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

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October 20, 2016

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: October 26, 2016 Budget and Finance Committee Meeting

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Item 1 **File 16-1011** *Continued from October 19, 2016*	**Department:** **Public Utilities Commission (SFPUC)**

EXECUTIVE SUMMARY

Legislative Objectives

- Resolution approving issuance of water revenue bonds in aggregate principal amount not to exceed $295,000,000 to be issued by the SFPUC pursuant to prior ordinances and the Charter of the City and County of San Francisco; affirming covenants contained in the indenture pursuant to which water revenue bonds are issued; authorizing the taking of appropriate actions in connection therewith; and related matters.

Key Points

- On November 5, 2002, San Francisco voters approved Proposition E, authorizing the SFPUC to issue revenue bonds or other forms of indebtedness, as authorized by the Board of Supervisors, to reconstruct, replace, expand, repair and/or improve SFPUC's water system.
- As of September 1, 2016, the SFPUC has approximately $236,000,000 of commercial paper outstanding.

Fiscal Impact

- The proposed issuance of $295,000,000 of water revenue bonds was previously appropriated and related debt service costs have already been factored into SFPUC's 10-Year Financial Plan Update.
- $239,000,000 of the requested $295,000,000 water revenue bonds will be used to pay off outstanding commercial paper, related interest and administrative costs. $26,000,000 will be used to continue funding the Calaveras Dam Project. $29,000,000 is for capitalized interest for the initial three years during project construction.
- The $295,000,000 water revenue bonds are estimated at 4% annual interest over 30 years. Annual debt service is projected at $18,065,369 or a total of $487,764,963, including $295,000,000 principal and $192,764,963 interest expense.
- Water rates paid by SFPUC customers fund the SFPUC's Water Enterprise operating and capital costs, including debt service. The proposed $295,000,000 water revenue bonds has already been factored in the SFPUC's 10-Year Financial Plan. The SFPUC approved an overall 10 percent increase in water rates in FY 2016-17 and a 7 percent increase in water rates in FY 2017-18. The SFPUC estimates that the average monthly residential water bill will increase by $4 in FY 2016-17, from $40 in FY 2015-16 to $44 in FY 2016-17; and by $3 in FY 2017-18, from $44 in FY 2016-17 to $47 in FY 2017-18.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

Charter Section 9.107 authorizes the Board of Supervisors to issue revenue bonds on behalf of the San Francisco Public Utilities Commission for water and electric power facilities, following the approval of the issuance of such revenue bonds by a majority of the voters.

Charter Section 9.109 authorizes the Board of Supervisors to issue general obligation or revenue bonds to refund outstanding City and County debt, without voter approval, if such refunding bonds result in net debt service savings on a present value basis. However, on June 14, 2016, the Board of Supervisors approved an ordinance authorizing the SFPUC to sell refunding bonds to refinance outstanding water revenue bonds through June 30, 2018 without further Board of Supervisors approval if the SFPUC achieves at least 3% net present value debt service savings (File 16-0472; Ordinance No 112-16).

BACKGROUND

San Francisco Public Utilities Commission

The San Francisco Public Utilities Commission (SFPUC) owns and operates a municipal water supply, storage, and distribution system that provides drinking water to (1) retail customers in the City, (2) certain retail customers located outside of the City, and (3) wholesale customers in Alameda County, Contra Costa County, and Santa Clara County. The SFPUC water system is divided into two geographic groups including (1) the regional water conveyance system and the (2) in-city (local) distribution system. The SFPUC is currently completing the approximately $5 billion Water System Improvement Program (WSIP), which consists of 87 capital projects to repair, replace and upgrade the SFPUC's regional and local water facilities and systems.

Prior Authorizations of Water Revenue Bonds

On November 5, 2002, San Francisco voters approved Proposition E, authorizing the SFPUC to issue revenue bonds or other forms of indebtedness, as authorized by the Board of Supervisors, to reconstruct, replace, expand, repair and/or improve SFPUC's water system, codified in City Charter Section 8B.124. As of September 1, 2016, the Board of Supervisors has authorized the SFPUC to sell up to $3.7 billion in water revenue bonds under Proposition E. Currently, there are approximately $2,667,497,000 total principal SFPUC water revenue bonds outstanding under this authorization.

