AMI for one-bedroom units up to 85 percent MOHCD AMI for four-bedroom units.

Standard Agreement (File 22-0346)

As noted above, the project was awarded California Housing Accelerator funds in an amount up to $55.6 million in February 2022. The award requires that the City (on behalf of TIDA) and Mercy Housing enter into a Standard Agreement, which establishes HCD requirements and terms for the accelerator loan, such as eligible uses, HCD deadlines, performance milestones, and reporting requirements according to the HCD Standard Agreement Template. According to the award letter, HCD intends to issue a Standard Agreement within 90 days of receipt of any outstanding documentation required to execute the loan. The award letter also states that construction must begin within 180 days of the award letter. As noted above, construction is planned to begin in May 2022.

According to the Standard Agreement Template, the California Housing Accelerator loan to Mercy Housing California 82, L.P. would be a forgivable loan with a zero percent interest rate for 20 years. There are no residual receipts or periodic payment requirements during the term of the loan.

FISCAL IMPACT

Affordable Housing Development at Parcel C3.1

The total development cost for the 138 units of housing is $117,273,831, as shown in Exhibit 1 below. Of the approximate $117.3 million, $33.5 million (28.5%) are City funds, $69.4 million (59.1%) are State funds, and $14.5 million (12.3%) are private funds.

Exhibit 1: Total Development Sources and Uses of Funds

	City	State	Private	Total
Sources				
MOHCD Loans	$33,452,317			$33,452,317
Affordable Housing & Sustainable Communities (AHSC)		13,753,000		13,753,000
HCD Accelerator Loan		55,601,514		55,601,514
Permanent Loan			14,467,000	14,467,000
Total Sources	**$33,452,317**	**$69,354,514**	**$14,467,000**	**$117,273,831**
Uses				
Acquisition	25,000			25,000
Hard Costs (incl. 6.2% contingency)	22,159,467	68,146,162	7,989,938	98,295,567
Soft Costs (incl. 5.0% contingency)	9,067,850	64,500	6,477,062	15,609,412
Reserves		1,143,852		1,143,852
Developer Fees	2,200,000			2,200,000
Total Uses	**$33,452,317**	**$69,354,514**	**$14,467,000**	**$117,273,831**

Source: MOHCD

Funding Sources

MOHCD previously entered into a loan agreement with Mercy Housing California 82, L.P. for $4,500,000 to pay for initial planning and development costs; MOHCD proposes to amend the existing agreement, increasing the loan amount by $28,952,317 to complete development and construction activities, including permanent financing related to the Project, for a total City loan amount of $33,452,317. Sources of funds for the proposed amended and restated loan of $33,452,317 include:

- $26,952,317 in 2019 General Obligation Bond Funds;[5]
- $3,500,000 in Affordable Housing Fund Inclusionary fees, paid by developers of market rate housing.
- $2,036,820 in Excess Education Revenue Augmentation Funds, appropriated under the Affordable Housing Production and Preservation Fund; and
- $1,000,000 in CPMC Fund funds, provided by Sutter West Bay Hospital per the terms of a development agreement[6] with the City and appropriated under the Citywide Affordable Housing Fund.

[5] In November 2019, San Francisco voters approved Proposition A, which provided for the issuance of up to $600 million in general obligation funds to finance the acquisition, rehabilitation, and construction of affordable housing.

[6] The Board of Supervisors approved the development agreement between the City and Sutter West Bay Hospitals in July 2013 (File 12-0366).

State funding for the project includes $13,753,000 in State Affordable Housing and Sustainable Communities (AHSC) Program loans and $55,601,514 in California Housing Accelerator Fund loans to Mercy Housing California 82, L.P.

In addition to City and State funding, Mercy Housing California 82, L.P. has secured a permanent loan from Citibank, N.A. for $14,467,000.

The City's Subsidy per Housing Unit

The total per housing unit City subsidy is $242,408, as shown in Exhibit 2 below. This subsidy amount includes the 138 housing units. The total development cost for the 138 units is $117,273,831, or $849,810 per unit.

Exhibit 2: City Subsidy for Affordable Housing Units

Number of Units	138
Total residential area (sq. ft.)	136,560
Total City subsidy	$33,452,317
City Subsidy per unit	$242,408
City Subsidy per sq. ft.	$245

Source: MOHCD

According to a cost comparison of new affordable multifamily housing projects in the MOHCD loan evaluation of the proposed gap loan, the total development cost per unit and the City subsidy per unit are within 10 percent of the per unit amounts for comparable projects. Projects included in the comparison are similar projects in size, unit count, target population, construction type and overall development costs. The total development cost per unit for comparable projects is $810,323, and the City subsidy per unit for comparable projects is $221,953.

Operating Revenues and Expenses

According to the 20-year cash flow analysis for the 78 Johnson 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 HCD AHSC loans. Project revenues consist of tenant rents and Continuum of Care funding, administered through the Department of Homelessness and Supportive Housing (HSH), for 71 units or 51 percent of the total units. The project is not expected to generate sufficient net revenues to make residual rent payments under the Ground Lease according to the cash flow analysis.

