CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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April 19, 2024

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: April 24, 2024 Budget and Finance Committee Meeting

TABLE OF CONTENTS

TABLE OF CONTENTS

Item 2 File 24-0155	Department: Controller's Office

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would establish the City's FY 2023-24 appropriations limit at $11,678,040,780, as calculated by the Controller.

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: (a) the change in per capita personal income, or (b) 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 2022-23, the growth in personal income was 4.44 percent and the roll growth due to nonresidential new construction was 9.74 percent. Consequently, the Controller's Office is using the non-residential construction growth for the cost-of-living factor to calculate the appropriations limit.
- The appropriations limit does not apply to tax proceeds appropriated for: (a) debt service, (b) payroll taxes for Social Security and Medicare, and (c) qualified capital outlays.

Fiscal Impact

- The City's FY 2023-24 appropriations limit is $11,678,040,780. The FY 2023-24 net tax proceeds of $5,384,322,904 are $6,293,717,876 less than the FY 2023-24 appropriations limit of $11,678,040,780.

Policy Consideration

- For the FY 2023-24 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 $11,678,040,780. 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 $11,193,228,941.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

California Constitution Article XIIIB states that each local government must set 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 appropriation of tax proceeds made by the State, school districts, and local governments in California. The annual appropriations limit is based on the 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 payroll taxes, (c) qualified capital outlays, and (d) other federal mandates.

Population Growth Factor

California Government Code Section 7901(b) uses the prior calendar's population growth for the fiscal year for which the appropriations limit is determined. According to the California Department of Finance, between January 1, 2022 and January 1, 2023, the population growth of the nine-county Bay Area was -0.45 percent.[1]

Cost of Living Factor

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 4.44 percent in FY 2022-23, 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 9.74 percent in 2022.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would establish the City's FY 2023-24 appropriations limit at $11,678,040,780, as calculated by the Controller. The appropriations limit for FY 2023-24 is based on the amount of the FY 2022-23 appropriations limit and adjusted to reflect increases in: (1) the

[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 -0.45 percent was less than the percentage change of the City's population of -0.64 percent.

population and (2) cost of living (calculated using the increase in the local assessment roll due to the addition of non-residential new construction).

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 2022-23, the growth in personal income was 4.44 percent and the roll growth due to nonresidential new construction was 9.74 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) payroll taxes for Social Security and Medicare, and (c) qualified capital outlays. Consequently, the Controller excluded $775,458,252 from the City's total FY 2023-24 tax proceeds of $6,159,781,156, as shown in Exhibit 1 below, resulting in net tax proceeds subject to the appropriations limit of $5,384,322,904.

Exhibit 1: Tax Proceeds Subject to the Proposed Appropriations Limit

FY 2023-24 Total Tax Proceeds[2]	**$6,159,781,156**
Exclusions	
(a) Debt Service	(471,661,843)
(b) Federal Mandate for Social Security/Medicare	(140,741,904)
(c) Qualified Capital Outlays	(163,054,504)
Subtotal Exclusions	**$775,458,251**
FY 2023-24 Net Tax Proceeds Subject to Appropriations Limit	**$5,384,322,905**

Source: Controller's Office

Article XIIIB lets voters approve an increase to the appropriations limit for up to four years. Recent tax increases have included language to increase the City's appropriation limit, including:: 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), the Business Tax Overhaul (Proposition F in November 2020), and the Residential Vacancy Tax (Proposition M in November 2022). These adjustments raise the FY 2023-24 appropriations limit by $1,639,691,483.

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

As shown in Exhibit 2 below, the City's FY 2023-24 appropriations limit, as calculated by the Controller, is $11,678,040,780. The FY 2023-24 net tax proceeds of $5,384,322,904 are $6,293,717,876 less than the FY 2023-24 appropriations limit of $11,678,040,780.

Exhibit 2: Proposed FY 2023-24 Appropriations Limit

Base FY 2022-23 Appropriations Limit	**$9,188,742,541**
Adjustment Factors	
Increase in Population	-0.45%
Roll Growth due to Nonresidential Construction	9.74%
Subtotal	**$10,038,349,297**
Voter Approved Limit Changes	$1,639,691,483
FY 2023-24 Appropriations Limit	**$11,678,040,780**

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 4.44 percent in FY 2022-23, 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 9.74 percent in 2022.

Exhibit 3 below shows the FY 2023-24 appropriations limit using both definitions.

Exhibit 3: FY 2023-24 Appropriations Limit by Definition

	Definition 1: Per Capita Personal Income	**Definition 2: Local Assessment Roll from Non-Residential New Construction**
FY 2022-23 Appropriations Limit	**$9,188,742,541**	**$9,188,742,541**
Adjustment Factors		
Increase in Population	-0.45%	-0.45%
Increase in Per-Capita Personal Income	4.44%	-
Increase in Local Assessment Roll		9.74%
Subtotal	**$9,553,537,458**	**$10,038,349,297**
Voter Approved Limit Changes	1,639,691,483	1,639,691,483
FY 2023-24 Appropriations Limit	**$11,193,228,941**	**$11,678,040,780**

For the FY 2023-24 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 $11,678,040,780, 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 $11,193,228,941, which is $484,811,840 less than the proposed appropriations limit of $11,678,040,780.

RECOMMENDATION

Approve the proposed resolution.

Item 3 File 24-0299	Department: Fire Department (FIR)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would establish Chapter 64.2 of the Administrative Code to prohibit the Fire Department from using personal protective equipment (PPE) containing intentionally added PFAs (perfluoroalkyl and polyfluoroalkyl substances) after June 2026.

Key Points

- PFAs (perfluoroalkyl and polyfluoroalkyl substances) are "forever" chemicals considered hazardous to human health, some of which may cause cancer. According to Mark Corso, Deputy Director of Finance and Administration at the Fire Department, all firefighting personal protective equipment (PPE) on the market has PFAs, though manufacturers are currently testing PFA-free prototypes. Firefighting PPE consists primarily of a coat and pants and PFAs are used to make them water repellent.

Fiscal Impact

- The total cost to replace all fire fighting PPE is likely \$10.1 million. Cost would likely be mostly funded by the General Fund.
- The Fire Department budgets \$850,000 for uniform replacement every year and has proposed to do so in the FY 2024-25 – FY 2025-26 budget. To meet the June 2026 deadline of phasing out PFAs, the Department would have to increase its uniform replacement budget by \$4.2 million each year to \$5 million.

Policy Consideration

- The National Institute of Standards and Technology released a report in May 2023 that tested twenty textiles of firefighting PPE. The report found that the concentration varied widely between the different textiles, which suggests that certain gear currently on the market is safer than others. As noted above, PFA-free firefighting PPE does not currently exist. In the meantime, the City could work with other governments to identify and jointly purchase PPE that has minimal PFAs.

Recommendation

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

MANDATE STATEMENT

City Charter Section 2.105 states that all legislative acts shall be by ordinance, approved by a majority of the members of the Board of Supervisors.

BACKGROUND

PFAs (perfluoroalkyl and polyfluoroalkyl substances) are “forever” chemicals considered hazardous to human health, some of which may cause cancer. According to Mark Corso, Deputy Director of Finance and Administration at the Fire Department, all firefighting personal protective equipment (PPE) on the market has PFAs, though manufacturers are currently testing PFA-free prototypes. Firefighting PPE consists primarily of a coat and pants and PFAs are used to make them water repellent.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would establish Chapter 64.2 of the Administrative Code to prohibit the Fire Department from using PPE containing intentionally added PFAs.

The prohibition would take effect on June 30, 2026.

The ordinance also requires the Fire Chief to meet with labor representatives at least every three months to assess the availability and funding for such PPE.

In addition, the Fire Department is required to submit progress reports to the Board of Supervisors and the Fire Commission every six months and may recommend an extension of the June 2026 deadline.

FISCAL IMPACT

The Fire Department has 1,482 positions that use PPE with PFAs. Assuming each position requires two sets of PPE and the cost of PFA-free gear is $3,400, the total cost to replace all firefighting is $10.1 million.

The Fire Department budgets $1.7 million for uniform replacement every year and has proposed to do so in the FY 2024-25 – FY 2025-26 budget. According to Deputy Director Corso, approximately half of this budget is spent on coats and pants for firefighters. To meet the June 2026 deadline of phasing out PFAs, the Department would have to increase its uniform replacement budget by $4.2 million each year to $5 million.

Exhibit 1: Estimated Cost

Uniform Replacement	FY 2024-25	FY 2025-26	Total
Budget	850,000	850,000	1,700,000
Required by Proposed Ordinance	5,038,800	5,038,800	10,077,600
Change	**4,188,800**	**4,188,800**	**8,377,600**

Source: BLA and FIR

Because no PFA-free gear is available for sale, we used the current cost of firefighting PPE ($3,400). Actual costs will be different and likely higher, given that the product will be new, possibly unique, and in high demand due to its lifesaving potential.

Funding Sources

Most Fire Department costs are funded by the General Fund. According to the proposed ordinance, the Department has received a $2.3 million grant from the Federal Emergency Management Agency (FEMA) to purchase new personal protective equipment.

Long-Term Liability for Worker's Compensation

The City is self-insured for workers compensation. For fire suppression workers, State law provides a presumption of workers' compensation eligibility for cancer (Labor Code Section 3212.1). Over the past ten years (Jan 2014 – April 2024), the City has had 80 cancer claims from firefighters totaling $9.9 million, or $123,000 per claim. There also have been nine death claims totaling $2.5 million, or $281,500 per claim, over the same period. Over the long term, reducing exposure to PFAs may reduce the incidence of these illnesses and related claims.

POLICY CONSIDERATION

The National Institute of Standards and Technology released a report in May 2023 that tested twenty textiles of firefighting PPE.[1] The report found that the concentration varied widely between the different textiles, which suggests that certain gear currently on the market is safer than others. As noted above, no PFA-free fire-fighting PPE currently exists. In the meantime, the City could work with other governments to identify and jointly purchase PPE that has minimal PFAs.

RECOMMENDATION

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

[1] NIST TN 2248

Item 5 File 24-0342	Department: Port

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would: (a) find the lease and development of Piers 30-32 and Seawall Lot 330 fiscally feasible under Chapter 29 of the Administrative Code; and (b) endorse the term sheet for the project.

Key Points

- The Port has selected a developer to redevelop Piers 30-32 and Seawall Lot 330 into a mixed-use development with housing, office space, retail, aquatic activities, and seismic and resilience improvements to the piers and seawalls. The project would occur over two to three phases over fifteen years.
- If the Board of Supervisors finds that the project is fiscally feasible and endorses the term sheet, the Project can begin California Environmental Quality Act (CEQA) review and proceed with negotiations for the transaction documents.

Fiscal Impact

- According to a consultant report provided to the Port, the project would generate $2.48 million of net ongoing General Fund revenues, mostly from the redevelopment of the piers.
- The developer will rebuild the piers and strengthen the seawall to improve sea level rise and seismic resilience at an estimated cost of $462 million, benefiting the Port. Additional benefits to the Port include: (a) lease payments over the terms of the long-term ground leases totaling $71 million; and (b) participation payments totaling $28.8 million.
- The project contemplates the creation of an Infrastructure Financing District and a Community Facilities District to finance horizontal infrastructure costs for the piers.
- Operating and maintenance costs would be the responsibility of the developer.

Policy Consideration

- Estimated construction costs for the Project total $1.65 billion, including $1.12 billion for the development of Piers 30-32 and $534 million for the development of Seawall Lot 330. Identified sources for the project total $1.53 billion, resulting in a funding gap of $125 million for horizontal costs for Piers 30-32.

Recommendations

- Request that the Port provide an update on the Project financing plan when the Port submits the LDDA for approval to the Board of Supervisors.
- Because the project has a $125 million funding gap, approval of the proposed resolution is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

Administrative Code Chapter 29 requires the Board of Supervisors to conduct a fiscal feasibility analysis of any project (1) that has a total cost exceeding $25,000,000, and (2) where the City is expected to incur costs related to project development in excess of $1,000,000. Chapter 29 requires consideration of five factors: (1) direct and indirect financial benefits to the City including the extent of applicable cost savings or new revenues, including tax revenues, generated by the proposed project; (2) cost of construction; (3) available funding for the project; (4) the long-term operating and maintenance cost of the project; and (5) debt load to be carried by the City or Department.

