

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

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292
 FAX (415) 252-0461

September 9, 2016

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst



SUBJECT: September 14, 2016 Budget and Finance Committee Meeting

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<p>Item 1 File 16-0199 <i>(Continued from April 20, 2016)</i></p>	<p>Department: Office of Labor Standards and Enforcement (OLSE)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p>	
<ul style="list-style-type: none"> • The proposed ordinance would amend the Administrative Code to add Section 21C.10 to require that prevailing wages be paid to workers who (1) load or unload materials, goods, or products into or from a commercial vehicle for special events or shows on City property; and/or (2) drive commercial vehicle for that purpose. For drivers, prevailing wage is paid for all hours driven within City limits. 	
<p style="text-align: center;">Key Points</p>	
<ul style="list-style-type: none"> • The Board of Supervisors annually sets prevailing wage rates for employees of businesses with particular types of City contracts. These contracts currently include: (1) public works or construction; (2) janitorial and window cleaning services; (3) public off-street parking lots, garages, and vehicle storage facilities; (4) theatrical performances; (5) solid waste hauling services; (6) moving services; (7) trade show and special event work; and (8) broadcast service work on City property. 	
<p style="text-align: center;">Fiscal Impact</p>	
<ul style="list-style-type: none"> • Although the proposed ordinance could increase the wage costs to produce shows or hold special events on City property, it is unknown as to whether or not these increased costs to the show or special events sponsors would reduce the number of shows or special events on City property, and consequently reduce contract, lease, franchise or permit revenues to the City. 	
<p style="text-align: center;">Recommendation</p>	
<ul style="list-style-type: none"> • Approval of the proposed ordinance is a policy decision for the Board of Supervisors. 	

MANDATE STATEMENT

City Charter Section 2.105 states that all legislative acts shall be by ordinance and shall require two readings by the Board of Supervisors.

The City's Administrative Code requires certain businesses that have contracts with the City, including public works contracts, to pay employees the highest general prevailing rate of wages for similar work in private employment. These requirements are enforced by the City's Office of Labor Standards Enforcement.

BACKGROUND

The Board of Supervisors annually sets prevailing wage rates for employees of businesses with particular types of City contracts. Table 1 below identifies the (a) specific Administrative Code Sections, (b) the dates each Administrative Code Section was last amended by the Board of Supervisors, and (c) the types of City contracts, leases, and/or operating agreements in which such businesses are required to pay prevailing wages.

Table 1: List of Contractors Required to Pay Prevailing Wages

Administrative Code	Date of Most Recent Amendment	Type of Contract
Section 6.22 (E)	May 19, 2011	Public works or construction
Section 21C.2	February 2, 2012	Janitorial and window cleaning services
Section 21C.3	February 2, 2012	Public off-street parking lots, garages and vehicle storage facilities
Section 21C.4	February 2, 2012	Theatrical performances
Section 21C.5	February 2, 2012	Solid waste hauling services
Section 21C.6	February 2, 2012	Moving services
Section 21C.8	June 29, 2014	Trade show and special event work
Section 21C.9	February 10, 2016	Broadcast service workers on City property

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend the Administrative Code to add Section 21C.10 to require that prevailing wages be paid by businesses having contracts, leases, franchise, permits or agreements with the City to their employees who (1) load or unload materials, goods, or products into or from a commercial vehicle for special events or shows on City property; and/or (2) drive commercial vehicle in which materials, goods or products are loaded or unloaded for

shows and special events.¹ For drivers, prevailing wage is paid for all hours driven within City limits.

The proposed ordinance would apply to contracts, leases, franchises, permits or agreements for special events or shows on City property, with the following exceptions provided in Administrative Code Sections 21C.4 (b) or 21C.8 (b):

- Celebration of a marriage, domestic partnership, or civil union;
- A show in a City park or City street, or on Port property that has free public access;
- A special event in a City park or City street, or on Port property that has free public access and advertising for the event of less than \$10,000;
- Film production;
- Shows or property under the jurisdiction of the Art Commission;
- Shows and special events for which set-up time is three hours or less, or the number of individuals working on the set-up is two or less;
- Special events that require payment of prevailing wage rates applicable to public works projects;
- Street fairs sponsored by nonprofit organizations and have free public access; and
- Any circumstance where application of prevailing wage rates would be preempted by federal or state law.

The proposed new Administrative Code Section 21C.10 also exempts from the prevailing wage requirements:

- Loading or unloading portable toilets and temporary fences or barricades, or driving commercial vehicles for that purpose;
- Individual vendors and farmers at flea markets and farmers markets (but not loading, unloading or driving commercial vehicles to flea markets and farmers markets);
- Individuals covered by a collective bargaining agreement;
- Work performed by city employees; and
- Mass participation sports events sponsored by a nonprofit organization for the purpose of fundraising.

The Budget and Legislative Analyst's Office has been advised that the Office of the Sponsor will introduce amendments to the proposed ordinance at the September 14, 2016 Budget and Finance Committee meeting. This report is based on the proposed amendments.

¹ A commercial vehicle is defined as a vehicle that is (1) primarily used for the transportation of materials, goods, or products, (2) has six wheels or more, and (3) is required to be registered as a commercial vehicle with the California Department of Motor Vehicles. Commercial vehicles shall not include vehicles used exclusively for food catering purposes.

FISCAL IMPACT

Although the proposed ordinance could increase the wage costs to produce shows or hold special events on City property, it is unknown as to whether or not these increased costs to the show or special events sponsors would reduce the number of shows or special events on City property, and consequently reduce contract, lease, franchise or permit revenues to the City.

RECOMMENDATION

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

Item 3
File 16-0887

Department:
Recreation and Parks Department (RPD)

EXECUTIVE SUMMARY

Legislative Objectives

- Authorize Portsmouth Plaza Parking Corporation (PPPC) to undertake a loan in an amount not to exceed \$12,500,000 for renovation of the City-owned Portsmouth Square Garage.
- Approve the amendment and restatement of the Articles of Incorporation and Bylaws of PPPC to document the organization of PPPC under the Nonprofit Corporation Law of the State of California, in accordance with IRS requirements.
- Approve the execution and delivery of the Portsmouth Square Parking Garage Landlord Assurances and Revenue Commitment Letter.

Key Points

- The City owns the land and improvements commonly known as Portsmouth Square in Chinatown, including the underground Portsmouth Square Garage. The garage is within the jurisdiction of the Recreation and Park Department (RPD). PPPC, a non-profit public benefit organization, has operated the garage since 1960. In FY 2014-15, RPD received \$1,308,000 in revenue from the garage.
- In 2011, RPD entered into a new 40-year lease with PPPC for the operation of the garage. The 40-year lease anticipates that PPPC, with approvals from the City, will renovate the garage to address deferred maintenance in the facility.
- The total estimated cost of the Portsmouth Square Garage renovations is \$11,959,068.