According to Senior Project Manager Heavens, there is currently no local operating subsidy from the City's Local Operating Subsidy Program (LOSP). However, MOHCD intends to replace the Continuum of Care rental subsidy with LOSP for the 71 units if the Continuum of Care subsidy, which is awarded in three-year grants, is not renewed.

Citibank agreed to provide a permanent loan based on tenant rents and the Continuum of Care rental subsidy and will require a Memorandum of Understanding between Mercy Housing California 82, L.P., HSH, and MOHCD regarding the replacement of the Continuum of Care rental subsidy with LOSP if the Continuum of Care grant is not renewed. According to Senior Project

Manager Heavens, MOHCD expects LOSP funding to be available to the project if the Continuum of Care grant is lost. However, in the event that LOSP funding is not available, the City would need to provide additional gap financing.

California Housing Accelerator Loan

The HCD loan to Mercy Housing California 82, L.P. of up to $55,601,514 is funded with federal American Rescue Plan Act of 2021 monies. The proposed resolution states that the award not to exceed amount is $60.0 million. We recommend that the Board of Supervisors amend the resolution to correctly state the award amount.

RECOMMENDATIONS

1. Amend File 22-0346 to correctly state that the Standard Agreement award not to exceed amount is $55,601,514.
2. Approve Files 22-0347 and 22-0346 as amended.

Item 9 File 22-0344	Departments: Homelessness & Supportive Housing

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the acquisition of 333 12th Street, which includes 200 family-sized units to be converted to permanent supportive housing. The resolution would also authorize the Department of Homelessness and Supportive Housing to apply for a Homekey grant.

Key Points

- The property for purchase at 333 12th Street was selected following a Request for Information and evaluation by an interdepartmental review panel. The property was built in 2021 and contains 200 units, for a total of 618 bedrooms. According to HSH, the property is primarily being used for private, market rate housing. Approximately half the existing tenants are students, for a total current occupancy level of 56 percent. All current leases are for less than 12 months. There are no commercial leases.
- The purchase price was confirmed by a third-party appraisal and appraisal review.

Fiscal Impact

- The total acquisition cost not to exceed amount is $147,540,000. This includes the $145,000,000 purchase price, as well as an estimated $290,000 for closing costs, and up to $2,250,000 in interest.
- The cost per bedroom is $238,738, which is less than the average cost per bedroom of $352,442 of recent HSH acquisitions.
- The City will pay the purchase price in two installments. The first payment of $100,000,000 is due upon closing and would be paid using Proposition C funding. The second installment, due by June 30, 2023, would be for $45,000,000 plus a maximum of $2,250,000 in interest accruing at a rate of five percent per year for a total of $47,250,000. Funding for the second payment would either be from a successful Homekey award or proceeds from a future 2020 Health and Recovery general obligation bond issuance.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

Administrative Code Section 23.3 states that the Board of Supervisors must approve acquisitions and conveyances of real property by resolution. An appraisal of the property is required if the Real Estate Division determines that the fair market value is greater than $10,000 and an appraisal review is required if the fair market value is greater than $200,000.

BACKGROUND

City Acquisition of Permanent Supportive Housing

The City's July 2020 Homelessness Recovery Plan established a goal of purchasing or leasing 1,500 new units of Permanent Supportive Housing between by June 30, 2022. That goal has been met and exceeded: as of April 12, 2022, the City has purchased or leased over 2,500 units of new supportive housing.[1]

These properties have been acquired by using local Proposition C funds, federal CARES Act funds, and offset by state Project Homekey funds. Proposition C, approved by San Francisco voters in November 2018, instituted a gross receipts tax for the purposes of funding homeless services and housing.

In July 2020, the California Department of Housing and Community Development announced, through a Notice of Funding Availability (NOFA), the Homekey Program along with the availability of approximately $600 million in grant funding to local governments to sustain and expand housing for folks experiencing homelessness and impacted by COVID-19. The City has applied for, and received, nearly $126 million in Homekey grant funding since July 2020, as shown in Exhibit 1 below.

[1] Progress towards Permanent Supportive Housing goals, including "Goal B," can be monitored through the City's online dashboard at https://sf.gov/data/homelessness-recovery-plan#progress-towards-permanent-supportive-housing-goals. Goal B (new purchases, new leases, and new development sites) includes both site-based and scattered site permanent supportive housing units.

Exhibit 1. City Property Acquisitions for Permanent Supportive Housing, July 1, 2020-April 20, 2022

Address	Total Est. Cost	Units	Bedrooms	Cost per Bedroom	Homekey Award	City Cost per Bedroom
440 Geary Street	$53,473,340	130	130	$411,333	$26,000,000	$211,333
1000 Sutter Street	$74,022,061	232	232	$319,061	$47,912,020	$112,543
1321 Mission Street	$86,673,000	160	240	$361,138	$46,290,000	$168,263
3061 16th Street	$7,215,000	25	25	$288,600	$5,763,280	$58,069
5630-5638 Mission Street	$23,340,000	52	52	$448,846	Request Pending	$448,846
835 Turk Street	$34,763,450	114	114	$304,943	Not yet requested	$304,943
Total Approved Acquisitions	**$279,486,851**	**713**	**793**	**$352,442**	**$125,965,300**	**$193,596**

Source: HSH

Note: Total costs include acquisition and estimated rehabilitation costs. Differences in acquisition prices depend on variables such as property condition, unit sizes, and building age. Costs for planned or in-progress rehabilitation, including seismic upgrades for older properties, are estimated at time of acquisition.