A determination by the Board of Supervisors that a project is fiscally feasible only finds that the proposed project merits further evaluation and environmental review; a determination of fiscal feasibility does not include a determination the project should be approved.

BACKGROUND

Redevelopment of Piers 30-32 and Seawall Lot 330

The Port has selected a developer to redevelop Piers 30-32 and Seawall Lot 330 (the Project) into a mixed-use development with housing, office space, retail, aquatic activities, and seismic and resilience improvements to the piers and seawalls. The sites are located just south of the Bay Bridge in the Port's South Beach subarea. According to a December 2019 Port staff memo to the Port Commission on the authorization of the Request for Proposals (RFP), the two sites have been bundled together for redevelopment since a fire destroyed the Piers' historic bulkhead buildings and shed in 1984. Since that time several efforts to redevelop the sites have failed due to the high costs to rehabilitate the Piers despite the revenue generating potential of Seawall Lot 330.

Due to the deteriorating conditions, only a portion of the 13-acre site is used for car parking and special events. Seawall Lot 330 was previously used as a rail yard until 1993 but is now also used for car parking. Half of the Seawall Lot 330 site is leased to the City for use as a navigation center between 2019 and December 2025 with an additional two-year extension option. The Port may terminate the lease at any point with notice.

In February 2021, the Port entered into an Exclusive Negotiation Agreement with Strada Trammel Crow Company Partners LLC (Strada-TCC)[1] for development of the project. The Exclusive Negotiation Agreement (ENA) establishes the terms and conditions for the parties to negotiate the development of the project and disposition of the sites. In January 2024, the Port Commission approved an amendment to the ENA and endorsed the proposed term sheet. The amended ENA: (a) extended the term by 18 months to a total term of six years due to longer than anticipated

[1] Strada-TCC is a joint venture of Strada Investment Group II, LLC (Strada) and Trammel Crow Company (Trammel Crow).

timelines for community outreach and State Agency outreach to obtain legislative changes to the Public Trust necessary for the Project; (b) made related changes to the performance milestones; and (c) allows the Developer to transfer to another investor without Port Commission approval provided Strada Principals, LLC can direct the day-to-day management of the developer.[2]

Developer Selection Process

In February 2020, the Port issued a Request for Proposals (RFP) for development of Piers 30-32 and Seawall Lot 330. Five respondents responded to the RFP, and three of the five respondents met the minimum qualifications according to a September 2020 Port staff memo to the Port Commission. A scoring panel[3] reviewed the written responses and oral interviews of the three respondents that met minimum qualifications. Written responses were assessed based on the: (a) quality of design and development; (b) strength of financial proposal; (c) financial capacity and economic viability; and (d) experience. Oral interviews were assessed based on: (a) quality of design and development; (b) experience; and (c) team organization. A financial consultant for the Port also provided the evaluation panel a technical review of the proposals.

Strada TCC received the top score of 109.34 out of 130 possible points, as shown in Exhibit 1 below.

Exhibit 1: RFP Scores

Respondent	Written Proposal (Max 100 pts)	Oral Interview (Max 30 pts)	Total Score (Max 130 pts)
Strada TCC	82.67	26.67	109.34
Tishman Speyer	67.33	22.00	89.33
Vornado	58.00	17.33	75.33

Source: Port

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would: (a) find the lease and development of Piers 30-32 and Seawall Lot 330 fiscally feasible under Chapter 29 of the Administrative Code; and (b) endorse the term sheet for the project.

If the Board of Supervisors finds that the project is fiscally feasible and endorses the term sheet, the Project can begin California Environmental Quality Act (CEQA) review and proceed with negotiations for the transaction documents, including a Lease Disposition and Development

[2] The original ENA permitted a transfer without Port Commission approval as long as Strada (or an affiliate) and Trammel Crow (or an affiliate) can direct the day-to-day management of the developer.

[3] The scoring panel included: (1) an architect and professor of design; (2) San Francisco State Assistant Professor of Geography and Land Use and former San Francisco Planning Department employee; (3) Port Waterfront Plan Manager; (4) Port Northern Advisory Committee Co-Chair and President of the South Beach/Rincon/Mission Bay Neighborhood Association; and (5) retired Port Assistant Deputy Director of Development and Port Waterfront Plan Working Group member.

Agreement (LDDA) between the Port and Strada TCC for the site and up to four ground leases between the Port and Strada TCC Partners. Referral to environmental review does not commit the City or the Board of Supervisors to final project approval. Nor does approval of the proposed resolution commit the City or the Port to any of the specific terms in the proposed term sheet. Final project approval is conditioned upon the Port and the Board of Supervisors adopting the CEQA findings and the final terms of the transaction documents.

Term Sheet

The term sheet provides details on the project's planned phasing, financing, LDDA and ground lease terms, and other terms and conditions regarding the project's development and disposition of the sites.

Project Details

The proposed project would be developed in three phases. Seawall Lot 330 would be developed across Phases 1 and 2 and Piers 30-32 would be developed in Phase 3.

<u>Seawall 330 Development (Phases 1 and 2) would include</u>:

- Estimated total of 713 housing units, including 186 affordable housing units (26.1 percent)
    - 619 housing units in two market rate residential buildings to include 92 inclusionary units (14.9 percent) through use of State density bonus to exceed existing height limits for the site
    - An alternate design within existing height limits would result in fewer units and may exacerbate the funding gap (described below) due to fewer market rate units
    - 94 housing units in 100 percent affordable project to be developed separately by an affordable housing developer
- Approximately 13,000 square feet of retail
- Approximately 34,800 square feet of public open space

<u>Piers 30-32 Development (Phase 3) would include</u>:

- Infrastructure improvements, including seawall strengthening to improve sea level rise and seismic resilience and demolition of two existing piers and reconstruction of a single pier
- Approximately 375,000 gross square feet of office space
- Approximately 70,000 square feet of retail, including a market hall along the Embarcadero
- A deep-water terminal to accommodate cruise ships as well as U.S. Navy or other vessels responding to an emergency or natural disaster
- A publicly accessible aquatic facility with a pool
- Public open pier space

Project Financing

The proposed project will use public and private sources for horizontal development. According to the proposed term sheet, the City would form an Infrastructure Financing District (IFD) in order to use tax increment financing for the project and a Community Facilities District (CFD) to levy special taxes. The Developer would receive 100 percent of available tax increment revenues for reimbursement of eligible costs. Issuance of CFD bonds would serve as bridge financing for tax increment revenues, which would be used to pay debt service on CFD bonds. Establishment of these districts would be subject to Board of Supervisors' approval.

Based on the construction budget presented in Exhibit 4, public financing sources would fund approximately one-third of horizontal construction costs for Piers 30-32. The Developer also intends to use tax increment revenues to finance operations and maintenance of the pool and other public facilities.

Infrastructure Funding Gap

The Developer currently projects a $125 million funding gap for horizontal infrastructure and resilience improvements at Piers 30-32. The Port and Developer will try to identify additional sources to close the funding gap if market conditions do not improve. According to the proposed term sheet, potential sources include: (a) increased private investment if market conditions improve; (b) adjustments or waivers of the Transfer Tax; (c) reduction or deferred collection of impact fees; (d) increased tax increment if property values exceed projections; (e) State and local grants; (f) Federal or State funding for resilience improvements; (g) Coastal Conservancy grant funding; and (h) revenue sharing from berthing at the reconstructed piers.

Transaction Documents

A Lease Disposition and Development Agreement between the Port and the Developer would serve as the master agreement for the Site over an anticipated 15-year term. The boundary of the LDDA is shown in Attachment 1. The Port and Developer would also enter into up to four long-term ground leases for each vertical construction site, including up to two leases for the Seawall Lot 330 market rate sites, one lease for the Seawall Lot 330 affordable housing site, and one lease for the Piers 30-32 waterfront site. The ground leases would be executed on a phased basis after the Developer satisfies certain conditions, such as the Developer demonstrating evidence of financing and permit issuance. The term sheet also anticipates that the Developer will seek approval of a Development Agreement to exempt the project from future development impact fees or increases in existing fees.

In addition, the Port and Developer may also enter into a Master Lease or Construction License to allow for demolition of the Piers and seawall improvements earlier than the other Phase 3 improvements, including reconstruction of a single pier. According to Port staff, the Port would pursue this option if grant funding (or another source of funding) is identified for demolition and seawall improvements in advance of Phase 3.

Proposed terms of the ground leases are presented in Exhibit 2 below.

Exhibit 2: Terms of Proposed Ground Leases

Site	Seawall 330 Market Rate*	Seawall 330 Affordable	Piers 30-32
Term	75 years	75 years	66 years
Base Rent & Increases	$600,000; with increases based on CPI of 2% to 6% per year from LDDA execution to Ground Lease execution and every 5 years thereafter	$0	$900,000; with increases based on CPI of 2% to 6% per year from LDDA execution to Ground Lease execution and every 5 years thereafter
Construction Rent	$150,000 (for up to 3 years)	n/a	$200,000 (for up to 5 years)
Operation, Maintenance, and Repair	Obligation of Developer	Obligation of Developer	Obligation of Developer
Potential Fee Title transfer	Yes	Yes	No
At end of term: return of premises in good condition and obligation to demolish facilities if requested by Port	Yes	Yes	Yes
Other	Non-performance rent of $1.8 million annually (adjusted by CPI) if site permit for Piers 30-32 has not been approved within 24 months of completion of Phase 1 Transfer fee covenant on sale of individual residential units	No right to assignment before project completion without Port approval and reasonable approval after completion of project	Port obligation to dredge the East Berth

Source: Proposed Term Sheet
*If Developer develops the market rate site in two phases, two separate ground leases will be executed with 50 percent of rent allocated to each of the two phases.

LDDA Term and Schedule of Performance

The LDDA will include a schedule of performance showing outside dates for filing site permits, construction commencement, and construction completion, as shown in Exhibit 3 below. The total anticipated development timeline is 15 years, consistent with the term of the LDDA. However, the LDDA will provide schedule relief if delays are due to reasons outside of the Developer’s control. The LDDA will have four options to extend in six-months increments for a fee. The fee for the initial two six-month extensions is $50,000 per extension, and the fee for the additional two six-month extensions is $200,000 per extension. The LDDA will also stipulate that if the Developer ceases work on the project for more than 180 consecutive days, it will be considered a default event.

Exhibit 3: Schedule of Performance

Phase	Construction Milestone	Target Performance Date*	Performance Date	Performance Date Years after LDDA Execution
1	Permit Issuance	18 months after LDDA	24 months after LDDA	2
	Commencement	6 months after Permit Issuance	12 months after Permit Issuance	3
	Completion	24 months after Commencement	36 months after Commencement	6
2	Permit Issuance	30 months after LDDA	48 months after LDDA	4
	Commencement	6 months after Permit Issuance	12 months after Permit Issuance	5
	Completion	24 months after Commencement	36 months after Commencement	8
3	Permit Issuance	12 months after Phase 2 Completion	24 months after Phase 2 Completion	10
	Commencement	6 months after Permit Issuance	12 months after Permit Issuance	11
	Completion	30 months after Commencement	48 months after Commencement	15

Source: Proposed Term Sheet
*According to Port staff, the "target performance date" is the goal date and the "performance date" is the outside date by which developer performance will be assessed

The schedule of performance anticipates completion of construction for Phase 1 within six years after LDDA execution, Phase 2 within eight years after LDDA execution, and Phase 3 within 15 years after LDDA execution (assuming Phase 2 is completed within eight years). For Phases 1 and 2, the outside date for construction permit issuance is based on the execution date of the LDDA. For Phase 3, the outside date for construction permit issuance is based on construction completion of Phase 2. Therefore, if completion of Phase 2 is delayed for an excusable reason, construction of Phase 3 will also be delayed.

Diversity Equity and Inclusion Plan

The proposed term sheet includes a Diversity Equity and Inclusion (DEI) Plan, which supports the Port's Racial Equity Action Plan. The DEI plan includes: (a) swim and water sports access for underserved communities; (b) a BIPOC artisan retail program to support BIPOC entrepreneurs for the retail/maker spaces along the north side of the Pier shed building; (c) an emphasis on BIPOC leadership as part of the selection criteria for the affordable housing developer; (d) LBE/WBE participation in the project; and (e) workforce development through a project-wide Project Labor Agreement which may provide opportunities for apprenticeships and pre-apprenticeships in the building trades.