Fiscal Impact

- The \$12,500,000 loan from First Republic Bank has a 30-year term at 3.30 percent interest.
- Based on a cash flow projection, the garage will be able to fund its annual operating expenses, fund the \$1,000,000 loan reserve required by First Republic Bank, pay debt service, and meet the required debt service coverage ratio of 1.25:1.
- As part of the loan financing agreement, the City agrees to make debt service payments on the loan from parking facility revenues if the City terminates the lease with PPPC, which is unlikely.

Policy Consideration

- SFMTA was authorized by Proposition A in 2008 to issue revenue bonds, making debt financing by public benefit corporations overseeing City-owned garages unnecessary. However, in this case, SFMTA-issued revenue bonds could be more costly than the proposed private financing package.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

According to the existing lease between the City and the Portsmouth Plaza Parking Corporation (PPPC), financing of capital improvements at the Portsmouth Square Garage are subject to approval by the Board of Supervisors.

BACKGROUND

The City owns the land and improvements commonly known as Portsmouth Square in Chinatown, including the underground Portsmouth Square Garage located beneath the Square at 733 Kearny Street. In 1960, the City entered into a lease with Portsmouth Plaza Parking Corporation (PPPC) for the construction, financing, and operation of the garage. PPPC is a non-profit public benefit organization established for the sole purpose of building and operating the garage. The garage is within the jurisdiction of the Recreation and Park Department (RPD).

In February 2011, the Board of Supervisors authorized RPD, as landlord, to enter into a new 40-year lease with PPPC, as tenant, for the operation of the Portsmouth Square Garage from January 1, 2011, through December 31, 2051 (File No. 10-1431).

Under the lease, PPPC pays RPD percentage rent of 85 percent of net revenues, with the remaining 15 percent of net revenues deposited into a Capital Improvement Reserve Account. The garage also collects the City's parking taxes charged at a rate of 25 percent of the parking fee. Following the completion of the proposed renovations to the garage as described below, PPPC will pay RPD percentage rent of 95 percent of net revenues for the first three years, and 90 percent of net revenues for the second three-year period, with the understanding that the need for a substantial capital improvement reserve fund would be temporarily reduced following the renovations. In FY 2014-15, RPD received \$1,308,000 in revenue from the garage. Such revenues are credited to the RPD budget.

The 40-year lease between RPD and PPPC anticipates that PPPC, with approvals from the City, will renovate the garage to address deferred maintenance in the facility, as identified in a 2002 structural assessment of the garage. According to Ms. Katharine Petrucione, RPD Director of Administration and Finance, only two small renovations have been completed in the garage since it opened in 1961: 1) installation of a new cashier booth in 2004, and 2) ADA-compliant improvements to the public restrooms in 2008.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would:

1. Authorize PPPC on behalf of the City to undertake a loan in an amount not to exceed \$12,500,000 for the renovation of the City-owned Portsmouth Square Garage.
2. Approve the amendment and restatement of the Articles of Incorporation and Bylaws of PPPC to document the organization of PPPC under the Nonprofit Corporation Law of the State of California, in accordance with IRS requirements.

3. Approve the execution and delivery of the Portsmouth Square Parking Garage Landlord Assurances and Revenue Commitment Letter, which includes, among other terms, an obligation for the City to repay the outstanding balance of the \$12,500,000 loan from parking facility revenues if the City terminates the lease while the loan is outstanding.

The proposed new renovations to the garage include relocation and renovation of staff areas; improvements to pedestrian circulation, lighting, mechanical, electrical, plumbing, and sprinkler systems; repairs to concrete; installation of a new fire alarm system; implementation of a new parking revenue control system; and construction of new elevators. The total estimated cost of the Portsmouth Square Garage renovations is \$11,959,068, as shown in Table 1 below.

Table 1: Portsmouth Square Garage Renovations Estimated Budget

<i>Construction</i>	
Direct Construction	\$4,908,540
Design/Estimate Contingency	294,512
Mobilization & Demobilization	260,153
General Contractor's General Conditions	546,321
Bonds and Insurance	120,191
Overhead and Profit	367,783
Phasing Premium	245,427
Mid-point Cost Escalation	366,141
<i>Construction Subtotal</i>	<i>\$7,109,068</i>
<i>Soft Costs</i>	
Loan Fee	\$25,000
Architect Services	420,000
Construction Management	610,000
Permits and Fees	45,000
<i>Soft Costs Subtotal</i>	<i>\$1,100,000</i>
<i>Additional Scope</i>	
SFMTA Revenue Control System	\$1,600,000
Elevator Modernization	1,500,000
Signage Package	150,000
Owner-supplied Items	350,000
Service/Soft Cost Contingency	150,000
<i>Additional Scope Subtotal</i>	<i>\$3,750,000</i>
TOTAL	\$11,959,068

Design, regulatory, and permit approvals for the renovation project have been completed, and PPPC is preparing to issue a bid package for contractors. Construction bidding is expected to commence upon Board of Supervisors approval of the project loan. The garage would remain operational during construction, which is expected to take 12 to 14 months.

PPPC is responsible for financing all renovations to the garage. According to Ms. Petrucione, PPPC's financial advisor, First Southwest Company, evaluated financing alternatives for the proposed improvements, including private financing and financing from the California

Infrastructure and Economic Development Bank¹, and determined that private financing was the best alternative for the project.

With the assistance of First Southwest Company and the City's Office of Public Finance, PPPC secured loan financing of up to \$12,500,000 from First Republic Bank to fund the renovation project. According to the terms of the lease between RPD and PPPC, the terms of the \$12,500,000 loan financing, including a Revenue Commitment Letter from the City, are subject to approval by the Board of Supervisors. Under the Internal Revenue Code, the purposes and activities of PPPC and the revised Articles of Incorporation and Bylaws for PPPC are subject to approval by the Board of Supervisors.

FISCAL IMPACT

The \$12,500,000 loan financed from First Republic Bank has a 30-year term and a 3.30 percent interest rate. Annual debt service is estimated to be \$684,000, or total debt service payments of \$20,520,000 including principal of \$12,500,000 and interest of \$8,020,000.

Based on a cash flow projection prepared by RPD and shown in the Attachment to this report, the garage will be able to fund its annual operating expenses, fund the \$1,000,000 loan reserve required by First Republic Bank, pay debt service, and meet the required debt service coverage ratio² of 1.25:1.

As shown in the Attachment, the cash flow analysis projects that annual net income to RPD during the first 10 years of the 30-year loan will range from a low of approximately \$1,112,000 in FY 2018-19 to a high of \$1,590,000 in FY 2025-26. Income from the Portsmouth Plaza Garage accrues to the RPD budget. As shown in the Attachment, the debt service coverage ratio ranges from 1.72:1 in FY 2018-19 to 2.74:1 in FY 2025-26, which exceeds the required minimum of 1.25:1.