In addition to the properties noted in Exhibit 1, two acquisitions are pending Board of Supervisors review: 681-687 Ellis Street (File 22-0345) will be presented to the Budget and Finance Committee on April 27, 2022 and 333 12th Street is being considered at the April 20, 2022 Budget & Finance Committee meeting (this File 22-0344).

According to HSH, new property acquisition activities will begin to slow next fiscal year as the majority of available one-time funding sources (prior year local Proposition C collections) are fully spent following the purchases of 333 12th Street and 681-687 Ellis Street.

Existing Property

In January 2021, the Department of Homelessness and Supportive Housing (HSH) issued a Request for Information (RFI) to identify properties for possible acquisition as permanent supportive housing sites and received 100 eligible submissions, including the property located at 333 12th Street.

The multi-family mid-rise property under consideration is located at 333 12th Street in San Francisco's South of Market neighborhood. The property was built in 2021, and contains 200 units, for a total of 618 bedrooms.[2] All units have a private bath, kitchen, and will be provided to

[2] According to the site inspection report, the 200-unit property contains 98 two-bedroom units, 88 four-bedroom units, and 14 five-bedroom units.

the City fully furnished. The building amenities include an elevator, lobby, community lounges, office space, laundry rooms and shared outdoor space. The property is situated on a 29,406 square foot site with no onsite parking. There are no commercial leases in the building.

The property is currently primarily being used for private, market rate housing. HSH reports that approximately half the existing tenants are students, for a total current occupancy level of 56 percent. The majority of existing tenants are on short-term leases (less than 12 months) and following the pending acquisition would still have the option to stay and access the support services that will be offered under HSH. In addition, the property contains below market rate inclusionary units.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would make the following actions:

1. Authorize the Director of Property, on behalf of HSH, to acquire the property located at 333 12th Street;
2. Approve an Agreement of Purchase and Sale for Real Estate for acquisition of the property for $145,000,000 plus an estimated $290,000 for typical closing costs, and up to $2,250,000 in interest payable in two installments, for a total acquisition cost amount not to exceed $147,540,000 from City Gardens Bridge, LLC;
3. Authorize HSH, to apply for the California Department of Housing and Community Development's Homekey Grant Program to purchase the property;
4. Authorize the Director of Property, HSH Director, and City Attorney's Office to execute the purchase and sale agreement, make certain modifications, and take certain actions in furtherance of the resolution and the purchase and sale agreement that do not increase the liabilities of the City;
5. Affirm the Planning Department's determination that the purchase is not considered a project under the California Environmental Quality Act (CEQA); and
6. Adopt the Planning Department's findings that the purchase and sale agreement is consistent with the General Plan and Planning Code Section 101.1.

An appraisal conducted by Colliers International Valuation and Advisory Services ("Colliers") confirmed that as of January 14, 2022, the proposed sale price of $145,000,000 is fair market value. R. Blum and Associates conducted an appraisal review of the property and recommended approval of the Colliers appraisal.

Intended Use

The City intends to use the property for Permanent Supportive Housing for families exiting homelessness. The property is already a multifamily residential property and so it will not require use conversion under the Planning Code in order to be used as permanent supportive housing.

The property will be operated by a third-party non-profit provider selected through a competitive process. HSH anticipates that a Solicitation of Information will be released in Summer 2022 to select the permanent non-profit operator of the property. Following provider onboarding, leases will become available to prospective tenants ("lease up"), a process that is expected to be

completed by late 2022. This is a similar process HSH has followed for the four other permanent supportive housing property acquisitions approved by the Board of Supervisors in fiscal year 2021-22.

Site Condition

A visual inspection of the exterior property condition and six rooms of the building was completed by a licensed consultant who also reviewed building drawings on behalf of the Housing Accelerator Fund[3] on March 3, 2021. The inspection found that the building was in very good condition. Because the building was constructed in 2021 and based on the inspection of the building, HSH does not expect that any significant rehabilitation will be necessary to convert the property to supportive housing.

Project Homekey Grant Application

According to the proposed resolution, the City intends to submit a new application for Homekey Grant funds by HCD's May 2, 2022 second round deadline, in an amount not to exceed the 333 12th Street property acquisition cost of $147,540,000, or the maximum award amount allowable. If this application is not successful, the City plans to resubmit its application during the third round of Project Homekey funding, which is expected to be released in October 2022. If the grant application is successful, HSH would seek Board of Supervisors approval for a Standard Agreement with HCD and to accept and expend the Homekey grant to offset the purchase cost of the 333 12th Street property.