Prior Authorization of Commercial Paper

On December 16, 2008, the Board of Supervisors approved increasing the commercial paper authorization for the SFPUC water enterprise to a not-to-exceed $500,000,000 (Ordinance No. 311-08; File 08-1453). As of September 1, 2016, the SFPUC has approximately $236,000,000 of commercial paper outstanding, leaving a remaining authorization balance of approximately $264,000,000.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would (a) approve the issuance of water revenue bonds (Series 2016C) in an aggregate principal amount not to exceed $295,000,000 to be issued by the SFPUC pursuant to prior ordinances and the Charter of the City and County of San Francisco; (b) affirm covenants contained in the indenture pursuant to which water revenue bonds are issued; (c) authorize the taking of appropriate actions in connection therewith; and (d) related matters.

The proposed resolution would authorize the issuance of up to $295,000,000 of new water revenue bonds in one or more series on one or more dates at a maximum 12% annual interest, as tax-exempt or taxable bonds based on a competitive or negotiated sale. The bond funds would be used to:

(a) Refund the SFPUC's outstanding commercial paper;

(b) Finance previously authorized capital improvements to the City's water system;

(c) Pay capitalized interest on the bonds;

(d) Pay issuance costs on the bonds;

(e) Provide recommended and/or necessary fund credit enhancements, bond insurance, reserve funds and/or debt service reserves.

The proposed resolution would also approve the financing documents for this bond issuance, including the:

- Preliminary Official Statement (POS), disclosure describing the bond terms and condition of the SFPUC Water Enterprise.
- Continuing Disclosure Certificate, which is an appendix to the POS that outlines the disclosure reporting requirements during the term of the bonds.
- Supplemental Indentures, regarding the agreements between the SFPUC and the investors, or purchasers of the bonds.
- Notice of Intention to Sell, which notifies the financial community regarding the pending revenue bond sale.
- Official Notice of Sale, which notifies underwriters regarding the bidding parameters for a competitive bond sale.
- Bond Purchase Contract, which outlines the terms of the bond sale for a negotiated transaction.

If approved, the SFPUC anticipates completing the sale of the $295,000,000 water revenue bonds in late November 2016.

FISCAL IMPACT

The Public Utilities Commission approved the SFPUC 10-Year Capital Plan for FY 2016-17 through FY 2025-26 in January 2016. The 10-Year Capital Plan provides for $1.4 billion in Water

Enterprise projects. The requested $295 million of new water revenue bonds has been previously appropriated and related debt service costs have already been factored into the 10-Year Financial Plan Update, approved by the SFPUC in February 2016.

Table 1 below shows the estimated sources and uses for the requested not-to-exceed $295,000,000 Series 2016C new water revenue bonds.

Table 1: Sources and Uses of $295,000,000 Water Revenue Bonds

Sources	
Bond Proceeds Par Amount	$295,000,000
Uses	
Commercial Paper Refunding	$239,000,000
WSIP Project Fund	26,000,000
Capitalized Interest Fund	29,000,000
Bond Issuance and RBOC[1]	400,000
Underwriter's Discount	600,000
Total	$295,000,000

According to Mr. Michael Brown in Capital Finance at SFPUC, the commercial paper payoff of $239,000,000 shown in Table 1 above includes the $236,000,000 of outstanding commercial paper and an additional $3,000,000 estimated for interest and administrative costs, such as bank facility and rating agency fees, due at the time of the commercial paper refunding.

The WSIP Project Fund for $26,000,000 shown in Table 1 above will be used to continue funding the Calaveras Dam Project. The Calaveras Dam Project is a WSIP Regional Project, with a total estimated cost of approximately $145,000,000, including $80,000,000 over the next 12 months. The Calaveras Dam Project is anticipated to be completed in 2019.

The Capitalized Interest Fund of $29,000,000 shown in Table 1 above will be used to pay for interest costs on the total $295,000,000 debt for the initial three years. Capitalized interest is typically included to fund debt service during project construction.

The requested $295,000,000 water revenue bonds are anticipated to be taxable bonds at an estimated 4% annual interest with a term of 30 years. Annual debt service is projected at $18,065,369 or a total of $487,764,963, which includes $295,000,000 of principal and $192,764,963 of interest expense for 27 years. As noted above, the first three years, debt service would be paid with a set aside Capitalized Interest Fund.