Obligation of the City to Make Loan Payments if the Lease is Terminated Early

As part of the loan financing agreement between First Republic Bank and PPPC, First Republic Bank requires a Revenue Commitment Letter from the City, in which the City agrees to make debt service payments on the loan from parking facility revenues if the City terminates the lease with PPPC. According to Ms. Petrucione, RPD does not anticipate any likely circumstances in which they would terminate the lease with PPPC early. However, in the event of an early termination of the lease, the City would make loan payments solely from parking facility revenues in accordance with the Revenue Commitment Letter. The agreement would not result in a liability to the City's General Fund.

¹ The California Infrastructure and Economic Development Bank is a State agency with authority to issue tax-exempt revenue bonds.

² Debt service coverage ratio is the ratio of the annual operating surplus to the annual debt service. Annual debt service is estimated to be \$684,000 and the annual operating surplus is estimated to range between a low of \$1,169,000 and a high of \$2,118,000. At the low estimate, the debt service coverage ratio would be 1.72:1, which is higher than the 1.25:1 minimum requirement.

POLICY CONSIDERATION

PPPC was set up as a non-profit public benefit corporation in 1960 to issue debt because City-owned garages had no mechanism for debt financing when they were built. Although the Portsmouth Square Garage lease is under the jurisdiction of RPD, the San Francisco Municipal Transportation Agency (SFMTA) is responsible for the administration of the leases and operating agreement of all City-owned parking garages that are open to the public. SFMTA was authorized by Proposition A in 2008 to issue revenue bonds, therefore, making debt financing by the public benefit corporations overseeing the City-owned garages no longer necessary.

According to Ms. Sonali Bose, Director of Finance and Information Technology of SFMTA, except for Portsmouth Square Garage, SFMTA has issued revenue bonds for all of the other City-owned garages. According to Ms. Bose, as of September 6, 2016, the total interest cost (including cost of issuance, debt service reserve fund, etc.) of a 30-year revenue bond would be approximately 4 percent. Therefore, in this case, SFMTA-issued revenue bonds could be more costly than the proposed private financing package at 3.30 percent interest over 30 years.

RECOMMENDATION

Approve the proposed resolution.

Debt Service Coverage Ratio

	FY 2017-18	FY 2018-19	FY 2019-20	FY 2021-22	FY 2021-22	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
Net Revenues	4,327,000	4,416,000	4,830,000	4,830,000	4,830,000	5,237,000	5,237,000	5,237,000	5,237,000	5,677,000	5,691,000
Expenses	2,493,000	2,564,000	2,637,000	2,712,000	2,790,000	2,870,000	2,952,000	3,037,000	3,037,000	3,125,000	3,215,000
Net Income	1,834,000	1,852,000	2,193,000	2,118,000	2,040,000	2,367,000	2,285,000	2,200,000	2,200,000	2,552,000	2,476,000
Debt Service	416,000	682,000	682,000	682,000	682,000	682,000	682,000	682,000	682,000	682,000	682,000
Operating Surplus	1,418,000	1,170,000	1,511,000	1,436,000	1,358,000	1,685,000	1,603,000	1,518,000	1,518,000	1,870,000	1,794,000
Capital Reserve Allocation	71,000	58,000	151,000	143,000	136,000	253,000	240,000	228,000	228,000	280,000	269,000
Net Income to Recreation and Park Department	1,347,000	1,112,000	1,360,000	1,293,000	1,222,000	1,432,000	1,363,000	1,290,000	1,290,000	1,590,000	1,525,000
Debt Service Coverage Ratio	3.41	1.72	2.22	2.11	1.99	2.47	2.35	2.23	2.23	2.74	2.63

Item 5 File 16-0929	Department: San Francisco Municipal Transportation Agency (SFMTA)
EXECUTIVE SUMMARY	
<p>Legislative Objectives</p> <ul style="list-style-type: none"> • Resolution approving a fifth amendment to the agreement between the San Francisco Municipal Transportation Agency (SFMTA) and PRWT Services, Inc. (PRWT) for citation processing and support services, extending the agreement by two years, from November 1, 2016 through October 31, 2018, and increasing the not-to-exceed amount by \$15,159,658, for a total not-to-exceed agreement amount of \$77,885,593. <p>Key Points</p> <ul style="list-style-type: none"> • On October 30, 2008, based on a competitive process, the Board of Supervisors authorized a five-year agreement, with options for up to an additional five years, between SFMTA and PRWT to provide parking citation processing, management software and related support services for a not-to-exceed \$53,475,441. • The PRWT agreement has been amended four times and is currently authorized for a not-to-exceed \$62,725,935 through October 31, 2016. <p>Fiscal Impact</p> <ul style="list-style-type: none"> • SFMTA expended \$58,963,918 from November 1, 2008 through June 30, 2016 on the PRWT contract. From July 1 through October 31, 2016 SFMTA anticipates expending \$2,501,267 or a total of \$61,465,185 for the existing PRWT eight-year contract period. • SFMTA's estimates the cost to extend the PRWT services are approximately \$7,656,302 each year, resulting in total expenditures of \$76,777,789 through October 31, 2018. • The proposed resolution requests increasing the PRWT contract to a not-to-exceed total amount of \$77,885,593, although the total not-to-exceed contract amount needed is \$76,777,789, a reduction of \$1,107,804. • In FY 2015-16, SFMTA issued 1,293,343 parking citations and 45,774 transit citations and received \$117,722,256 in citation revenues. <p>Recommendations</p> <ul style="list-style-type: none"> • Amend the proposed resolution to reduce the total not-to-exceed amount of the PRWT agreement by \$1,107,804 from \$77,885,593 to \$76,777,789. This amendment will authorize the requested fifth amendment to extend the PRWT agreement by two years from November 1, 2016 through October 31, 2018, and increase the agreement total not-to-exceed amount by \$14,051,854 from \$62,725,935 to a total not-to-exceed amount of \$76,777,789. • Approve the proposed resolution as amended. 	

MANDATE STATEMENT

City Charter Section 9.118(b) states that agreements entered into by a department, board, or commission having a term of (a) more than 10 years; (b) anticipated expenditures of \$10 million or more; or (c) modifications to these agreements of more than \$500,000, require Board of Supervisors approval.

BACKGROUND

Original SFMTA Agreement with PRWT

Based on a competitive process, on October 30, 2008, the Board of Supervisors approved a resolution (File 08-1168; Resolution 438-08) authorizing a five-year agreement, with an option to renew for up to an additional five years, between the City and County of San Francisco, on behalf of the San Francisco Municipal Transportation Agency (SFMTA), and PRWT Services, Inc. (PRWT) for a not-to-exceed \$53,475,441 to provide parking citation processing, management software and related support services.

The original five-year agreement was from November 1, 2008 through October 31, 2013, with options to extend up to five years or through October 31, 2018, for a total of up to ten years. Under this agreement, PRWT provides the following major services:

- Parking citation processing charging SFMTA a rate of \$2.89 per citation¹;
- Special citation follow-up collections for citations that remain unpaid after usual processing, paid by SFMTA at rate of 34 percent of revenues collected;
- Pay-By-Phone and Pay-By-Web support services, with all 800-number and credit card fees passed through to SFMTA;
- Issuance of transit violation notifications and pass through of postage; and
- Replacement and maintenance of handheld ticket-issuing devices.