According to HCD's Notice of Funding Availability, Round 2 projects are eligible for up to $200,000 in funding per unit, or $300,000 per unit if the applicant provides at least $100,000 per unit in matching funds. Operating subsidies are available for up to $1,400 per unit per month for two years, or for three years if a match is provided. Per unit subsidies vary based on unit size and population served.

FISCAL IMPACT

The total cost to purchase the property, including closing costs, is $147,540,000 for 200 units, or approximately $737,700 per unit or $238,738 per bedroom as shown in Exhibit 2 below.

[3] The San Francisco Housing Accelerator Fund is a non-profit organization that invests private and philanthropic funds in affordable housing.

Exhibit 2: Estimated Acquisition and Improvement Costs

Item	Amount
Purchase Price	$145,000,000
Closing Costs	$290,000
Improvement Cost	$0
Interest	$2,250,000
Total Cost	**$147,540,000**
Units	200
Bedrooms	618
Cost Per Unit	**$737,700**
Cost Per Bedroom	**$238,738**

Source: Property Purchase and Sale Agreement

Deposit

Section 2.2 of the proposed purchase and sale agreement states that the City is required to put a deposit of $5 million within ten days of the effective date of the purchase and sale agreement. The purchase and sale agreement are effective after it is approved by the Board and Mayor. Lease up may begin after the deposit is paid.

Operating Costs

HSH estimates that operating and services costs for 333 12th Street would be similar to other properties in its permanent supportive housing portfolio. Annual operating costs are approximately $19,800 per unit, or $3,960,000 for the 200-unit building, once it is fully occupied. Future services contracts for the property are unlikely to meet the $10 million expenditure threshold that would bring them to the Board of Supervisors for review. Operating costs for the first three years of the project would be partially offset by a Homekey award, which would fund $2.4 million to $3.36 million of operating costs per year.

Two-Installment Payment Structure

Under the proposed purchase and sale agreement, the City will pay the purchase price in two installments. The first payment of $100,000,000 is due upon closing and would be paid using Proposition C funding. The second installment, due by June 30, 2023, would be for $45,000,000 plus a maximum of $2,250,000 in interest accruing at a rate of five percent per year for a total of $47,250,000.

Funding for the second payment would either be from a successful Homekey award[4] or proceeds from the 2020 Health and Recovery general obligation bond.[5]

Funding Source Availability

The ordinance approved by the voters establishing Proposition C requires that spending be allocated in the following manner: at least 50 percent on permanent housing, at least 25 percent on mental health services for homeless individuals, up to 15 percent homeless prevention, and up to 10 percent on homeless shelters and hygiene. Of the permanent housing portion, at least 20 percent must be spent on transition aged youth (TAY) and at least 25 percent must be spent on families. According to the February 2022 Six-Month Our City, Our Home Fund Report, the FY 2021-22 Proposition C spending plan for permanent housing acquisition is $304.3 million and includes $108.7 million for any population, $106.5 million for families, and $89.1 million for TAY. According to Gigi Whitley, HSH Deputy Director for Administration and Finance, the general population acquisition budget has been allocated to previously approved acquisitions. The TAY acquisition budget has $58.4 million in unallocated spending, however, because the proposed property is composed of two- and five-bedroom units, the Department plans to use the property to house families rather than transition aged youth. The family acquisition budget is sufficient to fund the first installment payment of the proposed acquisition but not the entire purchase. The July 2021 Proposition C spending plan for FY 2022-23 does not including funding for family housing acquisitions.

The general obligation bonds have not yet been issued. In order to meet the closing timeline requested by the seller and to preserve the bond funds for future projects, which do not have the same population restrictions as the Proposition C funds, HSH devised the payment plan for the proposed purchase. If the City is awarded Homekey funds, it would avoid bond debt service for this project.

RECOMMENDATION

Approve the proposed resolution.

[4] If funding is not available under the current Project Homekey funding round which closes on May 2, 2022, the City plans to re-submit its application under Round 3 which is scheduled to open in October.

[5] In November 2020, voters approved the 2020 Health and Recovery General Obligation Bond which provides $487.5 million for investment in health and homelessness, parks and open spaces, and right-of-way repair. Of that, $116.6 million was allocated to purchase permanent supportive housing units (File 21-0388).

Item 10 File 22-0343	Department: Controller's Office

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the issuance and delivery of new letters of credit to support the outstanding San Francisco Finance Corporation Lease Revenue Refunding Bonds (Bonds), Series 2008-1 and 2008-2 for the Moscone Center Expansion Project related to West Moscone and related documents, and approve general authority for City officials to take necessary actions in connection with the remarketing of the Bonds, approving modifications to these documents and the execution, delivery, and ratifying subsequent actions taken.