Port Participation and Reimbursement of Transaction Costs

After the Developer achieves an 18 percent internal rate of return, the Port will receive 20 percent of net proceeds from the first sale or refinancing resulting in repayment of equity. However, as discussed below, the Developer is not expected to achieve an 18 percent internal rate of return. The Port will also receive 1.5 percent of net proceeds from any subsequent sale or refinancing.

During the term of the LDDA, the Developer will reimburse the Port for all direct transaction costs, including City Attorney and Port staff time.

Assignment & Transfer

The Port must approve any assignment or transfer of the Developer's controlling interest for any element of the project. However, the Developer has the right to capitalize any project element with outside investors without Port approval as long as the Developer retains a controlling interest and maintains a minimum equity investment in the project of two percent.

FISCAL FEASIBILITY

We present the fiscal feasibility analysis for the project below based on the March 28, 2024 Findings of Fiscal Responsibility and Feasibility Report for the Project, prepared by Keyser Marston Associates, Inc. (KMA) for the Port. Chapter 29 requires consideration of five factors: (1) direct and indirect financial benefits to the City including the extent of applicable cost savings or new revenues, including tax revenues, generated by the proposed project; (2) cost of construction; (3) available funding for the project; (4) the long-term operating and maintenance cost of the project; and (5) debt load to be carried by the City or Department.

Financial Benefits

Direct Benefits to the City

According to the KMA report, the Project will generate an estimated average of $9.9 million per year in on-going revenues to the City, including $7.1 million to the General Fund and $2.8 million to other City Funds.[4] The Project will also generate an estimated $4.62 million in annual General Fund service costs, resulting in net General Fund revenue of $2.48 million. In addition, the Project will generate $8.4 million in one-time sales and use tax revenues to the City, including $6.0 million to the General Fund, and $70.1 million in development impact fee revenues to mitigate the impacts of the project.

The Project will generate additional property tax revenues of $8.3 million annually, but these revenues will be dedicated to funding horizontal infrastructure costs through the IFD.

[4] Of these ongoing revenues and costs, 67 percent of revenues and 39 percent of expenses are associated with the redevelopment of the piers. Therefore, the piers are projected to generate a net General Fund benefit of $2.96 million per year and the Seawall Lot 330 portion of the project would cost the General Fund $0.5 million per year.

Direct Benefits to the Port

The developer will rebuild the piers and strengthen the seawall to improve sea level rise and seismic resilience at an estimated cost of $462 million, benefiting the Port. Additional benefits to the Port include: (a) lease payments over the terms of the long-term ground leases totaling $71 million in uninflated dollars; and (b) participation payments totaling $28.8 million in uninflated dollars based on participation rent of 1.5 percent of net refinance or resale proceeds (following the initial sale or refinancing). The Project is not expected to achieve an 18 percent internal rate of return for the developer and is therefore not expected to generate participation rent based on the first sale or refinancing.

After the ground leases expire, ownership of all horizontal and vertical improvements will revert to the Port.

Indirect Benefits to the City

The Project is estimated to create: (a) 1,860 permanent jobs with annual wages of more than $203 million; and (b) 4,100 construction job years with $335 million in construction wages. The project is also estimated to indirectly support the creation of more than 2,600 new jobs with more than $267 million of total new wages as the new businesses and direct employees will support other businesses in the City.

Cost of Construction and Available Funding

Estimated construction costs for the Project total $1.65 billion, including $1.12 billion for development of Piers 30-32 and $534 million for development of Seawall Lot 330. Identified sources for the project total $1.53 billion, resulting in a funding gap of $125 million for horizontal costs for Piers 30-32 as discussed above and shown in Exhibit 4, reflecting a funding gap of 27 percent for Piers 30-32 horizontal costs. Vertical development and entitlement costs totaling $1.18 billion will be funded with private debt and developer equity. Horizontal costs for Piers 30-32 totaling $462 million will be funded with developer equity and CFD bond proceeds.

Exhibit 4: Construction Budget (in $Millions)

Sources & Uses	**Piers 30-32**	**Seawall Lot 330**	**Total**
Sources			
Construction Loan	$534.1	$320.2	$854.3
Community Facilities District Bonds (with IFD paying debt service)	78.2	0.0	78.2
Developer Equity to be reimbursed by additional CFD/IFD revenues	71.4	0.0	71.4
Developer Equity (not subject to reimbursement)	309.6	213.4	523.0
Total Sources	**$993.3**	**$533.6**	**$1,527.0**
Uses			
Vertical Development	656.3	523.6	1,179.9
Hard Costs	*449.1*	*417.8*	*866.9*
Soft Costs & Impact Fees	*169.0*	*82.6*	*251.6*
Financing Costs	*38.1*	*23.2*	*61.3*
Horizontal Costs	462.1	10.0	472.1
Entitlement Costs	*0.0*	*10.0*	*10.0*
Horizontal Costs	*462.1*	*0.0*	*462.1*
Financing Costs	*0.0*	*0.0*	*0.0*
Total Uses	**$1,118.3**	**$533.6**	**$1,652.0**
Funding Gap	**$125.0**	**$0.0**	**$125.0**

Source: KMA Findings of Fiscal Responsibility and Feasibility
Notes: Figures may not add to totals due to rounding. There are no financing costs because interest payments would be paid from project revenues and so are not part of the development budget.

Public financing is contemplated for redevelopment of the Piers 30-32 but not for Seawall Lot 330.

As noted above, the Port and Developer are considering additional sources to close the $125 million funding gap for Piers 30-32, such as additional private investment if market conditions improve, Federal or State funds for resilience, reductions in transfer taxes or development impact fees, and other sources. If the additional sources result in reduced on-going or one-time revenues to the City, the fiscal benefits to the City may be lower than the figures presented above. Development of Seawall Lot 330 is fully funded and can proceed independently of Piers 30-32, and according to the proposed schedule of performance development of Piers 30-32 would commence within two years following construction completion of Seawall Lot 330.

Long-Term Project Operating and Maintenance Costs

According to the proposed term sheet, the operating and maintenance costs will be the sole responsibility of the Developer. The City and the Port will not be responsible for any operating or maintenance costs associated with the Project.

Debt Load

The City will not incur any debt for the Project. Although the CFD and IFD formed by City will incur debt, the CFD and IFD debt will not be secured by General Fund revenues.

Determination of Fiscal Feasibility

Based on our review of the KMA report our office has determined that the vertical development and entitlement of the proposed project at Seawall Lot 330 meets the basic criteria for fiscal feasibility as required by Administrative Code Chapter 29. However, there is a $125 million funding gap for horizontal improvements to Piers 30-32. As noted above, a determination by the Board of Supervisors that a project is fiscally feasible only finds that the proposed project merits further evaluation and environmental review; a determination of fiscal feasibility does not include a determination the project should be approved.

POLICY CONSIDERATION

Funding Gap

Previous proposals to develop the sites have ultimately failed due to insufficient funding for improvements to Piers 30-32, and there is currently a $125 million funding gap for Piers 30-32 horizontal improvements under the proposed project. If the LDDA is executed in July 2026, construction commencement of Phase 3 (Piers 30-32) is currently anticipated to begin by January 2033 based on the schedule of performance. Over the next 13 years, market conditions may improve or additional sources, including Federal or State grants, may be identified. However, market conditions may not improve, and outside grants may not be available to the project. Potential other sources, such as waiver impact fees and transfer taxes, are subject to Board of Supervisors approval, which could occur now or years from now.

We recommend that the Board of Supervisors request an update to the financing plan when the Port submits the LDDA for approval to the Board of Supervisors.

RECOMMENDATIONS

1. Request that the Port provide an update on the Project financing plan when the Port submits the LDDA for approval to the Board of Supervisors.
2. Because the project has a $125 million funding gap, approval of the proposed resolution is a policy matter for the Board of Supervisors.

Attachment 1: LDDA Boundary

Source: Proposed Term Sheet

Item 6 **File 24-0289**	**Department:** Department of Public Health (DPH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves the first amendment to the property lease between the Department of Public Health, as tenant, and Raul and Denise Arriaza and Linda and Carl Olson, as Landlord, for 12,690 square feet and 13 parking stalls at 1305 and 1309 Evans Avenue in San Francisco.
- The first amendment extends the terms of the lease by five years through June 13, 2028, increases the annual rent from $456,840 to $470,544 and does not have any rent escalation during the extended term.

Key Points

- The Department of Public Health operates three clinical programs on the property at 1305 and 1309 Evans for children, youth, and families: Lifting and Empowering Generations of Adults, Children and Youth (LEGACY), Parent Training Institute (PTI), and Family Mosaic Project (FMP).

Fiscal Impact

- Based on the fixed $37.08 per square foot per year, or $470,544 per year for the next five years, the proposed lease extension through 2028 would cost the City a total of $2,352,720. Lease costs are funded by the General Fund.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(c) states that any lease, modification, amendment, or termination of a lease that had an initial term of ten years or more, including options to extend, or that had anticipated revenues of $1 million or more is subject to Board of Supervisors approval.

Administrative Code Section 23.27 states that the Board of Supervisors shall approve all leases on behalf of the City as tenant by resolution for which the term is longer than a year and costs over $15,000 per month.

BACKGROUND

1305 and 1309 Evans Street

The Department of Public Health (DPH) has operated children and family programs at 1305 and 1309 Evans Avenue in San Francisco since 2002. The site consists of 12,690 square feet of rentable space and 13 parking stalls behind the building. DPH operates three programs on the property that provide clinical services for children, youth, and families.

1) Lifting and Empowering Generations of Adults, Children, and Youth (LEGACY): LEGACY offers case management and support for families to assist them in navigating City agencies and services such as behavioral health, foster care, juvenile justice, and special education.

2) Parent Training Institute (PIT): PTI provides training to local nonprofit and civil service providers to assist them in delivering free parenting interventions to caregivers and parents in San Francisco.

3) Family Mosaic Project (FMP): FMP provides support to families to promote permanency and stabilization for youth at risk of out-of-home placement.

Lease History

The City has leased this site since at least 2002. In 2018, the Board of Supervisors approved a new lease between DPH, as tenant, and Raul and Denise Arriaza and Linda and Carl Olsen, as landlords[1], for a term of five years, from June 14, 2018 to June 13, 2023, with one five-year option to extend the lease (File 18-0377). The Real Estate Division negotiated a rent of $38,070 per month, or $456,840 per year with no annual adjustments, which was a 136 percent increase in annual rent from the previous holdover rent.

The lease is currently in holdover status since it expired in June 2023. A new lease has not been negotiated until now due to the City's Real Estate Division's staff limitations. The rent in the current holdover status is the same rate as the previous rent, which is $38,070 per month.

[1] The current property owners are Raul and Denise Arriaza (50 percent ownership) and Linda and Carl Olson, Trustees of the Olson Family Trust (50 percent ownership). According to Real Estate Division Director Andrico Penick, the City's Real Estate Division primarily interacts with their single Property Management entity, Bernstein Realty.

Notably, the holdover rate is lower than the new negotiated renewal rate of $39,212 per month, which means there has been a fiscal benefit to the City to continue to pay the holdover rate, offset by the risk that the landlord may end the lease with thirty days' notice.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves the first amendment to the property lease between DPH and the property owners and exercises the five-year option to extend the terms of the lease through June 13, 2028, commencing following approval by the Board of Supervisors. The first amendment to the lease would increase the annual rent by $13,704 (or three percent) from $456,840 to $470,544. The first amendment to the lease would also authorize RED to enter into immaterial amendments to the contract. There are no other changes to the terms of the lease.

When DPH decided to exercise the five-year option to extend the lease, the City's Real Estate Division negotiated the new rent on behalf of DPH. The previous lease stipulated that if the five-year extension is exercised, the rent was to be 95 percent of the then prevailing fair market rent but no less than the current rent of $456,840. The Real Estate Division negotiated a 3 percent increase of the current rent. According to Andrico Penick, Director of the City's Real Estate Division, a three percent increase in rent is at or below 95 percent of fair market rent. A three percent increase in rent also results in rent that compares to rental rates of other offices leased in the area. The proposed rent does not require an appraisal under Chapter 23 of the Administrative Code.