Amendments to the PRWT Agreement

SFMTA approved a first amendment to the PRWT agreement on November 1, 2011 to include a pilot program for street sweeper camera enforcement. SFMTA approved a second amendment on February 15, 2013 for the purchase of additional handheld devices. These first two amendments did not increase the contract amount or term, and were not subject to Board of Supervisors approval.

¹ Parking citation processing rate of \$2.89 per citation includes costs for PRWT to provide software and support for SFMTA's Enforcement Division, Residential Permit Parking Program, the Administrative Review and Hearings Units, and additional parking consulting and systems engineering support staff.

In October 2013, the Board of Supervisors approved a third amendment to the agreement extending the term for an additional two years or a total of seven years, through October 31, 2015, and authorized SFMTA to re-allocate \$6,835,709 remaining from the original agreement for services previously designated as optional (File 13-0941; Resolution 374-13). The total not-to-exceed agreement amount of \$53,475,441 did not change.

On September 22, 2015, the Board of Supervisors approved a fourth amendment to the agreement to extend the term by one year through October 31, 2016, or a total term of eight years and increased the agreement by \$9,250,494 for a total not to exceed \$62,725,935 (File 15-0756; Resolution 341-15). Under this fourth amendment PRWT was to provide additional services, such as website developments and upgrades and automation of the Residential Permit Program (RPP). This fourth amendment also included an option for the SFMTA to extend the agreement for up to two additional years, or through October 31, 2018.

SFMTA Expenditures on PRWT Agreement

Table 1 below shows the total expenditures of \$58,963,918 for the seven years and eight months of services provided from November 1, 2008 through June 30, 2016 for the citations processing, management software and related support services agreement with PRWT.

Table 1: Total Expenditures Paid by SFMTA to PRWT through FY 2015-16

Contract Services	Total
Citation Processing	\$33,991,885
Special Collections	20,272,658
Postage	20,445
Credit Card Fees	3,552,397
1-800 number	44,697
Mobile License Plate Reader Camera Support	114,902
Equipment/Accessories	662,555
Other	304,379
TOTAL	\$58,963,918

Source: SFMTA

As noted above, the PRWT agreement is currently authorized for a not-to-exceed \$62,725,935 over an eight-year period. As shown in Table 1, as of June 30, 2016, SFMTA expended \$58,963,918, resulting in a balance of \$3,762,017 remaining on the existing PRWT not-to-exceed agreement amount.

Anticipated Request for Proposals

In September 2014, the SFMTA hired Dixon Resources Unlimited, a consultant specializing in municipal parking, to review enforcement practices in other municipalities, identify current and new technologies, produce an industry standards report, and develop detailed system

specifications for SFMTA. The results of this report were intended to be used by SFMTA to develop a new Request for Proposals (RFP) to award a new contract for upgraded parking citation processing, parking permit processing, management software and related support services. SFMTA was also seeking a new software system to customize SFMTA reports and analyze data, which would be less reliant on an outside contractor, such as PRWT, which would be part of a new RFP.

In September 2015, when SFMTA requested the fourth amendment to the agreement with PRWT be approved by the Board of Supervisors, SFMTA anticipated issuing the new RFP in November 2015 and entering into a new agreement with a contractor prior to the expiration of the PRWT agreement on October 31, 2016. However, Mr. Steven Lee, Senior Manager of Financial Services and Contracts at the SFMTA advises that the SFMTA consultant study found that there was little standardization of municipal parking citation, permit, and associated function management programs in the U.S. As a result, SFMTA took longer than anticipated to develop scopes of work, RFPs and contract documents. The RFP was issued on July 22, 2016.

SFMTA advises that the new RFP separates the processing of parking citations from issuance of parking permits to allow potential contractors to bid on either or both services. In addition, the citation collection services portion of the contract will be a separate RFP, anticipated to be issued in November 2016. Separating these RFPs will ensure that the contractor selected for citation processing is not eligible to provide citation collection services to prevent any potential conflict of interest at the expense of the SFMTA.

Proposals for the processing of parking citations and permits are due November 4, 2016. SFMTA is targeting May of 2017 to select the preferred contractors and complete contract negotiations. However, Mr. Lee advises that if different contractors are selected, SFMTA may need to overlap the existing and new agreements to allow for transitioning between the old and new systems. Such agreements will be subject to Board of Supervisors approval.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a fifth amendment to the agreement between SFMTA and PRWT Services, Inc. for parking citation processing, management software, and related support services. This fifth amendment will authorize the last option to extend the PRWT agreement by two years from November 1, 2016 through October 31, 2018, and increase the agreement total not-to-exceed amount by \$15,159,658 from \$62,725,935 to a total not-to-exceed amount of \$77,885,593. If this fifth amendment is approved, the PRWT agreement would extend for a total of ten years, from November 1, 2008 through October 31, 2018.

Rationale for PRWT Contract Extension

SFMTA requests the two-year agreement extension with PRWT be approved because

1. SFMTA anticipates the proposal submittal, evaluation, contract negotiations and approval process will extend significantly beyond the timeframe remaining under the existing PRWT agreement term;
2. The competitive contract procurement process may result in the award of separate contracts for permit parking processing and parking citation services, such that additional time is needed to integrate the systems and transition between vendors;
3. The existing per-citation processing fee of \$2.89 paid by SFMTA to PRWT, established in 2008 is favorable to the SFMTA, which is likely to increase under any new agreement.

On July 19, 2016, the SFMTA Board approved the subject fifth amendment to the PRWT agreement. This SFMTA Board resolution also authorized the issuance of new RFPs and negotiations for contracts with a term of five years, with options of up to five additional years.

FISCAL IMPACT

SFMTA Expenditures under Existing PRWT Agreement

As shown in Table 1 above, SFMTA expended \$58,963,918 from November 1, 2008 through June 30, 2016 on the PRWT contract. As noted above, the existing contract term extends through October 31, 2016. As shown in Table 2 below, for the four-month period from July 1 through October 31, 2016 SFMTA anticipates expending \$2,501,267 or a total of \$61,465,185 (\$58,963,918 + \$2,501,267) for the existing total PRWT eight-year contract period. This is \$1,260,750 less than the authorized \$62,725,935 not-to-exceed amount in the previously approved PRWT agreement. Mr. Lee advises that several of the additional service enhancements included in the fourth amendment, such as development of a web portal and website upgrades will not be implemented.

SFMTA's Projected Expenditures

As shown in Table 2 below, SFMTA's estimates the cost to extend the PRWT existing agreement services for two years is approximately \$7,656,302 each year, which includes the additional ongoing costs of the new Residential Permit Program (RPP) automated system. Overall, as shown in Table 2 below, SFMTA anticipates expending approximately \$17,813,871 from July 1, 2016 through October 31, 2018 under the PRWT contract. Mr. Lee also advises that these costs represent the maximum amount as the SFMTA has the option to terminate the existing agreement with PRWT prior to October 31, 2018, if new contractors are selected and approved and the systems can be fully transitioned prior to that date.