Key Points

- Moscone Convention Center (Moscone) was originally constructed in 1981 (Moscone South), expanded in 1992 with the addition of Moscone North, and again expanded in 2003 with the addition of Moscone West.
- In 1996, San Francisco voters approved Proposition A, which authorized the lease financing of a not-to-exceed $157.5 million for the acquisition, construction, and improvements for the Moscone West expansion. On August 12, 2008, the Board of Supervisors approved the issuance of Variable Rate Lease Revenue Refunding Bonds (Series 2008-1 and 2008-2) to replace the previously issued 2000 variable rate lease revenue bonds for the expansion of Moscone West.
- The lease revenue bonds are supported by letters of credit and reimbursement agreements with State Street Bank and Trust Corporation. The Controller's Office of Public Finance has selected TD Bank, N.A. (TD Bank) through a competitive process to replace the existing letters of credit, which expire in October 2022.

Fiscal Impact

- The City would incur one-time estimated costs of $400,000 for the new letters of credit and on-going costs of approximately $91,000 per year for the anticipated original five-year term. One-time and annual costs for the letters of credit are budgeted annually with debt service and are paid by the General Fund. Dedicated hotel tax revenues are used to offset debt service on the lease revenue bonds.
- If the bonds' credit ratings are downgraded, the commitment fees to be paid to TD Bank would increase, resulting in higher fees and costs to the City.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

According to City Charter Section 9.113 (e), the Board of Supervisors has the authority to borrow money by the issuance of tax anticipation notes, temporary notes, commercial paper, or other short-term debt instruments.

BACKGROUND

Moscone Convention Center

The George Moscone Convention Center (Moscone) was originally constructed in 1981 as a single 300,000 square foot convention facility on Howard Street, now known as Moscone South between 3rd and 4th Streets, adjacent to Yerba Buena Gardens. In 1992, Moscone expanded with the addition of Moscone North across from Moscone South and again expanded in 2003 with the addition of Moscone West at Howard and 4th Streets. Moscone now encompasses over 900,000 gross square feet of convention facility space on three adjacent blocks, including approximately 300,000 square feet added by the Moscone West expansion. Moscone is owned by the City and County of San Francisco and the Office of Community Investment and Infrastructure (the successor agency to the San Francisco Redevelopment Agency).

Moscone West Expansion Existing Lease Revenue Bonds

In 1996, San Francisco voters approved Proposition A, which authorized the lease financing of a not-to-exceed $157.5 million for the acquisition, construction, and improvements for the Moscone West expansion. On October 16, 2000, the Board of Supervisors approved the issuance of a not-to-exceed $157.5 million of variable rate lease revenue bonds (Series 2000-1, 2000-2 and 2000-3) through the San Francisco Finance Corporation (File 00-1669). The San Francisco Finance Corporation is a nonprofit public benefit corporation, formed by the City in 1991, in response to San Francisco voter approval in 1990, to provide lease financing for the acquisition, construction and installation of facilities, equipment, and other real and personal property for the City's purposes.

On August 12, 2008, the Board of Supervisors: (a) approved the issuance of Variable Rate Lease Revenue Refunding Bonds (Series 2008-1 and 2008-2) to replace the previously issued 2000 variable rate lease revenue bonds for the expansion of Moscone West and (b) based on a competitive process, approved new letters of credit and reimbursement agreements with Bank of America N.A. (Bank of America) for Series 2008-1 and State Street Bank and Trust Corporation (State Street) for Series 2008-2, to provide for the specified principal and interest payments (File 08-1016). On September 11, 2008, the San Francisco Finance Corporation issued a total of $145,340,000 Lease Revenue Refunding Bonds, Series 2008-1 and Series 2008-2, to refund the outstanding $144,300,000 from the prior 2000 lease revenue bonds.

In October 2014, the Bank of America letter of credit supporting Series 2008-1 was replaced by a letter of credit from State Street, and the State Street letter of credit supporting Series 2008-2 was renewed. Both letters of credit were extended from their expiration date of October 7, 2019

to an expiration date of October 7, 2022. To replace the expiring letters of credit, the Controller's Office of Public Finance has selected TD Bank, N.A. (TD Bank) through a competitive process to provide new letters of credit.

As of April 2022, the Bond Series 2008-1 and 2008-2 had a total remaining outstanding balance of $58,200,000 according to Vishal Trivedi, Financial Analyst at the Office of Public Finance.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve:

a. the issuance and delivery of new letters of credit to support the outstanding San Francisco Finance Corporation Lease Revenue Refunding Bonds (Bonds), Series 2008-1 and 2008-2 for the Moscone Center Expansion Project related to West Moscone;
b. related documents, including the forms of a first supplement to trust agreement, first amendment to project lease, reimbursement agreements among the City and County of San Francisco, the San Francisco Finance Corporation, and TD Bank, fee agreements, a remarketing supplement, custodian agreements, and related financing documents; and
c. general authority for City officials to take necessary actions in connection with the remarketing of the Bonds, approving modifications to these documents and the execution, delivery, and ratifying subsequent actions taken.