Water Rate Increases in FY 2016-17 and FY 2017-18

In accordance with Charter Section 8B.125, the SFPUC is responsible for setting the rates, fees and other charges for water and sewer. The SFPUC's action on all rates, fees and charges is subject to rejection, within 30 days of submission, by resolution of the Board of Supervisors. If the Board of Supervisors does not act within 30 days, the SFPUC proposed rates become effective without further Board of Supervisors action.

[1] The SFPUC Revenue Bond Oversight Committee (RBOC) was created pursuant to Proposition P in November of 2002 and requires 0.05% of gross proceeds of the bonds be deposited in a fund and appropriated by the Board of Supervisors to cover the costs of this Committee.

Water rates paid by SFPUC customers cover the costs of the Water Enterprise's operating and capital costs. The SFPUC bills residential customers for a combined water and sewer bill. The average monthly residential combined water and sewer bill in FY 2015-16 was $86, of which $40 is water and $46 is sewer. Currently, water rates have been approved through FY 2017-18.

The additional debt service to cover the costs of the proposed $295,000,000 water revenue bonds has already been factored in the SFPUC's 10-Year Financial Plan adopted by the Commission on February 9, 2016. According to the FY 2016-17 to FY 2025-26 Financial Plan, the SFPUC approved a 10 percent increase in water rates in FY 2016-17 and 7 percent increase in water rates in FY 2017-18 to cover the Water Enterprise's operating and capital costs. The SFPUC estimates that the average monthly residential water bill will increase by $4 in FY 2016-17, from $40 in FY 2015-16 to $44 in FY 2016-17; and by $3 in FY 2017-18, from $44 in FY 2016-17 to $47 in FY 2017-18.

RECOMMENDATION

Approve the proposed resolution.

Item 4 **File 16-0956**	**Department:** Controller's Office (Controller)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize the Controller's Office to enter into the tenth amendment to an agreement with JobAps, Inc. (JobAps) to provide online job application services for the City. The amendment would extend the agreement term for two years through November 26, 2018, for a total term of twelve years, and increase the total not-to-exceed by $612,350, from $1,624,670 to $2,237,020.

Key Points

- The City entered into the original agreement with JobAps on November 27, 2006 after competitive bid for a total amount not to exceed $250,000. The agreement has been amended and extended nine times to provide maintenance, customization, and system expansion, and the current total not-to-exceed amount under the ninth amendment is $1,624,670. The agreement will expire on November 26, 2016.
- The tenth amendment would increase the term of the agreement by two years, for a total term of twelve years, through November 26, 2018 and increase the not-to-exceed amount by $612,350 to $2,237,020.
- The Controller's Office is reviewing proposals from other vendors submitted in response to a Request for Information issued in July 2016, and these potential vendors will be considered for a new contract to begin when the proposed tenth amendment to the agreement with JobAps expires.

Fiscal Impact

- Out of the presently authorized not-to-exceed amount of $1,624,670, $1,593,810 has been expended to date under the agreement with JobAps.
- Under the proposed amendment the total not-to-exceed amount of this agreement will increase by $612,530, from $1,624,670 to $2,237,020.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

BACKGROUND

In November 2006, the City through the Controller's Office entered into an agreement with JobAps, Inc. (JobAps) following a competitive bid to obtain a hosted application for online job application, recruitment, testing, certification, and referral services. The JobAps agreement is managed by the eMerge Division of the Controller's Office and supports the City's Department of Human Resources (DHR).

The original agreement was for three years from November 2006 through November 2009, with two 2-year options to extend through November 2013 for a total of seven years. The original agreement amount was $250,000. Since 2006 the agreement has been amended nine times, extending the term through November 26, 2016 for a total term of ten years and increasing the total not-to-exceed amount to $1,624,670, to provide additional maintenance support services and to customize the system for greater functionality at the request of DHR. Table 1 below details the dates, purposes, and amounts of the original agreement and each amendment.