Table 2: Projected Costs for PRWT Citation Processing Contract Extension

Services	4 Months (7/1/16-10/31/16)	11/1/16-10/31/17	11/1/17-10/31/18	Total Projected Cost
Citations	\$1,287,042	\$3,861,126	\$3,861,126	\$9,009,294
Special Collections	931,332	2,793,996	2,793,996	6,519,323
Postage	2,886	8,659	8,659	20,204
Credit Card Fees	269,267	807,801	807,801	1,884,870
1-800 Number	2,700	8,100	8,100	18,900
MLPR Camera Support	8,040	24,120	24,120	56,280
Equipment	-	-	-	-
Other	-	67,000	67,000	134,000
RPP Automation	-	85,500	85,500	171,000
Total	\$2,501,267	\$7,656,302	\$7,656,302	\$17,813,871

Source: SFMTA

As summarized in Table 3 below, SFMTA now projects expending a total of \$76,777,789 through October 31, 2018.

Table 3: Total Projected Need for New PRWT Contract

Time Periods	Costs
11/1/2008-6/30/2016 (Actual)	\$58,963,918
7/1/2016-10/31/2016	2,501,267
11/1/2016-10/31/2017	7,656,302
11/1/2017-10/31/2018	<u>7,656,302</u>
Total Projected Expenditures	\$76,777,789
Total Not-to-Exceed Amount Requested	\$77,885,593
Reduction Recommended	\$1,107,804

However, the proposed resolution requests increasing the PRWT contract to a not-to-exceed total amount of \$77,885,593. As shown in Table 3 above, the resolution should be amended to reduce the total not-to-exceed contract amount to \$76,777,789, a reduction of \$1,107,804.

The SFMTA will use operating funds to pay for the additional two years of the subject PRWT contract, which was previously appropriated by the Board of Supervisors in the SFMTA's FY 2016-17 and FY 2017-18 budgets.

Projected Citation Revenues

In FY 2015-16, SFMTA issued 1,293,343 parking citations and 45,774 transit citations and received \$117,722,256 in citation revenues. In general, the number of citations issued has decreased over the years, however, as the cost of citations increases, the revenues received has increased slightly. Citation revenues support the SFMTA's operating budget.

RECOMMENDATIONS

1. Amend the proposed resolution to reduce the total not-to-exceed amount of the PRWT agreement by \$1,107,804 from \$77,885,593 to \$76,777,789. This amendment will authorize the requested fifth amendment to extend the PRWT agreement by two years from November 1, 2016 through October 31, 2018, and increase the agreement total not-to-exceed amount by \$14,051,854 from \$62,725,935 to a total not-to-exceed amount of \$76,777,789.
2. Approve the proposed resolution as amended.

<p>Items 6, 7 and 8 Files 16-0867, 16-0868 and 16-0850</p>	<p>Departments: Office of Public Finance (OPF) Mayor’s Office of Housing & Community Development (MOHCD)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p>	
<ul style="list-style-type: none"> • <u>File 16-0867</u>: Resolution providing for the (a) issuance of the total not to exceed \$310,000,000 aggregate principal Affordable Housing, 2015 General Obligation Bonds; (b) levy of a tax to pay the principal and interest; (c) appointment of depositories and other agents for said bonds; (d) establishment of accounts; (e) adopting findings under the California Environmental Quality Act, City Administrative Code and Planning Code; (f) ratifying previous actions taken; and (g) granting general authority to City officials. • <u>File 16-0868</u>: Resolution authorizing the first issuance and sale of not-to exceed \$77,000,000 aggregate principal Affordable Housing, 2015 Taxable General Obligation Bonds, Series 2016F, including all related documents and requirements, as approved by San Francisco voters on November 3, 2015. • <u>File 16-0850</u>: Ordinance appropriating \$77,000,000 of General Obligation Housing Bond Series 2016F proceeds to the Mayor’s Office of Housing and Community Development for specified affordable housing projects, with a Controller’s Reserve pending the bond sale. 	
<p style="text-align: center;">Key Points</p>	
<ul style="list-style-type: none"> • On November 3, 2015, San Francisco voters authorized \$310,000,000 of general obligation bonds for affordable housing projects. To date, no bonds have been sold. • This legislation will (1) authorize the issuance of the entire \$310,000,000 general obligation bonds recently approved by San Francisco voters; (2) specifically authorize the first issuance and sale of up to \$77,000,000 for affordable housing purposes; and (3) appropriate \$77,000,000 of bond proceeds from this first sale for specified affordable housing programs, including the related issuance costs. 	
<p style="text-align: center;">Fiscal Impact</p>	
<ul style="list-style-type: none"> • The not-to-exceed \$77,000,000 affordable housing bonds would be sold for \$76,025,000, which reflects a \$975,000 reserve to allow for market fluctuations. The projected \$76,025,000 would result in \$74,500,000 of project funds and \$1,525,000 of Controller’s audit and issuance costs. All \$77,000,000 will be on Controller’s Reserve pending the sale. • The \$77,000,000 bonds are estimated to be sold in October 2016 and have an interest rate of 4.03 percent, such that average debt service on the 20-year bonds would be approximately \$5,500,000 annually. Total interest payments over the 20-year term would be \$34,325,000. Total principal and interest payments are estimated at \$110,350,000. • Repayment of the annual debt service is covered through increases in the annual Property Tax rate, such that homeowners with an assessed value of \$600,000 will pay average annual additional \$15.76 in Property Taxes. 	
<p style="text-align: center;">Recommendation</p>	
<ul style="list-style-type: none"> • Approve the proposed resolutions and ordinance. 	

MANDATE STATEMENT

Charter Section 9.105 provides that the issuance and sale of general obligation bonds are subject to approval by the Board of Supervisors.

Charter Section 9.105 also provides that amendments to the appropriation ordinance, subject to the Controller certifying the availability of funds, are subject to Board of Supervisors approval.

BACKGROUND

On November 3, 2015, San Francisco voters approved Proposition A, by more than the required two-thirds vote, to authorize the issuance of not-to-exceed \$310,000,000 in taxable and tax-exempt general obligation bonds for affordable housing to

- Construct, develop, acquire and preserve housing affordable to low and middle-income households through programs that prioritize vulnerable populations;
- Assist in the acquisition, rehabilitation and preservation of affordable rental apartment buildings to prevent the eviction of long-term residents;
- Target affordable housing investments in the Mission neighborhood;
- Repair and reconstruct dilapidated public housing;
- Fund a middle-income rental program;
- Provide for homeownership down payment assistance for educators and middle-income households;
- Provide independent citizen oversight and regular audits of the above-noted housing programs; and
- Authorize landlords to pass-through to residential tenants in rent controlled units 50% of the increase in property taxes attributable to the cost to repay these bonds.