The proposed resolution would approve new supporting bank agreements, for the existing 2008 lease revenue bonds. As noted above, the existing letters of credit and reimbursement agreements will expire in October 2022. According to Financial Analyst Trivedi, the Office of Public Finance issued a request for proposals from banks to provide new letters of credit, reimbursement agreements, and related documents for the 2008 Bonds. Based on responses from nine banks, a qualified group of panelists selected TD Bank, which submitted the highest scoring proposal, to provide new letters of credit

The existing lease revenue bonds for the Moscone West expansion project are variable rate bonds that are remarketed or resold weekly. Currently, these Series 2008-1 and 2008-2 bonds are budgeted at a 6.43 percent annual interest rate.[1] At 6.43 percent, the annual debt service over the next two fiscal years on the outstanding $58,200,000 is approximately $11 million. Dedicated hotel tax revenues are used to offset debt service on the lease revenue bonds.

Financing Documents

Letters of Credit and Reimbursement Agreements

Under the proposed letters of credit and reimbursement agreements, the trustee can draw on up to the principal amount of the outstanding bonds under specified conditions in accordance with the terms of the Indenture of Trust and Reimbursement Agreement. According to the Office

[1] According to Financial Analyst Trivedi, the 6.5% budgeted interest rate reflects the current rising interest rate environment and ensures sufficient budget for debt service costs if interest rates rise further.

of Public Finance, the City makes debt service payments to investors through the letter of credit bank and trustee. The letter of credit bank makes payments to the investors. The City makes required payments to the trustee, and the trustee reimburses the letter of credit bank for payments to the investors with the funds deposited by the City.

According to a March 22, 2022 Office of Public Finance memo, the Office of Public Finance expects to enter into letters of credit and reimbursement agreements, one for each series (Series 2008-1 and Series 2008-2) with terms of at least five years. If a draw occurs on a letter of credit, the interest rate for the drawing would be the highest of: (a) the sum of the Prime Rate plus two percent per year; (b) the sum of the Federal Funds Rate plus two percent per year; and (c) seven percent per year.[2]

Fee Agreement

The City will pay a commitment fee to TD Bank for the letters of credit equal to approximately 0.22 percent[3] of the $59.1 million[4] letters of credit. This reflects a reduction in the commitment fee compared to the existing letters of credit provided by State Street Bank which have annual fees of 0.35 percent, as discussed below. If the bonds' credit ratings are downgraded, the commitment fees to be paid to TD Bank would increase, resulting in higher fees and costs to the City.

First Supplement to the Indenture of Trust

Under the Original Indenture of Trust between the City and Wells Fargo Bank, N.A. (the Trustee), the Trustee administers and disburses payments for costs associated with the administration of the bonds. The First Supplement to the Indenture of Trust revises the terms in accordance with the replacement letters of credit and reimbursement agreements.

First Supplement to the Project Lease

The City leases the Moscone West expansion site to the San Francisco Finance Corporation under the Site and Facilities Lease, and leases back this City property, together with the improvements thereon, from the San Francisco Finance Corporation under the Project Lease. The City makes annual base rental payments for use and occupancy of the property, and the base rental

[2] According to the Office of Public Finance, the City does not pay interest to the letter of credit banks for debt service payments if the City makes required payments to the trustee. However, if the City were to default on those payments under extraordinary conditions, interest would accrue on the defaulted payments.

[3] The fee is based on the Series 2008 Bonds credit rating by Moody's and S&P. The fee percentage of 0.22 percent reflects that the bonds ratings are AA+ or above (S&P) and Aa1 or above (Moody's). If the bonds ratings were downgraded, the fee percentage increases for each notch downgrade of the credit rating.

[4] The $59.1 million total for two letters of credit includes the outstanding principal amount of $58.2 million as of April 2022 and approximately $0.9 million in interest at 12% for 47 days. Each letter of credit supports one of the two bond series (Series 2008-1 and Series 2008-2) and would be for approximately $29.55 million, or half the $59.1 million total. The letters of credit amount and associated fees decline as the principal amount is repaid over time.

payments are used to: (a) reimburse the credit provider for drawings on the letters of credit used to pay debt service on the bonds; or (b) pay the debt service on the bonds.

The First Supplement to the Project Lease revises the terms in accordance with the replacement letters of credit and reimbursement agreements.

Remarketing Agreement(s) and Remarketing Supplement

The substitution of the letters of credit require that the variable rate bonds be resold and remarketed by a remarketing agent, a municipal securities dealer that sets the interest rate for variable rate issues and normally resells securities to investors. The Remarketing Agreements appoint a remarketing agent for each series of bonds and sets the fees, as well as other terms and conditions. The Remarketing Supplement is a disclosure document that provides information to bondholders regarding the mandatory reselling of the bonds due to the substitution of the letters of credit.

According to the Office of Public Finance, the Office of Public Finance selected J.P. Morgan to be the new remarketing agents for the bonds through a competitive process.

Custodian Agreement

The existing trustee and custodian, Wells Fargo Bank, N.A., has been retained as custodian and agent for any bank bonds for TD Bank. The Custodian Agreement between TD Bank, the City, and Wells Fargo Bank, N.A., establishes the terms and conditions upon which the Bank Bonds will be held, remarketed, and/or released. The revised agreement reflects the new letter of credit bank (TD Bank).