Table 1: JobAps Agreement History and Amendments

Contract	Purpose	End Date	Amendment Amount	Grand Total
Original	Original agreement	November 2009		$250,000
First	Maintenance/customization	No change	$38,050	288,050
Second	Maintenance and system expansion	December 2011	196,950	485,000
Third	System expansion and customization	No change	28,000	513,000
Fourth	System expansion	No change	30,000	543,000
Fifth	Maintenance/customization	December 2012	100,000	643,000
Sixth	Maintenance/customization	No change	50,000	693,000
Seventh	Maintenance/customization	December 2013	197,103	890,103
Eighth	Maintenance/customization	December 2014	237,722	1,127,825
Ninth	Maintenance/customization	November 2016	$496,845	$1,624,670

The original agreement and nine previous amendments were not subject to Board of Supervisors approval because the total expenditures were less than $10 million and the agreement term was less than ten years.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the tenth amendment to the JobAps agreement, which provides for the City's online job application program and related services, extending the agreement term by two years from November 27, 2016 through November 26, 2018, resulting in a total agreement term of 12 years, and increasing the total not-to-exceed amount of $1,624,670 by $612,350 to $2,237,020. The proposed amendment would provide for continued maintenance support services and additional customization support services.

Maintenance support services include quarterly upgrades, debugging, and disaster recovery. Customization support services allow for greater system functionality and enhanced efficiencies.

The City has requested six new customizations to the JobAps system under the proposed tenth amendment for the following:

1. 2015 Hired Interface: This enhancement programmatically and automatically detects completed eligible list certifications[1] and archives them. It removes the need for the Department of Human Resources to manually clean up the outstanding eligible list certifications if they have already been completed.
2. 2015 FreeNames: This enhancement grants DHR the ability to manage various lists that do not follow the normal hiring process, which was previously done outside of the system. It also enables DHR to standardize the hiring process for such hires to ensure that there is alignment of best practices across all hiring types.
3. 2015 Request to Hire: This enhancement is for two interfaces between JobAps and PeopleSoft for the purposes of the pre-hire project currently in process, Request-to-Hire. The two interfaces send information to the Request-to-Hire application to reduce double data entry and improve hiring responsiveness.
4. 2016 Additional Referral Questionnaire: This enhancement is an effort to centralize departmental use of additional candidate inquiries and is driven by, but not limited to, the new FlexSelect program currently in development. The electronic and scalable process enhancement brings potential labor savings to the current process of manually producing scoring sheets of supplemental questionnaires.
5. 2016 Application Redaction: This enhancement makes various changes to the JobAps system that automatically redacts information from identified fields in applications at various points in the system to reduce implicit bias.
6. 2016 Referral Process Enhancements: This enhancement is to bring greater system validation to JobAps. It automatically calculates reachable rank,[2] which is fundamental for the validation of hires. It also provides notification of position changes from PeopleSoft, allowing DHR to be more proactive when position state changes occur.

[1] "Certification" is the process by which a list of eligible candidates is approved.

[2] "Reachable" rank is the position on the eligibility list from which hiring departments may select (i.e., if the hiring department can only hire from the top three candidates, then the reachable rank is the top three on the eligibility list).

Selection of New Vendor

The Controller's Office issued a Request for Information (RFI) in July 2016 to identify prospective vendors for a new contract pertaining to the City's online job application and related services programs that would be able to provide flexible software solutions for the City's hiring process. The deadline for submission of proposals was August 31, 2016, and three vendors submitted proposals in response to the RFI. According to Mr. Keith Miller of the Controller's Office, these potential vendors will be considered for a new contract to begin when the proposed tenth amendment to the agreement with JobAps expires in 2018. Mr. Miller states that it would take well over a year to transition to a new vendor once one is selected. Therefore, the Controller's Office in consultation with the Department of Human Resources believes extending the current agreement with JobAps is necessary to provide and maintain the City's web-based recruitment system for the next two years.

FISCAL IMPACT

According to Mr. Miller, as of September 21, 2016 the City has expended $1,593,810 of the existing not-to-exceed amount of $1,624,670 under the current agreement with JobAps, resulting in an unexpended balance of $30,860 to cover the remainder of the agreement through November 26, 2016.

Table 2 below summarizes the additional requested $612,350 in costs under the proposed tenth amendment to the agreement with JobAps.

Table 2: Tenth Amendment Estimated Cost Breakdown

	Amendment 10 11/16-11/18
Maintenance support services	$516,600
Customization support services	95,750
Total cost	**$612,350**

Source: Controller's Office

The requested additional $516,600 in maintenance support services will provide for continued maintenance services for two additional years. The requested additional $95,750 for customization support services will fund six new customizations to the online job application system provided by JobAps, described above, and provide for greater system functionality and enhanced efficiencies.

RECOMMENDATION

Approve the proposed resolution.