In accordance with the voters' authorization, these affordable housing bonds will be sold in one or more series and on the terms and conditions, as the Board of Supervisors will determine by resolution. To date, none of these affordable housing general obligation bonds have been sold.

DETAILS OF PROPOSED LEGISLATION

File 16-0867: Resolution providing for the (a) authorization to issue the total not to exceed \$310,000,000 aggregate principal Affordable Housing, 2015 General Obligation Bonds; (b) levy of future property taxes to pay the principal and interest costs of the bonds; (c) appointment of depositories and other agents for said bonds, including paying, fiscal or escrow agents or registrars; (d) establishment of accounts and subaccounts, including separate bond accounts to pay the principal and interest on each series of bonds and project accounts to pay project expenses administered by the City Treasurer; (e) costs of the Citizens' General Obligation Bond Oversight Committee with 0.1% of gross bond proceeds; (f) adoption of findings under the California Environmental Quality Act (CEQA) that this legislation is a funding mechanism and not a project as defined by CEQA; (g) finding that the proposed project is in conformity with the priority polices of Planning Code Section 101.1, Charter Section 4.105 and Administrative Code Section 2A.53; (h) ratification of previous actions taken; and (i) granting of general authority to City officials to take necessary related actions.

File 16-0868: Resolution authorizing the first issuance and sale of not-to exceed \$77,000,000 aggregate principal Affordable Housing, 2015 Taxable General Obligation Bonds, Series 2016F, including all related documents, terms, appointments, accounts and requirements. This resolution approves the forms of the (a) Official Notice of Sale, (b) Notice of Intention to Sell Bonds, (c) Bond Purchase Contract, (d) Preliminary Official Statement, (e) Official Statement, and (f) Continuing Disclosure Certificate. This authorization includes the sale of the bonds by competitive or negotiated sale, modifications to the documents, ratifying actions previously taken and granting general authority to City officials to take necessary related actions.

File 16-0850: Ordinance appropriating \$77,000,000 of General Obligation Housing Bond Series 2016F proceeds to the Mayor's Office of Housing and Community Development (MOHCD) for specified affordable housing projects, with a Controller's Reserve pending the bond sale.

The first proposed resolution (File 16-0867) will authorize the overall issuance of the entire \$310,000,000 general obligation bonds that were recently approved by San Francisco voters in one or more series, as determined by the Board of Supervisors in separate sale resolutions. The second proposed resolution (File 16-0868) would specifically authorize the first issuance and sale of up to \$77,000,000 of the total \$310,000,000 general obligation bonds for affordable housing purposes. The proposed ordinance (File 16-0850) would appropriate the \$77,000,000 of bond proceeds from this first issuance and sale for specified affordable housing programs, including the related issuance costs.

Table 1 below shows the proposed sources and uses for the initial \$77,000,000 affordable housing bond proceeds.

Table 1: Proposed Sources and Uses of Funds

Sources	
Bond Proceeds	\$76,025,000
Reserve Proceeds	<u>975,000</u>
Total Not-to-Exceed Sources	\$77,000,000
Uses	
Affordable Housing Project Funds	74,500,000
Controller's Audit Fund	149,000
Project Subtotal	74,649,000
Bond Issuance	539,725
Underwriter's Discount	760,250
Citizens' GO Bond Oversight Com	76,025
Issuance and Related Cost Subtotal	1,376,000
Total Uses	\$76,025,000
Reserve Pending Bond Sale ¹	975,000
Total Uses with Reserve	\$77,000,000

Source: Supplemental Appropriation File 16-0850 and letter dated July 22, 2016, from the Director of Public Finance to the Board of Supervisors, re City and County of San Francisco Taxable General Obligation Bonds (Affordable Housing), Series 2016F.

As shown in Table 1 above, proceeds from the first 2016F Affordable Housing 2015 Bonds will fund total affordable housing project costs of \$74,500,000. Table 2 below summarizes the categories of projects to be funded from this \$74,500,000 first bond issuance within the total \$310,000,000 affordable housing bond program. The Attachment provided by the MOHCD provides additional detail on projected expenditures for the entire \$310,000,000 housing bond program from FY 2016-17 through FY 2020-2021, including the total number of 1,256 affordable units to be funded.

Table 2: Affordable Housing Bond Fund Uses

	First Bond Sale	Total Bond Program
Public Housing	\$40,600,000	\$80,000,000
Low-Income Housing	24,000,000	100,000,000
Mission Neighborhood Housing	6,000,000	50,000,000
Middle-Income Housing	3,900,000	80,000,000
Total 2015 Affordable Housing Bond	\$74,500,000	\$310,000,000

Based on the total authorized \$310,000,000 Affordable Housing bonds, after the initial \$77,000,000 issuance, there will be \$233,000,000 of bond authorization remaining. MOHCD

¹ The Reserve Pending Bond Sale accounts for uncertainty due to potential variations in interest rates prior to the sale of the proposed bonds.

currently projects issuing approximately \$103 million in a second issuance of these bonds in the fall of 2017 and \$130 million in a final issuance of these bonds in the fall of 2018. However, Mr. Benjamin McCloskey, Deputy Director for the MOHCD advises that MOHCD will evaluate each of the affordable housing programs, such that additional bond debt would be issued only when needed.

FISCAL IMPACT

\$77,000,000 Initial Bond Sale

As shown in Table 1 above, the requested not-to-exceed \$77,000,000 Series 2016F Affordable Housing General Obligation Bonds are projected to be sold for \$76,025,000, which reflects a \$975,000 reserve to allow for potential variations in the interest rates when the bonds are sold. The projected \$76,025,000 would result in total available project funds of \$74,500,000 and Controller's audit (\$149,000) and issuance-related costs (\$1,376,000) totaling \$1,525,000. If approved by the Board of Supervisors, all of the requested \$77,000,000 supplemental appropriation of funds would be placed on Controller's Reserve pending the actual sale of the bonds.

The issuance and sale of the initial \$77,000,000 affordable housing bonds are anticipated to occur in late October 2016. As provided in the two proposed resolutions, MOHCD can use non-bond available funds prior to the issuance and sale of the bonds to begin work on the specified affordable housing projects, which can then be reimbursed with bond proceeds after the sale. According to Mr. McCloskey, approximately \$5-\$8 million of contracts may be executed prior to the October 2016 bond sale primarily for the public housing predevelopment activities.

Debt Service on Initial Bonds

The Office of Public Finance conservatively estimates annual interest at 4.03 percent over 20 years. The Office of Public Finance advises that although a 20-year term is anticipated, the proposed bonds could be structured up to 30 years, if market conditions warrant a longer period of time. In addition, the Office of Public Finance anticipates a competitive bond sale but reserves the option to conduct a negotiated bond sale, based on market conditions.

The Office of Public Finance estimates average annual debt service on 20-year bonds at the projected \$76,025,000 would be approximately \$5,500,000. Total interest payments over the 20-year bond term would be \$34,325,000. Total principal and interest debt service payments are together estimated at \$110,350,000.