Exhibit 1 provides an overview of the terms of the proposed lease agreement. The lease does not include any annual rent escalations.

Exhibit 1: Terms and Conditions of Proposed Lease

Lease Provision	Lease Terms
Premises	12,690 square feet 13 parking stalls
Current Term	5 years, from June 14, 2018, through June 13, 2023 (currently in month-to-month holdover status)
Extended Lease Term	One five-year extension through June 13, 2028
Current Annual Rent	$456,840 ($36/square foot/year)
Proposed Rent in Year 1 of Extension	$470,544 ($37.08/square foot/year)
Rent Escalation	None
Annual Rent Increase During Extension Term	None
Utilities and Services	Landlord is responsible for utilities and janitorial services

Source: Proposed first amendment to the property lease

FISCAL IMPACT

Based on the fixed $37.08 per square foot per year, or $470,544, per year for the next five-year term, the proposed lease would cost the City a total of $2,352,720.

Exhibit 2 below shows the total five-year cost for the lease.

Exhibit 2: Estimated Total Cost of the Proposed Lease Amendment

Year	1305 and 1309 Evans Lease
Year 1	$470,544
Year 2	$470,544
Year 3	$470,544
Year 4	$470,544
Year 5	$470,544
Five-Year Total	**$2,352,720**

Source: Proposed first amendment to the current lease agreement

As shown above, the proposed lease extension would cost the city $2,352,720 over the next five years.

Funding Source

Lease costs are funded by the General Fund.

RECOMMENDATION

Approve the proposed resolution.

Item 7 **File 23-0966**	**Department:** Airport

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a new concession lease between Guava and Java SFO, Inc. dba Black Point Café and La Colombe Coffee Roasters and the San Francisco International Airport for a term of 12 years with two one-year options to extend and a Minimum Annual Guarantee (MAG) of $420,000 for the first year

Key Points

- On August 15, 2023, the Airport awarded a lease, following a competitive process, to Black Point Café and La Colombe Coffee Roasters to provide food and beverage services at two facilities in Terminal 2 of the Airport. Black Point Café comprises approximately 880 square feet located pre-security, and La Colombe Coffee Roasters comprises approximately 1,974 square feet located post-security. The total premises are approximately 2,854 square feet.

Fiscal Impact

- Rent paid by Black Point Café and La Colombe Coffee Roasters to the Airport will be MAG rent or percentage rent, whichever is greater. MAG rent will be $420,000 in the first year of operations, increased annually based on the Consumer Price Index. We estimate MAG rent over the initial term would total $5.6 million.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(c) states that any lease of real property for a period of ten years or more or that has revenue to the City of $1 million or more is subject to Board of Supervisors approval.

BACKGROUND

On July 19, 2022, the Airport Commission authorized staff to issue a Request for Proposals for the Terminal 2 Coffee Café Lease (Lease No. 23-0197) consisting of one pre-security and one post-security quick-serve food and beverage facility. In response, the Airport Commission received five proposals. A three-member panel[1] reviewed and scored the qualifying proposals, ultimately selecting Black Point Café and La Colombe Coffee Roasters, the responsible bidder with the highest-ranking score, scoring 95 points out of a possible 100 points, including concept (60 points), design intentions and capital improvement (20 points), and business plan (20 points)

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new concession lease between Guava and Java SFO, Inc. dba Black Point Café and La Colombe Coffee Roasters and the San Francisco International Airport for a term of 12 years with two one-year options to extend and a Minimum Annual Guarantee (MAG) of $420,000 for the first year. A summary of key lease provisions is shown in Exhibit 1 below.

Premises

Under the lease, Black Point Café and La Colombe Coffee Roasters would operate two food and beverage facilities located in both pre-security and post-security locations in Terminal 2 of the Airport. Black Point Café comprises approximately 880 square feet located pre-security, and La Colombe Coffee Roasters comprises approximately 1,974 square feet located post-security. The total premises are approximately 2,854 square feet. The agreement includes a development term of 120 days for the tenant to construct its initial improvements in each facility of the premises.

Services

According to the proposed lease agreement, the tenant must provide freshly brewed coffee, tea, baked goods, hot and cold sandwiches, breakfast sandwiches and wraps, salads, fresh fruits and yogurt, snack items, and offer a kid’s menu.

Rent

Under the lease, the tenant will pay the greater of the required MAG rent or a percentage rent, ranging from six to ten percent of sales.

[1] The panel consisted of the following: an Alaska Airlines Director of Station Operations, a Homeland Security Deputy Assistant Federal Security Director, and the Airport Director of Social Responsibility, Strategy and Social Impact.

Exhibit 1. Key Lease Provisions

	Proposed Lease
Lease Term	12 years
Options to Extend	Two one-year options to extend
Size of Space	2,854 square feet Includes two facilities
Minimum Annual Guarantee (MAG)	$420,000
MAG Adjustment	Annual CPI escalation
Revenue Percentage Rent	6% of revenues up to and including $1,500,000 Plus 8% of revenues between $1,500,000 up to and including $2,500,000 Plus 10% of revenues over $2,500,000
Deposit Amount	Half initial MAG ($210,000)
Minimum Investment Amount	$1,000 per square foot ($2,854,000 total)
Food and Beverage Cleaning Fee	$168,386 ($59 per square foot of the premises per year
Pest Control Service Fee	$75 per month
Promotional Charge	$2,854 ($1 per square foot of premises)

Source: SFO- Black Point Café and La Colombe Coffee Roasters Lease Agreement

According to the Airport, the food and beverage cleaning fee for the first year is $59/sq ft, but will be recalculated based on the tenant's prior year gross revenues in relation to all other food and beverage sales in subsequent years after year one.

FISCAL IMPACT

Rent paid by Black Point Café and La Colombe Coffee Roasters to the Airport will be MAG rent or percentage rent, whichever is greater. MAG rent will be $420,000 in the first year of operations, increased annually based on the Consumer Price Index. We estimate MAG rent over the initial term would total $5.6 million.

RECOMMENDATION

Approve the proposed resolution.

Item 8 **File 24-0236**	**Department:** Airport

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize the Airport Commission to accept and expend a grant from the Airport Infrastructure Grants Program in an amount not to exceed $90,972,120, plus additional amounts up to 15 percent of the original grant amount that may be offered for a period of October 1, 2023 through September 30, 2028. The Airport is required to provide matching funds of $30,324,041 (25 percent of total grant-eligible project costs).

Key Points

- On November 15, 2021, President Biden signed into law the Infrastructure Investment and Jobs Act of 2021 (i.e., the Bipartisan Infrastructure Law), which included $15 billion for the newly established Airport Infrastructure Grant (AIG) Program. Under the AIG Program, the Federal Aviation Administration (FAA) administers available funding to eligible airports for airport infrastructure projects. The San Francisco International Airport (Airport) applied for AIG Program grant funds for its Recycled Water System Project.
- The proposed grant would partially fund the Recycled Water System Project, which is a new water treatment system capable of removing hazardous chemicals from wastewater for non-potable uses at the Airport and to meet regulatory requirements for water discharge into San Francisco Bay.
- Design-build service commenced in January 2024 and the project is expected to be completed in July 2026.

Fiscal Impact

- The total cost of the Airport Recycled Water System Project is $130 million, of which $121,296,163 is eligible for grant funding. The Project is funded by the proposed $90,972,120 grant from the FAA's AIG Program (approximately 75 percent of the total grant-eligible project costs), and $30,324,041 in required Airport matching funds (25 percent of the total grant-eligible project costs), paid for by Airport Revenue Bonds.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Administrative Code Section 10.170-1 states that accepting Federal, State, or third-party grant funds for $100,000 or more, including any City matching funds required by the grant, is subject to Board of Supervisors approval.

BACKGROUND

On November 15, 2021, President Biden signed into law the Infrastructure Investment and Jobs Act of 2021 (i.e., the Bipartisan Infrastructure Law). The Bipartisan Infrastructure Law included $15 billion for the newly established Airport Infrastructure Grant (AIG) Program. Under the AIG Program, the Federal Aviation Administration (FAA) administers available funding to eligible airports over five years for airport infrastructure projects. Available funding will be allocated through two programs: formula allocations and competitive grants for airport-owned airport traffic control contract tower projects. The AIG Program reimburses up to 75 percent of project costs.

The San Francisco International Airport (Airport) applied for AIG Program grant funds for the Recycled Water System Project. According to FAA AIG Program Formulation Allocations as of January 18, 2024, the San Francisco International Airport was allocated $143,669,455 from federal FY 2021-22 to FY 2023-24. The Airport has received two AIG Program grants totaling $14.4 million and plans to submit two AIG Program applications in 2024 and one more application in 2025 to access the remaining $52,697,335 of FAA grant funds.

Airport Commission Approval

On January 16, 2024, the Airport Commission authorized the Airport Director to accept and expend an anticipated $90,972,120 in AIG Program funding, subject to approval by resolution of the Board of Supervisors.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the Airport Commission to accept and expend a grant from the Airport Infrastructure Grants Program in an amount not exceeding $90,972,120, plus additional amounts up to 15 percent of the original grant amount that may be offered from October 1, 2023, through September 30, 2028.[1] The Airport is required to provide matching funds of $30,324,041 (25 percent of total grant-eligible project costs).

Project Scope

The Recycled Water System Project is a new water treatment system capable of removing PFAS[2] from wastewater for non-potable uses at the Airport and to meet regulatory requirements for water discharge into San Francisco Bay. By using recycled water, the Airport expects to reduce potable water use by 25 percent. The project includes (1) a new advanced water treatment

[1] According to Airport staff, this "15 percent" clause is standard language included in all Airport grant resolutions in case additional grant funding becomes available.

[2] Per- poly-fluoralkyl substances (PFAS) are "forever chemicals" that are hazardous to human health.

facility, (2) a 200,000 gallon water storage tank and pump station, and (3) three miles of underground recycled water distribution pipeline from the Airport's Wastewater Treatment Plant to Airport facilities and terminals that have non-potable plumbing for recycled water use.

Design-build service commenced in January 2024 and the project is expected to be complete in July 2026.

Contracted Services

According to Airport staff, Walsh Construction is the prime design-build contractor for the project. Walsh Construction was selected through a Request for Qualification/Request for Proposal (RFQ/RFP) process. On May 30, 2023, the Airport issued an RFP/RFQ for design-build services and received four proposals on July 26, 2023. The Airport convened a four-member selection panel[3] that reviewed qualified proposals and scored proposers based on criteria stated in the RFQ/RFP such as experience and qualifications, organization and key personnel, project approach, design narrative, oral interviews, a price proposal, and schedule and phasing approach. Based upon the evaluations by the selection panel, Walsh Construction scored the highest[4] and was awarded the contract on October 17, 2023.

In addition, Consor-Avila is the project management support services (PMSS) contractor for the project. Consor-Avila was selected through a Request for Qualification/Request for Proposal (RFQ/RFP) process. On February 28, 2023, the Airport issued an RFP/RFQ for PMSS services and received two proposals on April 14, 2023. The Airport convened a four-member selection panel[5] that reviewed qualified proposals and scored proposers based on criteria stated in the RFQ/RFP such as experience and qualifications, organization and key personnel, program approach, and oral interviews. Based on the scoring of the proposals and interviews, Consor-Avila scored the highest[6] and was awarded the contract on June 20, 2023.

FISCAL IMPACT

The total cost of the Airport Recycled Water System Project is $130 million, as shown in Exhibit 1 below. The total grant-eligible project cost is $121,296,163. The Project is funded by the anticipated $90,972,120 grant from the FAA's AIG Program (approximately 75 percent of the total grant-eligible project costs), and $30,324,041 in required Airport matching funds (25 percent of the total grant-eligible project costs). The remaining $8,703,839 (approximately 6.7 of total project costs) will be paid for by Airport Revenue Bonds. No indirect costs are included in the budget to maximize use of grant funds.

The Airport anticipates receiving the FAA grant funds in June 2024.

[3] Panelists consisted of two Airport Commission employees and two members of the water treatment and distribution industry.
[4] Out of 2000 total possible points, Walsh Construction Company scored 1927, Kiewit Infrastructure West, Inc. scored 1794 and Flatiron West, Inc. scored 1710.
[5] Panelists consisted of two Airport Commission employees and two members of the water resources/environmental industry.
[6] Out of 550 total possible points, Consor-Avila scored 517.88 and MCK Americas, Inc./Environmental & Construction Solutions Inc., Joint Venture scored 458.76.