Item 7 **File 16-0222**	**Department:** Real Estate Division (Real Estate)

EXECUTIVE SUMMARY

Legislative Objectives

The proposed ordinance would amend the Administrative Code to add Section 23.42 to prohibit the City from entering into new leases or extending existing leases for the extraction of fossil fuels from City-owned land.

Key Points

- "Fossil fuel" in Administration Code Section 23.42 refers to coal, petroleum, kerosene, oil, tar sands, oil shale, gas, and other petroleum or hydrocarbon products that emit carbon monoxide as a byproduct of combustion. Chapter 9 Section 900(f) of the Environment Code states that it is the intent of the Mayor and the Board of Supervisors to protect health and welfare in a manner that complements state and federal efforts to improve air quality by exercising a leadership role in mandating local actions to reduce global warming.
- The proposed ordinance does not apply to any City department that has exclusive jurisdiction over its real property to the extent that applying this ordinance would violate the Charter or interfere with the Department's ability to carry out its core functions under the Charter.
- The City currently has an oil and gas lease with Chevron for 800 acres in Kern County, bequeathed to the City in 1941. Lease revenues are allocated to the Library and Recreation and Park Department.

Fiscal Impact

- Chevron paid the City lease revenues totaling $3,727,024 over a five-year period. If the proposed ordinance is approved, the City would lose an estimated $319,597 per year beginning in March 2020 when the current lease terminates.

Policy Consideration

- The 800 acre property under lease between the City and Chevron could be sold to a buyer who would assume the lease with Chevron until lease expiration in March 2020, with a deed restriction preventing a renewal of the lease or execution of future leases for oil and gas extraction.
- Terminating the lease between the City and Chevron would result in an estimated revenue loss to the Public Library and Recreation and Park Department of $319,597 per year. Other City-owned parcels in Fresno and Kern Counties could be leased by the Real Estate Division to a private solar power company, resulting in an estimated $484,000 per year that could make up the revenue loss.

Recommendation

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

MANDATE STATEMENT

City Charter Section 2.105 states that the Board of Supervisors shall act only by written ordinance or resolution.

BACKGROUND

The 2014 Fifth Assessment Report of the Intergovernmental Panel on Climate Change, a group of independent scientific experts from 195 countries under the auspices of the United States, found that 1983 to 2012 was very likely the warmest 30-year period of the last 800 years in the Northern Hemisphere. The report also found that green-house gas emissions[1] caused by human behavior—which climate scientists believe to be the main cause of recent global warming—are the highest in history and have influenced the climate system.

At the 2015 United Nations Climate Change Conference, 196 parties, including the United States, negotiated the Paris Agreement that reaffirms the goal of limiting the global temperature increase to well below 2 degrees Celsius, while urging to limit the increase to 1.5 degrees.

Impacts of Global Warming in San Francisco

According to the San Francisco Bay Conservation and Development Commission's 2011 report, "Living with a Rising Bay," a 55-inch sea level rise by the end of the century due to climate change would cause substantial impacts to San Francisco and California, including shoreline development and infrastructure, and residents living and working close to the shoreline.

Climate Action Plan in San Francisco

In May 2008, the Board of Supervisors adopted Ordinance No. 81-08 to establish greenhouse gas emission goals and department action plans. The Department of the Environment was assigned responsibility for determining the 1990 baseline greenhouse gas emissions for City departments, and setting goals to reduce greenhouse gas emissions for city departments:

- By 2017, reduce greenhouse gas emissions by 25 percent below 1990 levels;
- By 2025, reduce greenhouse gas emissions by 40 percent below 1990 levels; and
- By 2050, reduce greenhouse gas emissions to 80 percent below 1990 levels.

The San Francisco Public Utilities Commission (SFPUC) created a Climate Action Plan in 2004, which was updated in 2013, outlining citywide actions to reduce greenhouse gas emissions in the energy, transportation and solid waste sectors. In addition, SFPUC's 2011 Updated Electricity Resource Plan identifies SFPUC's strategies to provide electricity from renewable and zero greenhouse gas sources by 2030.