Impact on Property Taxes

Annual debt service will be recovered through increases in City annual property taxes. The Office of Public Finance estimates average property tax increases of \$0.00266 per \$100 or \$2.66 per \$100,000 of assessed valuation to repay the anticipated 20-year term of the initial bonds. Therefore, the owner of a residence with an assessed value of \$600,000, assuming a homeowner's exemption of \$7,000, would pay average additional property taxes to the City of \$15.76 per year for the anticipated \$76,025,000 initial affordable housing bonds.

However, in accordance with the City's capital plan and debt policy, the City's property tax rate paid by City property owners cannot exceed the 2006 property tax rate for general obligation bonds of \$0.1201 per \$100 of assessed value. This policy restrains increasing property taxes on City property owners, by only issuing new bond debt as existing bond debt is retired and the overall property tax base grows. Based on the anticipated retirement of bond debt and the need for additional housing bond funds, the remaining \$233,000,000 (\$310,000,000 total authorization less \$77,000,000 initial issuance) 2015 Affordable Housing Bonds are anticipated to be issued in 2017 and 2018.

Debt Limit

Section 9.106 of the City's Charter limits the total amount of outstanding general obligation bonds to 3.0% of the assessed value of property in the City at any given time. Based on the Controller's August 1, 2016 total assessed valuation of property in the City of \$211.5 billion, and current outstanding general obligation bond debt of \$2.01 billion reflects approximately a 0.95% debt ratio. If the proposed up to \$77,000,000 general obligation bonds are sold, the debt ratio would increase by 0.04% to a total of 0.99%, which is within the 3.0% total debt limit.

POLICY CONSIDERATION

Capital Planning Committee

On August 29, 2016, the Capital Planning Committee considered the proposed affordable housing general obligation bond legislation. According to Mr. Brian Strong, Director of the Capital Planning Program, although affordable housing programs are not technically part of the City's Capital Program, the Capital Planning Committee recommended approval of the proposed two resolutions and ordinance.

Affordable Housing Bonds are Different

This \$310,000,000 affordable housing general obligation bond is somewhat different than typical City general obligation bonds. Under typical City general obligation bonds, the City hires private contractors to undertake improvements on specific City-owned properties, such that the improvements are also owned by the City. However, under these affordable housing general obligation bonds, the City will not directly engage contractors nor generally own the properties or improvements.

Rather, the City will primarily provide the general obligation bond proceeds as loans² to developers who will hire contractors and own the improvements through limited liability corporations, which enables leveraging of additional revenues for the projects through federal tax credits. In addition, the City will provide a portion of the bond proceeds as down payment assistance directly to individuals that meet specified criteria. Mr. McCloskey advises that MOHCD will treat the \$310,000,000 additional affordable housing bond proceeds, including the up to \$77,000,000 to be sold in October 2016, as an additional funding source for the City's overall affordable housing programs, which total over \$300 million in FY 2016-17.

² Each affordable housing program has various loan repayment terms and conditions.

RECOMMENDATION

Approve the proposed resolutions and ordinance.

Specific Housing Bond Uses, By Fiscal Year

	16-17	17-18	18-19	19-20	20-21	Total	Affordable Units
Public Housing: \$80MM							
Potrero Parcel X Predev	2,251,586					2,251,586	
Potrero Parcel X Vertical Gap	14,148,414					14,148,414	70
Potrero Infrastructure Predev	1,200,000					1,200,000	
Potrero Block B Predev	2,300,000					2,300,000	94
Potrero Infrastructure Development		18,800,000				18,800,000	
Potrero Acceleration						-	
Sunnydale Master Planning	2,800,000					2,800,000	60
Sunnydale 6A & 6B Predev	5,000,000					5,000,000	
Sunnydale Parcel Q Predev	2,000,000					2,000,000	
Sunnydale Parcel Q Vertical	10,900,000					10,900,000	166
Sunnydale 6A & 6B Infrastructure Development		16,000,000				16,000,000	
Sunnydale 3A Predev		2,020,000				2,020,000	
<i>Share of cost of issuance & incidentals</i>						2,580,000	
<i>Subtotal</i>	40,600,000	36,820,000	-	-	-	80,000,000	390
Low-Income Housing: \$100MM							
Project #1 - Predev	3,000,000					3,000,000	
Project #2 - Predev	3,000,000					3,000,000	
Project #3 - Predev	3,000,000					3,000,000	
Small Sites Program	15,000,000	9,235,000				24,235,000	81
Project #1 - Acquisition & Vertical Development			21,180,000			21,180,000	97
Project #2 - Acquisition & Vertical Development			21,180,000			21,180,000	97
Project #3 - Acquisition & Vertical Development			21,180,000			21,180,000	97
<i>Share of cost of issuance & incidentals</i>						3,225,000	
<i>Subtotal</i>	24,000,000	9,235,000	63,540,000	-	-	100,000,000	371
Mission Neighborhood Housing: \$50MM							
Predevelopment Costs	6,000,000					6,000,000	
Acquisition & Vertical Development		20,000,000	22,385,000			42,385,000	110
<i>Share of cost of issuance & incidentals</i>						1,615,000	
<i>Subtotal</i>	6,000,000	20,000,000	22,385,000	-	-	50,000,000	110
Middle-Income Housing: \$80MM							
DALP Loan Expansion	2,900,000	2,900,000	2,900,000	2,900,000	2,900,000	14,500,000	49
Teacher Next Door	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	5,000,000	250
Middle-Income Teacher Housing	2,000,000	2,000,000	5,000,000			7,000,000	30
Middle-Income Buy-in Program	24,000,000					24,000,000	96
Middle-Income MOHCD Production	7,000,000		19,920,000			26,920,000	70
<i>Share of cost of issuance & incidentals</i>						2,580,000	
<i>Subtotal</i>	3,900,000	36,900,000	28,820,000	3,900,000	3,900,000	80,000,000	495
GRAND TOTAL	74,500,000	102,955,000	114,745,000	3,900,000	3,900,000	310,000,000	1,256

Item 10 File: 16-0895	Department: Human Service Agency (HSA) Department of Homelessness and Supportive Housing (DHS)H Real Estate Division
EXECUTIVE SUMMARY	
<p>Legislative Objectives</p> <ul style="list-style-type: none"> • Resolution authorizing a new lease between HSA as tenant and SFP2 1360 Mission Street, LLC, as landlord, for approximately 16,958 square feet of office space for HSA and the newly created DHS)H for four years with an option to extend for one additional year at a base initial rent of \$63,593 per month. <p>Key Points</p> <ul style="list-style-type: none"> • Due to HSA’s growth in staff, HSA began renovating its existing office facilities in March 2016, which will be completed in 2021. In addition, the newly created DHS)H requires office space while its new offices at 440 Turk Street are being constructed through 2017. HSA and DHS)H seek to lease property at 1360 Mission Street at 10th Street to provide administrative office space while their existing facilities are being renovated. • The proposed lease includes 16,958 square feet of office space for a four year term with one option to extend for one additional year, subject to approval by the Board of Supervisors and Mayor. • Of the 16,958 total rentable square feet, HSA will occupy 48 percent of the space or 8,140 square feet on the first floor and DHS)H will occupy 52 percent or 8,818 square feet on the second floor. The premises will provide space for approximately 55 staff on each floor. <p>Fiscal Impact</p> <ul style="list-style-type: none"> • Annual base rent is \$63,593 per month, or \$763,110 annually, increasing by 3% per year. • The estimated total rent over the four-year original lease term, and one option year would be \$3,987,784. <p>Recommendations</p> <ul style="list-style-type: none"> • Amend the proposed resolution on page 1, lines 20-21 to delete “commencing on August 18, 2016”. • Approve the proposed resolution as amended. 	