Exhibit 1. Recycled Water System Project Grant Budget (Estimates as of December 2023)

Cost Category	Grant-Eligible Project Cost	FAA Share (75% of Grant-Eligible Project Costs)	Airport Share (25% of Grant-Eligible Project Costs)	Remaining Airport Share	Total Project Cost
Internal Cost[7]	$1,845,000	$1,383,750	$461,250	$195,000	$2,040,000
Professional Services[8]	6,000,000	4,500,000	1,500,000	0	6,000,000
Construction Services[9]	113,451,163	85,088,370	28,362,791	8,508,839	121,960,000
Total	**$121,296,163**	**$90,972,120**	**$30,324,041**	**$8,703,839**	**$130,000,000**

Source: Airport

RECOMMENDATION

Approve the proposed resolution.

[7] This includes Airport staff labor costs.

[8] This includes project management support services costs.

[9] This includes design-build and direct construction costs including bond premium, programming fee, management fee, and builder's fee.

Item 9 **File 24-0286**	**Department:** Department of Public Health

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the third amendment to DPH's contract agreement with the Bayview Hunters Point Foundation (BVHPF) for opioid treatment services. The proposed amendment extends the contract term from June 2024 to June 2027 and increases the not to exceed amount from $11,600,000 to $19,496,043, an increase of $7,896,043.

Key Points

- The proposed contract agreement would continue to fund two opioid treatment services: (1) methadone maintenance and (2) jail methadone maintenance. Due to current regulations, BVHPF is not able to start new jail patients on methadone who are not already enrolled in an Opioid Treatment Program, which can limit BVHPF's service delivery.

Fiscal Impact

- The contract budget is funded by federal sources (37 percent), state sources (20 percent), and local General Fund and Homeless Gross Receipts Tax funding (43 percent).

Policy Consideration

- The provider has not met key standards in the Citywide Fiscal and Compliance Monitoring process, including completing financial audits for FY 2021-22 and FY 2022-23. Program performance improved between FY 2021-22 and FY 2022-23, including the number of clients served, but neither program delivered the contracted units of service in either year.
- The provider's ongoing financial challenges pose a risk to programming. However, DPH, HSH, and the Controller are meeting with the provider regularly and providing technical assistance. The Department of Public Health has not identified an alternate provider for these services.

Recommendation

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

MANDATE STATEMENT

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

BACKGROUND

The Bayview Hunters Point Foundation

The Bayview Hunters Point Foundation (BHPF) provides mental health services, substance abuse treatment, preventative programs for youth, and other social services for residents of the Bayview and Hunters Point neighborhoods.

Substance Use Disorder Services Agreement

In July 2017, DPH entered into a contract with Bayview Hunters Point Foundation for opioid treatment services following a competitive solicitation process. The contract had an initial five-year term, from June 2017 to June 2022, with a five-year option to extend through June 2027. The original agreement’s not to exceed amount of $8,123,500 was budgeted for the initial five-year term. The contract was amended in December 2022 to extend the term through June 2023 and increase the not to exceed amount to $9,520,472. The original agreement and first amendment did not require Board of Supervisors’ approval because they were under $10 million and 10 years.

In June 2023, the Board of Supervisors approved the second amendment to the agreement, increasing the not to exceed amount to $11,600,000 and extending the term by one year through June 2024 (File 23-0478).

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the third amendment to DPH’s contract agreement with the Bayview Hunters Point Foundation for opioid treatment services. The proposed amendment extends the contract term from June 2024 to June 2027 and increases the not to exceed amount from $11,600,000 to $19,496,043, an increase of $7,896,043.

Services Provided

The proposed contract agreement would continue to fund two opioid treatment services: (1) methadone maintenance and (2) jail methadone, which are described below.

- **Methadone Maintenance**: This program provides daily methadone dosing, prescription buprenorphine, medication-assisted treatment for alcohol dependence, and related case management. Services are provided at the Bayview Hunters Point Foundation at 1625 Carroll Avenue. (165 clients per year).

- **Jail Methadone**: The program methadone for people who are incarcerated and require detoxification or methadone maintenance to manage their opioid addiction. Services are provided in the City's jails. (66 clients per year).

Overall, the proposed contract agreement's scope of services would be budgeted at 231 clients per year across both programs. Funding includes 14.27 FTE staff.

The proposed third amendment updates the scope of services for both programs to include: (a) a "Continuity Plan for Jail Dosing" to ensure that daily dosing services are not interrupted in the event of staffing shortages or emergencies; and (b) descriptions of the roles of the Director of Behavioral Health Services and the SUDS Medical Director and plans for assigning other staff to these roles in an interim capacity in the event of short term absences, long term absences, and permanent exits.

The BHS Deputy Director of Substance Use Services, Dr. Christy Soran, advised that BVHPF provides an essential service for existing individuals on methadone when they are incarcerated. The SF Jail cannot provide this service directly because to administer methadone a program must be a certified Opioid Treatment Program (OTP) and the jail is not. Therefore, BHS relies on BVHPF to ensure people continue to have access to their methadone dose while in jail by coordinating with their regular methadone clinic through a process called "guest dosing." Without access to guest dosing, individuals would experience severe opioid withdrawal symptoms and be at heightened risk of overdose death after leaving incarceration. Due to current regulations, BVHPF is not able to start new jail patients on methadone who are not already enrolled in an Opioid Treatment Program, which can limit BVHPF's service delivery. SFDPH is exploring regulatory options for being able to start people with Opioid Use Disorder on methadone while in jail.

Performance Monitoring

We reviewed FY 2022-23 and FY 2021-22 monitoring reports for the two programs as well as updated information from DPH. In FY 2022-23, the programs overall rating was three out of four which is coded as "Acceptable/Meets Standards". This reflects an improvement from FY 2021-22 monitoring reports, which gave an overall rating of two out of four (Improvement Needed/Below Standards) to the Methadone Maintenance program and an overall rating of one out of four (Unacceptable) to the Jail Methadone program.[1] In FY 2022-23, each program served more clients than budgeted, however the Methadone program provided 50 percent of budgeted units of service and the jail dosing program provided 16 percent of budgeted units of service.

DPH monitoring notes that the programs experienced an "almost complete turnover of staff" and were still recovering from the COVID-19 pandemic. However, as of March 25, 2024, BVHP reported to DPH that they were fully staffed for this program and have filled all executive level

[1] According to DPH staff the two programs were combined into a single monitoring report in FY 2022-23 because Jail Dosing reflects only 20 percent of the total budget, referrals to Jail Dosing are limited to only patients who are already Methadone clients, so BVHPF is limited in their ability to increase Jail Dosing to ensure that they meet their budgeted target, and combining programs allows for a comprehensive view of OTP services provided by the contractor.

vacancies. The report also notes that the programs improved compliance with personnel file requirements and made progress in addressing documentation deficiencies and meeting training requirements. The report includes a plan of action for the contractor to improve compliance with personnel file requirements, including entering all activities into Avatar, and training requirements.

Fiscal and Compliance Monitoring

Bayview Hunters Point Foundation was one of two non-profits on "elevated concern" status in the Controller's Citywide Nonprofit Monitoring and Capacity Building Program Report FY 2021-22 and FY 2022-23. The Controller's Office and the funding departments (DPH and HSH) are meeting regularly with agency leadership to track progress towards meeting corrective action goals. As of April 2024, DPH has determined that the agency has made progress in its financial condition including implementing effective policies and procedures but still considers the organization "high risk" requiring close monitoring due to its financial condition, including the inability to produce financial statements for FY 2021-22 and FY 2022-23.[2]

FISCAL IMPACT

Exhibit 1 below shows the FY 2023-24 budgeted costs for the two grant-funded programs. The proposed amendment increases costs by five percent annually over the three-year extension period.

Exhibit 1: FY 2023-24 Program Budget

	Methadone Maintenance	Jail Methadone	Total
Salaries & Benefits	$1,205,989	$165,312	$1,371,301
Operating Expenses	312,239	171,942	484,181
Indirect Expenses (15%)	227,734	50,588	278,322
Total	**1,745,962**	**387,842**	**2,133,804**

Source: DPH

Exhibit 2 below shows the build up to the resolution's not to exceed amount.

Exhibit 2: Grant Agreement Not to Exceed Amount

Projected Spending Through June 2024	$11,367,466
Projected Spending Through June 2027	7,029,036
Contingency (15.6%)	1,099,541
Not To Exceed Amount	**$19,496,043**

Source: DPH

[2] As part of its assessment, DPH reviewed unaudited financial information from FY 2021-22 and FY 2022-23. Fiscal and compliance monitoring for FY 2023-24 is currently in progress.

Funding Sources

The contract budget is funded by federal sources (37 percent), state sources (20 percent), and local General Fund and Homeless Gross Receipts Tax funding (43 percent).

POLICY CONSIDERATION

The provider has not met key standards in the Citywide Fiscal and Compliance Monitoring process, including completing financial audits for FY 2021-22 and FY 2022-23. Program performance improved between FY 2021-22 and FY 2022-23, including the number of clients served, but neither program delivered the contracted units of services in either year.

The provider's ongoing financial challenges pose a risk to programming. However, DPH, HSH, and the Controller are meeting with the provider regularly and providing technical assistance. The Department of Public Health has identified no alternate provider for these services.

RECOMMENDATION

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

Item 10 File 24-0287	Department: Public Health (DPH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would retroactively approve the second amendment to an agreement between UCSF and DPH, increasing the term by five and a half years, from December 2022 to June 30, 2028, and increasing the not-to-exceed amount by $84.1 million to $133.4 million.

Key Points

- Under the current agreement, UCSF provides intensive case management to a minimum of 575 unique clients in two programs: Citywide Focus and Citywide Forensics. These two programs serve patients with severe mental health disorders and co-occurring substance use disorders. The Forensics program focuses on justice-involved patients.
- The proposed second amendment is retroactive because, according to DPH, there was a prolonged negotiation process between DPH's City Attorney representative and UCSF's attorney regarding computer system access contractual language that led to a delay in the proposed second amendment.

Fiscal Impact

- The proposed amendment would increase the not to exceed amount of the agreement by $84,121,542 to $133,397,493. The sources of funding for this contract are a mix of General Fund (42 percent) and state (19 percent) and federal (38 percent) reimbursements.
- The payment for services is through a capitation rate, meaning that DPH pays UCSF a flat rate per client per month, calculated as the contract budget divided by budgeted clients divided by 12 months. In the proposed second amendment, the capitation rate starts at $1,723.03 per client per month.

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

Current Agreement

The Department of Public Health contracts with the University of California San Francisco (UCSF) to obtain case management services. The original agreement was procured following a 2017 RFP, following which DPH awarded UCSF a contract for two of the RFP service areas, Citywide Focus and Citywide Forensics, discussed below. The original contract was executed on July 1, 2018, for a one-year term that expired June 30, 2019, and had a not-to-exceed amount of $9.6 million. The agreement was amended on July 1, 2019 to extend the term by three and a half years to December 31, 2022 and increase the not-to-exceed amount to $49.3 million (File 19-0516).

Services Provided

Under the current agreement, UCSF provides intensive case management to a minimum of 575 unique clients in two programs: Citywide Focus and Citywide Forensics. These two programs serve slightly different populations but both focus on patients with severe mental health disorders and co-occurring substance use disorders, all with specialty behavioral health needs that are more complex and are at greater risk for negative outcomes.

- **Citywide Focus:** This program serves individuals with high acute mental health service use. To qualify for Citywide Focus, clients must meet certain criteria including number of hospitalizations and number of residential treatment and/or crisis episodes. The program provides case management, money management, medication management, psychotherapy, care coordination, and other intensive outpatient services to its clients.
- **Citywide Forensics:** This program serves justice-involved individuals with severe mental health disorders and/or substance use disorders. The program provides case management, money management, medication management, care coordination, psychotherapy, and other intensive outpatient services to its clients.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would retroactively approve the second amendment to the agreement between UCSF and DPH, increasing the term by five and a half years, from December 2022 to June 30, 2028, and increasing the not-to-exceed amount by $84.1 million to $133.4 million.