FISCAL IMPACT

The proposed resolution replaces the expiring letters of credit held by State Street Bank with new letters of credit to be held by TD Bank. According to the Office of Public Finance, the City would incur one-time estimated costs of $400,000 for fees related to title insurance, bond counsel, disclosure counsel, bank counsel, San Francisco Finance Corporation counsel, municipal advisory, rating agency fees, City cost recovery, and other associated costs.

The annual cost of the letters of credit declines as the principal amount is repaid by the City, as the letters of credit support a decreasing amount of the bonds over time. The Office of Public Finance estimates costs of $123,970 in FY 2022-23 for the new letters of credit (with 0.22 percent commitment fees) compared to projected costs of $197,225 under the terms of the expiring letters of credit (with 0.35 percent commitment fees), resulting in over $70,000 in savings in FY 2022-23. The estimated total cost for the anticipated five-year original term of the proposed new letters of credit is $453,567, or $90,713 per year on average. As noted above, if the bonds' credit ratings are downgraded, the commitment fees to be paid to TD Bank would increase, resulting in higher fees and costs to the City.

One-time and annual costs for the letters of credit are budgeted annually with debt service and are paid by the General Fund. Dedicated hotel tax revenues are used to offset debt service on the lease revenue bonds.

RECOMMENDATION

Approve the proposed resolution.

Item 11 File 22-0338	Department: Various

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would appropriate $13,131,947 from the General Reserve to the FY 2021-22 workers' compensation budgets in the Fire, Public Health, Sheriff, and Emergency Management Departments. The appropriation also transfers these funds from these departments to the Department of Human Resources (DHR), which manages the City's workers' compensation program.

Key Points

- The City self-insures for workers' compensation, which means that the City is financially responsible for all workers' compensation liabilities, including payments for disability benefits, medical benefits, and administrative costs.
- Citywide workers' compensation claims in FY 2021-22 are projected to increase by 34.2 percent relative to the average number of claims over the prior four fiscal years. Of the four departments included in the proposed supplemental appropriation, the Fire and Sheriff departments are projected to have the largest percentage increase in claims. The increase in the Fire and Sheriff staff claims are primarily due to workplace exposure to COVID-19, strains, pain, and increased overtime hours, which correlate with an increased risk of workplace injuries.

Fiscal Impact

- The FY 2021-22 adopted budget for the Workers Compensation Division is $79.9 million. The proposed $13.1 million appropriation would increase that budget to $93.1 million.
- According to the March 2022 Update to the Joint Report from the Budget & Legislative Analyst's Office, Mayor's Budget Office, and Controller's Office, the beginning balance of the General Reserve in FY 2021-22 was $78.3 million and is projected to have an end balance of $43.8 million, assuming the approval of the proposed supplemental appropriation. Draws on the General Reserve in the current year require the General Reserve to be replenished by a like amount in the budget year.

Recommendation

- Approve the proposed ordinance.

MANDATE STATEMENT

City Charter Section 9.105 states that amendments to the Annual Appropriations Ordinance, after the Controller certifies the availability of funds, are subject to Board of Supervisors approval by ordinance.

BACKGROUND

Workers' Compensation

The City self-insures for workers' compensation, which means that the City is financially responsible for all workers' compensation liabilities, including payments for disability benefits, medical benefits, and administrative costs.[1] Workplace injuries are subject to state law and regulations, which set official fee schedules for disability payments and medical services, as well as legal presumptions that determine the extent to which injuries are related to the workplace. Exhibit 1 below shows historical and projected workers compensation claims for the last four fiscal years and the current year.

Exhibit 1: Workers Compensation Claims

	FY 2017-18 - FY 2020-21 Average Annual Claims			FY 2021-22 Forecast			
Department	**Indemnity Claims**	**Medical Claims**	**Total Claims**	**Indemnity Claims**	**Medical Claims**	**Total Claims**	**Change**
Fire	277	63	340	780	50	820	141.2%
Public Health	284	442	727	280	450	740	1.8%
Sheriff	164	27	190	270	20	290	52.6%
Emergency Mgmt.	20	1	21	20	0	20	-4.8%
Citywide	1,663	937	2,600	2,700	790	3,490	34.2%

Source: Human Resources. Note: FY 2021-22 forecasts based on actual claim volume through February 28, 2022.

Note: Indemnity claims refer to claimant benefits such as temporary and permanent disability.

As shown above, citywide workers' compensation claims in FY 2021-22 are projected to increase by 34.2 percent relative to the average number of claims over the prior four fiscal years. Of the four departments included in the proposed supplemental appropriation, the Fire and Sheriff departments are projected to have the largest percentage increase in claims. According to

[1] Medical benefits include inpatient/outpatient hospitalizations, physical therapy, physician services, prescription medication, durable medical equipment, ergonomic equipment, medical/legal evaluations, and reports. Disability benefits include partial wage replacement benefits (temporary disability), permanent disability awards (settlements), future medical awards, death benefits, and life pensions. Administrative costs include claims management and division operations. The City's workers compensation program also provides vocational rehabilitation.