MANDATE STATEMENT

San Francisco Administrative Code Section 23.27 states that the Board of Supervisors shall approve all leases on behalf of the City as tenant by resolution.

BACKGROUND

The San Francisco Human Services Agency (HSA) is undergoing a renovation of its facilities at 170 Otis Street, 3120 Mission Street, 1235 Mission Street and 1650 Mission Street. According to Mr. Robert Walsh, Acting Director of Facilities and Operations at HSA, the primary purpose of the renovations is to make more efficient use of existing City-owned and leased work spaces. This is necessary due to HSA's growth over the last three years. HSA's total staff has increased from 1,977 FTEs in FY 2014-15 to an anticipated total of 2,148 FTEs in FY 2017-18, an increase of 171 FTEs or 8.6 percent. According to Mr. Walsh, the renovations began in March 2016 and will be completed in 2021.

In addition, the newly created Department of Homelessness and Supportive Housing (DHS) requires administrative space while its new offices at 440 Turk Street are being designed and constructed. On July 19, 2016, the Board of Supervisors approved a resolution (File 16-0652; Resolution 321-16) authorizing the purchase of the property at 440 Turk Street from the Housing Authority for a not to exceed \$5,000,000. Total estimated General Fund costs are \$9,000,000, including \$5,000,000 to purchase the property plus \$4,000,000 for tenant improvements. DHS anticipates moving into this new office space when construction is completed in 2017.

HSA and DHS now seek to lease property at 1360 Mission Street at 10th Street to provide administrative office space while their existing facilities are being renovated.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize a new lease between HSA as tenant and SFP2 1360 Mission Street, LLC, as landlord, to lease approximately 16,958 square feet for administrative office use for both HSA and DHS. The lease is for a four year term with one option to extend for one additional year or a total of five years, subject to approval by the Board of Supervisors and Mayor. Annual base rent for the lease is \$763,110 or \$63,593 per month.

The proposed resolution states that the lease would commence on August 18, 2016, upon approval by the Board of Supervisors. However, according to Ms. Claudia Venegas of the Real Estate Division, the proposed resolution should be amended to delete that the subject lease would commence on August 18, 2016. Ms. Venegas estimates the subject lease would commence immediately following approval by the Board of Supervisors and the Mayor, on approximately September 22, 2016.

Table 1 below shows the key provisions of the lease.

Table 1: Key Lease Provisions

Proposed Use	Office and administrative uses only. No drop-in or public access to social services is permitted.
Description of Premises	16,958 square feet
Term	Approximately four years, from approximately September 22, 2016 through August 17, 2020
Extension options	One year, subject to approval by Board of Supervisors and Mayor
Annual base rent	\$763,110 (\$45 per square foot); \$63,593 per month in first year (\$3.75 per square foot)
Adjustments to rent	Rent will increase by 3% each year on the anniversary of the commencement date
Utilities & Services	Landlord is responsible for providing all utilities and janitorial services

Use of premises

HSA will rent approximately 8,140 square feet on the first floor and DSHS will rent approximately 8,818 square feet on the second floor.¹ The premises will provide space for approximately 55 staff on each floor. According to Mr. Walsh, HSA will use their portion of the premises as “swing spaces”, which will allow HSA to move staff into this space while HSA facilities are being renovated.

DSHS will occupy their portion of the premises on the second floor until 2017 when they anticipate moving into their new facility at 440 Turk Street. At that time, HSA will move into the premises on the second floor previously occupied by DSHS, thereby occupying the entire premises. This will allow for more of the HSA’s staff to vacate their current facilities while renovations are taking place, increasing the amount of space able to be renovated at that time.

Fair Market Value of Rent

In order to determine the fair market value of rent for the lease, the Real Estate Division reviewed six recent leases in the area. Annual rent per square foot for these leases ranged from \$55.97 per square foot to \$60.63 per square foot. The annual rent of \$45 per square foot in the proposed lease is the lowest of any of the leases reviewed by the Real Estate Division.

FISCAL IMPACT

The proposed resolution states that the annual rent for the lease is \$763,110 or \$63,593 per month. The lease will not go into effect until the proposed resolution has been approved by the

¹ Usable square footage for offices for the two departments is 14,290. The remaining 2,668 square feet of the total leased 16,958 square feet is common space, including lobbies, restrooms, stairwells, storage rooms, etc.

Board of Supervisors, or approximately September 22, 2016, such that the first year of the lease will be pro-rated for approximately 11 months, or \$699,518. The estimated total rent over the four-year original lease term, and one option year is \$3,987,784, as shown in Table 2 below.

Table 2: Total Rent for Lease Term

Lease Year	Square Footage	Rent per Square Foot	Annual Rent
Year 1	16,958	\$45.00*	\$699,518*
Year 2	16,958	46.35	786,003
Year 3	16,958	47.74	809,575
Year 4	16,958	49.17	833,825
<i>Original Lease Subtotal</i>			<i>\$3,128,921</i>
Option Term	16,958	\$50.65	\$858,923
Grand Total			\$3,987,784

* Rent in the first year will be pro-rated based on September 22, 2016 start date.

According to Ms. Marissa Pereira Tully, Senior Policy and Fiscal Analyst in the Mayor's Office, both HSA and DSHS have included rent for this lease in their FY 2016-17 budgets and will be funded with City General Fund revenues. DSHS's portion of the rent will be paid through workorder to HSA. Ms. Pereira Tully states that the rent for the lease will be apportioned to HSA and DSHS based on the portion of the 16,958 total rentable square feet that each department occupies. HSA is projected to occupy 48 percent of the space or 8,140 square feet and DSHS will occupy 52 percent or 8,818 square feet. The pro-rated share of rent paid by HSA and DSHS in the first year of the lease is shown in Table 3 below.

Table 3: Share of First Year Rent Paid by HSA and DSHS

Tenant	Rent Share	First Year Rent Total
HSA	48%	\$335,769
DSHS	52%	363,749
Total		\$699,518

RECOMMENDATIONS

1. Amend the proposed resolution on page 1, lines 20-21 to delete "commencing on August 18, 2016".
2. Approve the proposed resolution as amended.