Retroactive Approval of Proposed Second Amendment

The proposed second amendment is retroactive because, according to DPH, there was a prolonged negotiation process between DPH's City Attorney representative and UCSF's attorney regarding computer system access contractual language that led to a delay in the proposed second amendment. DPH and UCSF concluded negotiations for the computer system access in November 2023 and were then able to proceed with negotiating the proposed second amendment.

Services

The scope of work will not change under the proposed second amendment. UCSF will continue to provide intensive case management to 575 clients each month in the two programs under the proposed second amendment.

Performance Management

The FY 2021-22 performance monitoring report, which is the most recent report available, demonstrates that UCSF's overall performance under this contract has been commendable/exceeds expectations. UCSF achieved 100 percent of its contracted units of service target in FY 2021-22. Both programs were contracted to provide services for 575 clients per month. The programs had 650 unique, unduplicated clients throughout the fiscal year which exceeded the number of required unduplicated clients due to some client turnover.

UCSF met 74 percent of its contracted performance objectives in FY 2021-22. DPH noted the mixed results but determined that no plan of action was required for the two performance objectives that were not achieved, and gave UCSF an overall program performance and compliance rating of 93 percent.

FISCAL IMPACT

The proposed amendment would increase the not to exceed amount of the agreement by $84,121,542 to $133,397,493. Exhibit 1 below shows the fiscal impact of the proposed amendment.

Exhibit 1: Contract Budget

Current Agreement	Actual Spending
July 1, 2018 – June 30, 2019	$9,616,508
July 1, 2019 – June 30, 2020	$9,834,688
July 1, 2020 – June 30, 2021	$10,133,543
July 1, 2021 – June 30, 2022	$11,444,597
July 1, 2022 – December 31, 2022	$5,428,477
January 1, 2023 – June 30, 2023	$7,536,168
Subtotal, Actual Spending	***$53,993,981***
Proposed Extension	**Budgeted Spending**
July 1, 2023 – June 30, 2024	$13,353,584
July 1, 2024 – June 30, 2025	$13,754,192
July 1, 2025 – June 30, 2026	$14,166,818
July 1, 2026 – June 30, 2027	$14,591,822
July 1, 2027 – June 30, 2028	$15,029,577
Subtotal, Proposed Spending	***$70,895,993***
Contingency at 12%	$8,507,519
Total Budget	**$133,397,493**

Source: DPH

The contract has minimal underspending and which DPH has accounted for in budgeting for the proposed amendment. The contract budget increased by $1.3 million between FY 2020-21 and FY 2021-22 to align the budget with an increase in UCSF's salaries, which increased through union negotiations.

Rates

The payment for services is through a capitation rate, meaning that DPH pays UCSF a flat rate per client per month, calculated as the contract budget divided by budgeted clients divided by 12 months. The capitation rate covers salaries and benefits for UCSF employees working on the programs, program operating expenses, and client expenses, including hygiene products, clothing, and lunches.

In the proposed second amendment, the capitation rate starts at $1,723.03 per client per month for both programs and increases each fiscal year primarily due to the application of a Cost of Doing Business (CODB) increase, which is typically three percent.

Funding Sources

The sources of funding for this contract are a mix of General Fund (42 percent) and state (19 percent) and federal (38 percent) reimbursements.

RECOMMENDATION

Approve the proposed resolution.

Item 11 **File 24-0288**	**Department:** Department of Public Health (DPH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve Amendment No. 1 to the contract between DPH and San Francisco Public Health Foundation (SFPHF) for food security program administration. The proposed resolution would extend the term by five years, from June 2024 through June 2029, and increase the not to exceed amount by $1,625,459 to $11,197,782.

Key Points

- DPH's Food Security Program promotes food security and healthy eating for vulnerable San Francisco populations. The Program focuses on improving health outcomes by ensuring San Francisco residents have access to healthy food.
- Under the contract, SFPHF provides program administration, primarily in the form of subcontractor management of its two subcontractors: EatSF and Heart of the City. SFPHF ensures its subcontractors are fiscally responsible and meet the deadlines and objectives in their contracts.
- EatSF administers the Vouchers 4 Veggies program which distributes vouchers to primarily low-income pregnant people for a value of $40-$80 a month. The contract also funds the Heart of the City farmer's market match program, which provides up to $30 a month to match any EBT purchases at that farmer's market.

Fiscal Impact

- Of requested $1.6 million increase, approximately 54 is funded by the General Fund, 34 percent is funded by the Sugary Drinks Distributor Tax (SDDT), and 11 percent is funded by a USDA Grant. According to DPH, the USDA grant requires a local match, which is funded by the General Fund.

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

The Department of Public Health's (DPH) Food System Program promotes food security and healthy eating for vulnerable residents in San Francisco. In January 2020, the Department of Public Health (DPH) issued a Request for Qualifications (RFQ) to identify contractors to provide as needed program administration and support services.[1] The RFQ advertised for a contract term of up to eight years but did not specify a funding amount, noting that funding would be based on the availability of funds for each project. DPH received seven responses from vendors and an evaluation panel reviewed and scored them, as shown in Exhibit 1 below.[2]

Exhibit 1: Proposers and Scores from RFQ

Proposer	Average Score (Minimum 75 Points for Qualification)	Pre-Qualified (Y/N)
Community Youth Center of SF (CYCSF)	35	N
HealthRIGHT360	92	Y
KPMG	85	Y
PHFE dba Heluna Health	95	Y
RenKriss Healthcare Staffing & Recruitment Firm	33	N
San Francisco Public Health Foundation	93	Y
San Francisco Study Center	92	Y

Source: DPH

Five vendors met the minimum score threshold of 75 points: (i) HealthRIGHT360; (ii) KPMG; (iii) Heluna Health; (iv) San Francisco Public Health Foundation; and (v) San Francisco Study Center.

[1] The RFQ was issued to create a pre-qualified list of vendors to support DPH's as needed project-based program administration and support services. Vendors that met the minimum score of 75 were placed on the Pre-Qualified Vendor List and remained eligible for two years.

[2] The evaluation panel for the RFQ consisted of a Program Coordinator, Program Manager, Manager, and Administrative Analyst, all from DPH.

In January 2021, DPH issued a Mini Request for Proposals ("Mini RFP") to each of the five pre-qualified vendors to provide program administration and support for DPH's Food Security Program.[3] Three of the five pre-qualified vendors responded to the RFP and a different panel reviewed and scored them, as shown in Exhibit 2 below.[4]

Exhibit 2: Proposers and Scores from Mini RFP

Proposer	Score (out of 100)
San Francisco Public Health Foundation	87
San Francisco Study Center	83
KPMG	62

Source: DPH

San Francisco Public Health Foundation (SFPHF) was selected as the highest scoring vendor and awarded a contract. In July 2021, DPH executed a contract with SFPHF for a term of three years, from July 2021 through June 2024, and an amount not to exceed $9,572,323. The original contract provided for five one-year options to extend. The original contract did not require Board of Supervisors approval because the contract did not exceed 10 years or $10 million.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Amendment No. 1 to the food security services contract between DPH and SFPHF, extending the term by five years from June 2024 through June 2029, and increasing the not-to-exceed amount by $1,625,459, for a total of $11,197,782. The proposed resolution would also authorize DPH to enter into immaterial amendments to the contract.

Services Provided

Under the contract, SFPHF provides program administration and support for DPH's Food Security Program. The Program promotes food security and healthy eating for vulnerable residents of San Francisco. The goal of the Food System Program is to improve health equity and health outcomes by ensuring access to healthy food for vulnerable San Franciscans. The program aims to serve populations impacted by health disparities and adverse effects, including Black, Asian, Pacific Islander, Latinx, youth/ transitional-age youth, low-income, and senior populations.

SFPHF does not provide direct client services. SFPHF manages subcontractors, program administration, and capacity building for the Food System Program. Under the contract, SFPHF manages two subcontractors, EatSF and Heart of the City.

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[3] The Mini RFP was issued to each of the vendors on the Pre-Qualified Vendor list for proposals to support program administration for DPH's food security programs. The Mini RFP advertised a contract term of up to eight years and estimated an annual budget of $1 to 1.5 million depending on availability of funding.

[4] The evaluation panel for the Mini RFP consisted of a Vaccine Administrator, a Project Director, and an Equity Coordinator, all from DPH.

<u>Subcontractor Management:</u> SFPHF manages all its subcontractor agreements and ensures all its subcontractors are fiscally responsible, including implementation of generally accepted accounting principles (GAAP), financial management, disbursing City funds, confirming subcontractor insurance coverage, and that the subcontractors adhere to the timelines and objectives as laid out in their subcontracts.

- <u>EatSF:</u> EatSF operates the Vouchers 4 Veggies program, by enrolling people in its program and distributing vouchers to residents in underserved neighborhoods, specifically for the purchase of fruits and vegetables. In FY2022-23, the majority of EatSF's vouchers were distributed to low-income pregnant people for a value of $40-80 per month.
- <u>Heart of the City Match:</u> Heart of the City operates a match program for their farmer's market. Customers at the Heart of the City Farmer's Market in downtown San Francisco can receive up to $30 a month in matches to any EBT purchases. The match program allows customers to purchase more food at the farmer's market.

Fiscal and Performance Monitoring

Program Performance

The DPH Business Office of Contract Compliance does not conduct a formal performance monitoring review of the programming in this contract, and no documentation has been provided for our review. According to DPH Director of Food Security Paula Jones, under the model of this contract, DPH relies on SFPHF to monitor its subcontractors to assess their financial responsibility and program performance. SFPHF submits the monthly invoices of its subcontractors as well as its monthly invoices to DPH.

According to Ms. Jones, grant objectives for subcontractors include distributing food vouchers to priority populations and providing sufficient administrative staffing to assist with the management, tracking, and distribution of the vouchers. The invoices submitted by the subcontractors to SFPHF, and in turn provided by SFPHF to DPH, provide information about how well each subcontractor is doing compared to the program objectives. For example, invoices show the budgeted amount for food supplements, the amount of food supplements billed for the current invoice, the total amount spent to date, the remaining amount, the number of participants reached that month, and the total number of participants.

SFPHF also receives annual progress reports from its subcontractors. The annual progress reports include numbers of unique clients, vouchers distributed, participant retention, evaluation data, program and budget impacts, and community partnerships.

Financial Condition

SFPHF was granted a waiver from the Citywide Fiscal and Compliance Monitoring program in FY 2021-22. The waiver was granted in part due to there being no significant findings in the previous year's report. In FY 2022-2023, SFPHF met all of the City's fiscal and compliance standards.

FISCAL IMPACT

The proposed resolution would approve Amendment No. 1 to the food security services grant between DPH and SFPHF, extending the term by five years through June 2029, and increasing the not-to-exceed amount by $1,625,459, for a total not to exceed $11,197,782.

Exhibit 3 below summarizes the sources and uses of the proposed contract funding.

Exhibit 3: SFPHF Sources and Uses

Sources	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	Total
General Fund	$475,000	$475,000	$475,000	$475,000	$475,000	$2,375,000
SDDT	$300,000	$300,000	$300,000	$300,000	$300,000	$1,500,000
USDA Grant	$150,000	$175,000	$175,000			$500,000
Total	**$925,000**	**$950,000**	**$950,000**	**$775,000**	**$775,000**	**$4,375,000**

Uses	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	Total
Subcontractors	$840,909	$863,636	$863,636	$704,545	$704,545	$3,977,271
Public Health Foundation (10%)	$84,091	$86,364	$86,364	$70,455	$70,455	$397,727
Total	**$925,000**	**$950,000**	**$950,000**	**$775,000**	**$775,000**	**$4,374,998**
Actual and Projected Expenditures (through FY 22-24)						**$6,297,782**
Total						**$10,672,780**
Contingency						$525,000
Total Not-To-Exceed						**$11,197,780**

Source: Appendix B of Amendment No. 1 of the Grant Agreement

Note: The above table total is $2 less than Appendix B of Amendment No. 1 to the Grant Agreement, likely due to rounding error.

As shown above, the proposed Amendment No. 1 would add roughly $1.6 million to the existing contract for the next five years, for a total not to exceed the amount of $11,197,782. The federal grant funds from USDA require a city match. The indirect costs, which are 10 percent of the operating costs, pay for SFPHF overhead costs, while nearly all the rest fund the subcontractors.