Stanley Ellicott, DHR Workers' Compensation Division Finance & Information Systems Manager, the increase in the Fire and Sheriff staff claims is primarily due to workplace exposure to COVID-19, strains, pain, and increased overtime hours, which correlate with an increased risk of workplace injuries. To date, there have been 1,727 workers' compensation claims related to COVID-19 in FY 2021-22.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would appropriate $13,131,947 from the General Reserve to the FY 2021-22 workers' compensation budgets in the Fire, Public Health, Sheriff, and Emergency Management departments. The appropriation also transfers these funds from these departments to the Department of Human Resources (DHR), which manages the City's workers' compensation program.

Changes to Workers' Compensation Policy

According to DHR Manager Ellicott, in 2020 the State Legislature established that COVID-19 illness among healthcare workers and first responders are assumed eligible for workers' compensation, and in 2019, established that Post-Traumatic Stress Disorder claims for public safety workers are assumed eligible for workers' compensation. Both of these policy changes have contributed to the recent increase in workers' compensation claims.

In addition, in 2022 the state increased temporary disability weekly benefits from $1,383 to $1,570 and increased the medical and legal fee schedules, all of which have increased the cost of workers' compensation claims.

Cost Containment

According to DHR Manager Ellicott, the Human Resources Department is taking the following actions to control workers' compensation costs:

- Increased temporary staffing to process the surge in claim filings;
- Decelerated non-essential expenses;
- Attempted to slow down or delay expensive case settlements;
- Increased focus on temporary transitional work assignments and policy development to reduce temporary disability duration and return employees to work faster; and
- Proactively managing the workers compensation medical provider network and remove treatment providers with poor performance

Because the majority of the increase in workers compensation claims are related to COVID-19, the number of claims may decrease in the upcoming years. However, claim eligibility are defined by state regulations and treating physicians and the cost of claims are set by state regulations.

The City has classifications, such a 5177 Safety Officer and a 6139 Industrial Hygienist, that are responsible for ensuring work place safety. The Fire and Sheriff departments have these positions and they filled. The Department of Emergency Management does not have such a position. General Hospital and Laguna Honda, both subject of the proposed appropriation, have budgeted

Safety Officer positions but they are both vacant. According the Public Health finance staff, the duties are being performed by the Department's Central Occupational Health & Safety staff until the positions are filled.

FISCAL IMPACT

Exhibit 2 below shows the proposed increase to the Human Resources budget for workers' compensation.

Exhibit 2: Proposed Increase in FY 2021-22 Workers' Compensation Division Budget

Adopted Budget	$79,952,818
Proposed Increase	$13,131,947
New Budget	**$93,084,765**

Source: FY 2021-22 Annual Appropriation Ordinance and Proposed Appropriation Ordinance

As noted above, funding for the proposed increase is sourced from the General Reserve, which is then allocated to the Fire, Public Health, Sheriff, and Emergency Management departments. The appropriation also transfers the funds from these departments to the Department of Human Resources, which manages the City's workers compensation program. Appendix A to this report shows the appropriation detail for the Fire, Public Health, Sheriff, and Emergency Management departments.

The basis for the $13,131,220 amount is a straight-line projection of actual spending through February 2022.

General Reserve

Administrative Code Section 10.60 requires the City to budget a General Reserve of at least 3.0 percent of General Fund revenues to address revenue weakness, excess spending, or other needs not anticipated during the annual budget process. The balance requirement is reduced to 1.5 percent of General Fund revenues if the City withdraws from the Rainy Day Reserve and then increases 0.25 percent per year until the 3.0 percent balance requirement is fully restored.

According to the March 2022 Update to the Joint Report from the Budget & Legislative Analyst's Office, Mayor's Budget Office, and Controller's Office, the beginning balance of the General Reserve in FY 2021-22 was $78.3 million and is projected to have an end balance of $43.8 million, assuming the approval of the proposed supplemental appropriation.

Draws on the General Reserve in the current year require the General Reserve to be replenished by a like amount in the budget year.

RECOMMENDATION

Approve the proposed ordinance.

Appendix A: Departments' Workers Compensation Budgets (Transferred to Human Resources)

Department	Adopted Budget	Proposed Appropriation	New Budget	Increase
Fire	12,238,482	5,998,553	18,237,035	49.0%
DPH / General Hospital	7,455,437	2,304,955	9,760,392	
DPH / Laguna Honda	4,151,830	1,272,852	5,424,682	
DPH Subtotal	11,607,267	3,577,807	15,185,074	30.8%
SHF / Hall of Justice	598,777	335,517	934,294	
SHF / Administration	5,388,990	3,019,665	8,408,655	
Sheriff Subtotal	5,987,767	3,355,182	9,342,949	56.0%
Emergency Management	472,526	200,405	672,931	42.4%
Total	**30,306,042**	**13,131,947**	**43,437,989**	**43.3%**

Source: FY 2021-22 Annual Appropriation Ordinance and Proposed Appropriation Ordinance