Funding Source

The proposed expenditures for the five-year extension are funded approximately 54 percent by the General Fund, 34 percent by Sugary Drinks Distributor Tax (SDDT), and 11 percent from a USDA Gus Schumacher Nutrition Incentive Program (GusNIP) Grant. According to DPH, the General Fund portion of this contract provides a local match required by the federal grant.

RECOMMENDATION

Approve the proposed resolution.

Item 12 File 24-0253	Department: Public Health (DPH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a third amendment to the Department's contract with Tryfacta for temporary nursing services by increasing the amount by $1,501,860 for a total amount not to exceed $11,401,859. There is no change to the contract term, which ends on December 31, 2024.
- The funding is to pay for invoices incurred between March 2023 and May 2023. DPH did not spend money on this contract during FY 2023-24.

Key Points

- Following a competitive solicitation in 2020, DPH awarded a contract to Tryfacta to (1) address COVID-19 surges at LHH and SFGH; and (2) later, in 2022, provide back for LHH nursing positions to enable 80,000 hours of training required to achieve recertification.
- The contract includes performance metrics related to: completing hospital unit orientations, completing medication/narcotic audits, completing contract staff evaluations, and staff availability. DPH provided performance data related to all contract nursing at LHH and SFGH, but neither dataset was specific to the Tryfacta contract.

Fiscal Impact

- Nearly all contract costs are funded by LHH and SFGH operating funds.

Recommendation

- Because of limited performance information and the untimely submission of this request to the Board of Supervisors, approval of the proposed resolution is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

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

BACKGROUND

Nurse staffing requirements in the City's public hospitals are met by permanent staff on regular time and overtime as well as contracted nurses provided by Tryfacta, Cross Country, and other vendors. DPH staff reported to the Health Commission that San Francisco General Hospital (SFGH) had a 9.18 percent vacancy rate as of February 2024, and Laguna Honda Hospital (LHH) had an 8.99 percent vacancy rate as of April 2024.

In December 2023, the Board of Supervisors approved a reallocation of $39.5 million in the current fiscal year (FY 2023-24) from permanent salaries and benefits to overtime in order to address vacancies and meet minimum mandated staffing ratios[1] (File 23-1160). In that report, we reported the General Hospital had higher than anticipated patient levels and Laguna Honda had staffing backfill needs due to staff training required by the recertification process.

Procurement

The Department issued a Request for Proposal (RFP) in December 2020 for as-needed temporary traveling nurse registry[2] personnel. DPH has contracted for temporary nursing services for more than 20 years, and this particular RFP was issued in 2020 to: (1) address COVID-19 surges at LHH and SFGH; and (2) later, in 2022, enable backfilling of LHH nursing positions to enable 80,000 hours of training required to achieve recertification. An evaluation panel consisting of a technical review panel—a nurse manager at SFGH, a nurse manager at LHH, and an ambulatory care patient manager—as well as a director for nursing operations at LHH, a nursing director at SFGH, a contracts manager, and a contracts analyst scored proposals based on qualifications (40 points), capacity (35 points), and cost (25 points). Tryfacta received a score of 94.33 out of 100 possible points.

Contract History

DPH awarded a contract to Tryfacta, Inc. initially for a period of two years and seven months—from June 1, 2021 through December 31, 2023—for an amount not to exceed $5 million. The contract has options to extend the term through December 2027. In January 2023, DPH amended the agreement with Tryfacta to increase the amount by $4 million—for an amount not to exceed $9 million. In August 2023, DPH amended the agreement a second time to extend the term by

[1] Staffing ratios are dictated by state regulation as well as memoranda of understanding with unions.
[2] Nurse registry refers to a list of nurses who are licensed to practice nursing.

one year from December 31, 2023 to December 31, 2024, and increase the amount by $900,000 for a total amount not to exceed $9,900,000.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a third amendment to the Department's contract with Tryfacta by increasing the amount by $1,501,860 for a total amount not to exceed $11,401,859 through December 31, 2024. There is no change to the contract term, which ends on December 31, 2024.

The purpose of the funding is to pay for invoices that were incurred between March 2023 and May 2023 but that could not be paid because spending had already reached the contract's not-to-exceed amount. The Department also reports that delays occurred due to the need to validate rates charged by Tryfacta. Moving forward, the department issued a new RFP in January 2024 and is negotiating new contracts.

Performance

The contract includes performance metrics related to completing hospital unit orientations, medication/narcotic audits, contract staff evaluations, and staff availability. The department was only able to provide a general rating for nursing registry services at LHH (3 out of 4) and a detailed report on nursing at SFGH; however, neither dataset was specific to the Tryfacta contract.

FISCAL IMPACT

Total spending on the contract is $9,861,901, which occurred in FY 2021-22 and FY 2022-23. The resolution requests $1,501,860 for past-due invoices incurred from March 2023 to May 2023.

DPH has not incurred any spending on this contract during FY 2023-24.

Funding Source for Contract

Nearly all contract costs are funded by LHH and SFGH operating funds. The Department reports that $6,960,000 incurred from the Tryfacta contract was used for COVID-related services, but only two percent of this amount was submitted for FEMA reimbursement. The majority of LHH residents are insured by Medicare and Medi-Cal, and FEMA does not provide reimbursement for other federal programs, according to DPH.

Tryfacta Hourly Rates

The proposed amendment would not increase Tryfacta's rates, which have remained the same since the contract was executed in May 2021. Approximately 94 percent of invoices paid to date have been for Emergency Specialty Registered Nursing, 5.9 percent for Vocational Nurses, and 0.3 percent for Non-Emergency Non-Specialty Registered Nurses.

The Tryfacta contract budget specifies hourly rates for emergency and non-emergency as-needed temporary traveling nurse registry personnel, as shown in Exhibit 1. For reference, the 2320 Registered Nurse classification is budgeted at a $206,457 annual salary (for the top step) and

$67,198 in annual fringe benefits for a total cost of $273,655 annually, or $131.56 per hour. This hourly rate is $18.44 *less* than the Tryfacta $150 base rate for a specialty registered nurse (emergency).

Exhibit 1: Tryfacta Hourly Nursing Rates

	Hourly Base Rate			
Emergency	12-Hour Shift	Night Shift	8-Hour Shift	Overtime
Registered Nurse (Specialty)	$150	$180	$150	$225
Registered Nurse (Non-Specialty)	$87.75	$96.53	$87.75	$131.63
Licensed Vocational Nurse	$60.75	$66.83	$60.75	$91.13
Non-Emergency				
Registered Nurse (Specialty)	$100	$120	$100	$150
Registered Nurse (Non-Specialty)	$80	$88	$80	$120
Licensed Vocational Nurse	$40	$50	$40	$60

Source: Tryfacta Contract

Note: Specialty refers to work in operating rooms, critical care, emergency, intensive care, laboratory, peri-operations, acute care, radiology, pediatrics, and telehealth.

RECOMMENDATION

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

Item 16 File 24-0341	Department: Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution authorizes the Mayor's Office of Housing and Community Development (MOHCD) to amend the City's lease with La Cocina, Inc. (the tenant) at 101 Hyde Street. The changes include:
  - Extending the lease by one year, for a total lease term from July 7, 2019 through December 31, 2026;
  - Reimbursing the tenant for sidewalk accessibility improvements totaling $106,528;
  - Removing required utility payments until the lease expires or terminates (to be covered by MOHCD) and forgiving past utility payments since March 1, 2020, up to $115,000.

Key Points

- 101 Hyde Street is a one-story building consisting of approximately 7,500 square feet; in August 2016, the owner dedicated the site through MOHCD for affordable housing.
- The Department solicited proposals for temporary uses of 101 Hyde Street, and selected the non-profit organization La Cocina to build a food hall and business incubator space for low-income food-service entrepreneurs.
- The City entered into a lease with La Cocina in June 2018, with a lease term that was year-to-year for up to seven years. The base rent was $12,000 annually ($1.60 per square foot) plus a percentage rent equal to five percent of net income (to be paid annually). The tenant reports financial hardship resulting from the COVID-19 pandemic.

Fiscal Impact

- The Citywide Affordable Housing Fund, which accounts for development impact fees, will pay for the approximately $300,000 reimbursement of sidewalk improvements and utilities.

Policy Consideration

- The Board of Supervisors has approved rent forgiveness related to COVID for enterprise departments, including the Port (20-1163) and Airport (20-1278), as well as other leases managed by the Real Estate Division (File 21-0001).

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Administrative Code Section 23.30 states that leases of City-owned property can be for less than market rent if the lease is for a proper public purpose, with Board of Supervisors' approval.

BACKGROUND

101 Hyde Street is a one-story building at the corner of Golden Gate Avenue and Hyde Street consisting of approximately 7,500 square feet of space formerly used as a U.S. Postal Service Office. In August 2016, the owner of the land dedicated the site to the City through the Mayor's Office of Housing and Community Development (MOHCD) for the purpose of developing affordable housing. The dedication was a result of Ordinance 126-16, which waived the Inclusionary Affordable Housing requirements set forth in Planning Code Section 415, exempting the market rate residential development at 1066 Market Street (affiliated with the Shorenstein Properties LLC) from such requirements in exchange for the dedication of real property.

In addition to the property donation, the developer donated $6 million for the development of 101 Hyde Street: $5 million was donated for converting the space to affordable housing and $1 million was donated for temporary development of the site, which has been fully expended by the selected tenant La Cocina, Inc. This non-profit organization specializes in assisting low-income clients in launching self-sustaining food-oriented businesses, in association with the Tenderloin Housing Clinic (THC). The San Francisco Foundation agreed to be the temporary trustee of the funds until the site is ready for development. The Department reports that a total of $5.4 million is currently reserved for the development.

The Department further reports that the community supports the current interim use, and procurement of an affordable housing developer would occur at the end of the lease term. The future affordable housing developer would need to address site constraints, including easements and space limitations, that complicate potential construction as well as street conditions in the neighborhood.

Original Lease

In 2016, the MOHCD solicited proposals for temporary uses of 101 Hyde Street. The Department received two proposals and selected La Cocina as the proposer with the highest application and interview scores. La Cocina proposed building a food hall and business incubator space for low-income food-service entrepreneurs. According to a February 2019 memo prepared by MOHCD, food halls managed by for-profit developers charge rents that are unsustainable for small business owners, particularly small start-ups. The facility now includes a commercial kitchen, a large central area for seating and community gatherings, kiosks for seven full-time vendors and one for rotating pop-ups, and a full-service bar.

The Real Estate Division entered into a lease with La Cocina in June 2018, with a lease term that was year-to-year for up to seven years. The original lease provides for a base rent of $12,000 annually ($1.60 per square foot) plus a percentage rent equal to five percent of net income (to be paid annually). The original lease terms also specify that the tenant shall perform and incur the cost of tenant improvements (with the exception of up to $1,465,000 reimbursed by the City) as well as reimburse the City for utility costs.

La Cocina Finances

The tenant reports financial hardship resulting from the COVID-19 pandemic, including lower income resulting from lower customer demand, increasing operating expenses, and required closures during the COVID-19 emergency order. Specifically, La Cocina reported negative net income in each of the last three fiscal years (FY 2020-21 through FY 2022-23). In FY 2021-22, La Cocina reported negative $1,918,746 in net income, a significant drop from negative $816,852 in FY 2020-21. In FY 2022-23, La Cocina reported a negative $1,841,418 in net income. Excluding depreciation, accumulated net losses total $1.8 million between FY 2020-21 and FY 2022-23.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution authorizes the MOHCD to:

- Extend the City's lease with La Cocina, Inc. (the tenant) at 101 Hyde Street by one year, for a total lease term from July 7, 2019 through December 31, 2026;
- Reimburse the tenant for sidewalk accessibility improvements totaling $106,528;
- Allow for a change of use from a food hall to a catering facility (considered light manufacturing per the zoning code) and/or the operation of a restaurant, bar, food market hall, and/or shared-use commercial kitchen; and
- Remove required utility payments until the expiration or termination of the lease (to be covered by MOHCD), and forgive past utility payments since March 1, 2020 up to $115,000.

Utilities to be paid by the City include heating, ventilation, air conditioning, electricity, and water.

FISCAL IMPACT

The Citywide Affordable Housing special fund will pay for the approximately $300,000 reimbursement of sidewalk improvements and utilities.[1]

[1] The Citywide Affordable Housing Fund accounts for development impact revenue (Administrative Code Section 10.100-49)

POLICY CONSIDERATION

The Board of Supervisors has approved rent forgiveness related to COVID for enterprise departments, including the Port (20-1163) and Airport (20-1278), as well as other leases managed by the Real Estate Division (File 21-0001).

RECOMMENDATION

Approve the proposed resolution.

Item 17 File 24-0335	Department: Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve: (a) the acquisition of 2550 Irving Street, the site of a proposed affordable housing project, from 2550 Irving Associates, L.P. (a subsidiary of TNDC) for $9,600,000; (b) a ground lease for a term of 75 years, with a 24-year option to extend and an annual base rent of $15,000; and (c) a not-to-exceed $16,956,650 amended and restated loan agreement for a minimum loan term of 57 years between the City and the TNDC subsidiary.

Key Points

- The proposed 2550 Irving Street project will be a seven story, 90-unit affordable housing development for families. Of the 90 units, 22 units will be reserved for permanent supportive housing for families exiting homelessness and subsidized by the Local Operating Subsidy Program (LOSP), and 15 units will be reserved for veterans and subsidized by a 20-year contract from the Federal Veterans Affairs Supportive Housing (VASH) program. The remaining 52 units (excluding one manager's unit) will be for households earning between 60 percent and 80 percent of area median income.
- In July 2021, the Board of Supervisors approved a predevelopment and acquisition loan for the project not to exceed $14,277,516, including $9,012,905 to acquire the site and $5,264,611 for predevelopment. The number of units has since been reduced by eight units to avoid building units over a PG&E electric utility easement.

Fiscal Impact

- Total development costs are $108.1 million, $1.2 million per unit, or $663,412 per bedroom. The City's total subsidy for the housing development costs, including acquisition costs, is $26.0 million, or $288,551 per unit. Excluding acquisition costs, the city subsidy is $16,956,650, or $188,407 per unit.
- Sources of funds for the proposed amended and restated loan of up to $16,956,650 include 2019 General Obligation Bonds, $1,875,019 in Low and Moderate Income Housing Asset Fund funds and $898,798 in Citywide Affordable Housing Fund monies. The source of the City's acquisition loan, which will be forgiven as part of the property purchase, was 2019 General Obligation Bonds.

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) any such contract that requires a modification of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

2550 Irving Street Project

The proposed 2550 Irving Street project will be a seven story, 90-unit affordable housing development for families. Of the 90 units, 22 units will be reserved for permanent supportive housing for families exiting homelessness and subsidized by the Local Operating Subsidy Program (LOSP), and 15 units will be reserved for veterans and subsidized by a 20-year contract from the Federal Veterans Affairs Supportive Housing (VASH) program. The ground floor will include community-serving spaces and an office and meeting room for a Sunset Chinese Cultural District community-based organization. The project, which was selected by the Mayor's Office of Housing and Community Development (MOHCD) through a competitive process, is being developed by the Tenderloin Neighborhood Development Corporation (TNDC). TNDC acquired the site, which is located in the Outer Sunset, from the Police Credit Union in 2021.

In July 2021, the Board of Supervisors approved a predevelopment and acquisition loan for the project not to exceed $14,277,516, including $9,012,905 to acquire the site and $5,264,611 for predevelopment (File 21-0763). After Board of Supervisors' approval of the loan, the number of units was reduced by eight units from 98 to 90 to avoid building units over an PG&E electric utility easement that bisects the site according to MOHCD staff.

Construction is expected to begin in June 2024 and to be complete by December 2025.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would:

1) Approve the acquisition of 2550 Irving Street from 2550 Irving Associates, L.P. (a subsidiary of TNDC) for $9,600,000;
2) Place the property under MOHCD jurisdiction for affordable housing construction;
3) Approve a ground lease with 2550 Irving Associates, L.P. for a term of 75 years, with a 24-year option to extend and an annual base rent of $15,000;
4) Approve a not-to-exceed $16,956,650 amended and restated loan agreement for a minimum loan term of 57 years between the City and 2550 Irving Associates, L.P.;
5) Find that the 2550 Irving Street property is exempt from the California Surplus Land Act;

6) Determine that the below market rate rent of the ground lease serves a public purpose by providing affordable housing for low-income households in need;
7) Find that the project and related transactions are consistent with the City's General Plan and the priority policies of the Planning Code;
8) Authorize the Director of Property and the Director of MOHCD to amend the Purchase Agreement, Ground Lease and Loan Agreement, provided amendments do not increase the obligations or liabilities to the City; and

Purchase and Sale Agreement

The proposed Purchase and Sale Agreement will transfer ownership of the property from the project sponsor to the City. Section 2 of the Purchase Agreement states that the City previously loaned $9,012,905 to fund TNDC's acquisition of the property. Upon land transfer to the City, the original MOHCD acquisition loan of approximately $9,718,916 (and accrued interest at time of transfer) will be considered paid in full. This includes $9,012,905 as the original site purchase price and $706,011 reflecting accrued interest through the anticipated closing date (June 7, 2024). The total loan amount to be forgiven ($9,718,916) is slightly greater than the March 2024 appraised value of $9,600,000 despite an increase in the appraised value since March 2021 due to accrued interest over the three-year period.

The original acquisition loan amount of $9,012,905 is equal to the March 2021 appraised value of $9,000,000 plus $12,905 in associated legal and closing costs.

Ground Lease & Affordability Restrictions

The proposed ground lease has a term of 75 years and gives TNDC one 24-year extension option, for a maximum term of 99 years. During the initial lease term, proposed base rent is $15,000 per year, plus residual rent payable from residual receipts after full repayment of the MOHCD loan, up to a total rent of 10 percent of appraised fair market value. (Consistent with MOHCD's Residual Receipts policy, the term "residual receipts" refers to up to two-thirds of net income after operating costs, ground lease base rent, and replenishing operating reserves.) Base rent during the extension period would be negotiated between TNDC and the City and would have to be at least the annual rent of the initial lease term.

Affordability restrictions to preserve the affordability of the housing units in the proposed development are included in the loan agreement between the City and the affordable housing operator and recorded against the property as a Declaration of Restrictions. The unit mix by maximum income level is shown in Exhibit 1 below.

Exhibit 1: Unit Mix and Maximum Income Level

Maximum Income Level	Studio	1-Bedroom	2-Bedroom	3-Bedroom	Total
50% of AMI		5*	9*	8*	22*
60% of AMI	9	7			16
70% of AMI		6			6
80% of AMI		15**	14	16	45
Unrestricted (Manager's Unit)		1			1
Total	**9**	**34**	**23**	**24**	**90**

Source: Draft Declaration of Restrictions
*Units supported by LOSP subsidy
**Units supported by VASH subsidy

In addition, 22 units must be rented to homeless households or those at risk of homelessness as long as the City provides rental subsidies to the project through the Local Operating Subsidy Program (LOSP), and 15 units must be rented to veterans with Section 8 vouchers or certificates under the Federal Veterans Affairs Supportive Housing (VASH) program as long as subsidies are provided to the project. Rents may not exceed 30 percent of the maximum income level for the unit.

Loan Agreement

The original loan agreement provided by MOHCD in 2021 included $5,264,611 for predevelopment costs. MOHCD proposes to amend the loan agreement to increase the loan amount by $11,692,039 to complete development and construction, including permanent financing. Under the proposed amended loan agreement, the total loan amount would increase up to $16,956,650.

The project sponsor 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. The interest rate is reduced from three percent under the original loan agreement to zero percent under the amended and restated loan agreement to make the project financially feasible.

Bridge Loan

Under the proposed loan agreement, $1 million of the funding provided by the City is a bridge loan, pending receipt of expected loan funds from the Federal Home Loan Bank Affordable Housing Loan Program (AHP). The sponsors will apply for an AHP loan in late 2024 or early 2025 according to the MOHCD loan evaluation.

Loan Documents

The proposed resolution also approves the following associated loan documents:

- Declaration of Restrictions, which requires the Project Sponsor to maintain the housing affordability levels defined in the loan agreement for the life of the project, even after the loan is paid in full or otherwise satisfied;
- The Amended and Restated Secured Promissory Note for the loan; and
- The Deed of Trust between 2550 Irving Associates L.P. and Old Republic Title Company, on behalf of the City as lender.

Sponsor Performance

According to the MOHCD loan evaluation, there are no performance improvement plans for TNDC.

FISCAL IMPACT

Total Development Costs

The total development costs for the Project are $108.1 million, including acquisition costs, as shown in Exhibit 2 below. Of the approximately $108.1 million, $26.0 million (24%) are City funds, $36.9 million (34%) are State funds, and $45.3 million (42%) are private funds (which benefit from tax credits awarded to the project).

Exhibit 2: Total Development Costs

Sources and Uses	Amount
Sources	
MOHCD Acquisition Loan	$9,012,905
MOHCD Gap Loan (proposed)	16,956,650
HCD Multi-Family Housing Loan	29,363,536
HCD Infill Infrastructure Grant	6,999,486
HCD Community Grant*	500,000
Limited Partner Equity*	45,303,503
General Partner Equity	100
Total Sources	**$108,136,180**
Uses	
Acquisition (incl. holding costs)	9,230,405
Hard Costs (incl. 10.5% contingency)	70,426,835
Soft Costs (incl. 8.2% contingency)	24,952,127
Developer Fee	2,200,100
Reserves	1,326,713
Total Uses	**$108,136,180**

Source: MOHCD

*Use of the ground floor space for the Sunset Chinese Cultural District reduced the tax credit equity for the project by $1.0 million. However, the space received a $500,000 capital grant from HCD.

Funding Sources for City Loan

Sources of funds for the proposed amended and restated loan of up to $16,956,650 include:

- $14,182,833 in 2019 General Obligation Bonds;
- $1,875,019 in Low and Moderate Income Housing Asset Fund funds; and
- $898,798 in Citywide Affordable Housing Fund ("the CPMC Fund") monies.

The source of the City's acquisition loan, which will be forgiven as part of the property purchase, was 2019 General Obligation Bonds.

City Subsidy per Housing Unit

Total development costs are $108.1 million, $1.2 million per unit, or $663,412 per bedroom. The City's total subsidy for the housing development costs, including acquisition costs, is $26.0 million, or $288,551 per unit, as shown in Exhibit 2 below. Excluding acquisition costs, the city subsidy is $16,956,650, or $188,407 per unit.

Exhibit 3: City Subsidy for Affordable Housing Units

Number of Units	90
Total residential area (sq. ft.)	75,753
Development Cost	$108,136,180
Total City subsidy	$25,969,555
Development cost per unit	$1,201,513
City Subsidy per unit	$288,551
City Subsidy per sq. ft.	$343

Source: MOHCD

According to the MOHCD loan evaluation memo for the proposed gap loan, construction costs per unit for the Project ($782,520) are 15 percent higher than comparable projects due to: (a) the reduced unit count; (b) required infrastructure and utility relocation work; and (c) a higher bedroom count per unit compared to other MOHCD projects to accommodate families. In addition, soft costs per unit for the Project ($277,246) are 85 percent higher than comparable projects due to legal and environmental consultant expenses resulting from community opposition and State court litigation. Despite higher than average costs for acquisition, construction, and soft costs, the City's subsidy per unit is in line with comparable projects due to significant State and private funding sources.

Operating Budget

According to the 20-year cash flow analysis for the project, the project will have sufficient revenues to cover operating expenses, reserves, management fees, and debt service on the California Department of Housing and Community Development (HCD) Multi-Family Housing Program loan (a portion of which is structured as hard debt). Project revenues consist of tenant rents and subsidies from LOSP and the VASH program. A portion of net income after operating expenses (residual receipts) will be used to repay the MOHCD and HCD Multi-Family Housing

Program loans. The Project is not expected to generate sufficient net revenues to make residual rent payments under the proposed Ground Lease.

The project does not have sufficient cash flow to support a private mortgage, and the MOHCD loan evaluation states that insurance costs in the pro forma ($184,245 in Year 1) are low relative to current market conditions ($512,705), which could impair the project's ability to make debt service payments on the Multi-Family Housing Program loan. The project sponsor expects to absorb higher than anticipated insurance costs and anticipates insurance costs will decline by the time the building is operational.

RECOMMENDATION

Approve the proposed resolution.