[1] Greenhouse gas or greenhouse gases means and includes all of the following gases: carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend the Administrative Code to add Section 23.42 to prohibit the City from entering into new leases or extending existing leases for the extraction of fossil fuels from City-owned land. “Fossil fuel” in Administration Code Section 23.42 refers to coal, petroleum, kerosene, oil, tar sands, oil shale, gas, and other petroleum or hydrocarbon products that emit carbon monoxide as a byproduct of combustion. According to the proposed ordinance, prohibiting fossil fuel leases on all City-owned property is consistent with Chapter 9 Section 900(f) of the Environment Code, “Greenhouse Gas Emissions Targets and Departmental Action Plans,” which states the intent of the Mayor and the Board of Supervisors to protect health and welfare in a manner that complements state and federal efforts to improve air quality by exercising a leadership role in mandating local actions to reduce global warming.

The proposed ordinance does not apply to any City department that has exclusive jurisdiction over its real property to the extent that applying this ordinance would violate the Charter or interfere with the Department’s ability to carry out its core functions under the Charter.

Existing City Lease for Fossil Fuel Extraction

According to Mr. John Updike, Director of the Real Estate Division, the City currently has one lease that is used for the extraction of fossil fuels. In 1941, Alfred Fuhrman bequeathed Kern Oil Field, approximately 800 acres of land in Kern County, to the City. Shell Oil Company leased Kern Oil Field in 1963 from the City for an initial term of 35 years through March 1998 for the purpose of mining, exploring, and operating for oil, gas, and other hydrocarbon substances, and paid the City a fixed royalty of 12.5 percent of gross revenues. The Shell Oil Company was responsible for maintenance costs and taxes for Kern Oil Field. Mr. Fuhrman requested that all revenues to the City from Kern Oil Field be equally divided between the San Francisco Public Library, and the Recreation and Park Department.[2]

In May 1994, the City extended the lease through March 31, 2020 and increased the fixed royalty payable to the City to 15.5 percent. Chevron USA, Inc. is now the lessee of this lease agreement after a merger between Chevron and Texaco in 2001, which led to the consolidation of a number of firms, including the original Shell Oil Company.[3]

FISCAL IMPACT

As shown in Table 1 below, from 2011 to 2015, under the lease between Chevron and the City for the use of Kern Oil Field, Chevron paid the City royalty revenues totaling $3,727,024. The proposed ordinance would result in the termination of this lease on March 31, 2020 when the lease expires, at which point the City would no longer receive royalty revenues.

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[2] Revenues received by the Public Library can be used to acquire library collection materials in all formats, while revenues earned by the Recreation and Parks Department can be used for the adornment of Golden Gate Park.

[3] In 1995, Shell Oil Company (Shell) formed and transferred the obligations of this lease to Cal Resources, LLC. In 1997, Shell renamed Cal Resources, LLC to Aera Energy, LLC. In 1999, Texaco California and Aera Energy completed a trade of assets, and the lease was transferred to Texaco California. In 2001, Chevron and Texaco merged to form Chevron Texaco Corporation. Texaco subsequently became a brand of Chevron.

Table 1. Annual Lease Revenues Paid by Chevron to the City for the Kern Oil Field Lease from 2011 to 2015 [a]

Year	Total Lease Revenues
2011	$ 951,840
2012	801,446
2013	820,559
2014	833,581
2015	319,597
Total	**$ 3,727,024**

Source: Real Estate Division staff.

[a] Lease revenues paid to the City are net of property taxes paid by Chevron

According to Mr. Updike, revenues from Kern Oil Field have been in decline in recent years because of decreasing yield from Kern Oil Field and a lower fair market value for fossil fuels. As shown in Table 1 above, in 2015 the City received $319,597 in total revenues.

POLICY CONSIDERATION

Alternative Use of Kern Oil Field

According to Mr. Updike, the Real Estate Division recommends selling the 800 acre property under lease between the City and Chevron to a buyer who can assume the remaining oil/gas revenue stream until lease expiration in March 2020, with a deed restriction preventing a renewal of the lease or execution of future leases for oil and gas extraction.

Potential Alternative Revenues

As noted above, revenues generated by the oil and gas lease between the City and Chevron are allocated to the Public Library and Recreation and Park Department. Terminating the lease would result in a revenue loss of $319,597 per year, based on 2015 revenues, of which $159,798 would be reduced revenues to the Recreation and Park Department and $159,798 would be reduced revenues to the Library.

SFPUC has evaluated use of 484 acres in Kern County and Fresno County as a solar power project. [4], [5] According to Mr. Updike, the City could potentially lease the 484-acre site in Kern County and Fresno County to a private solar energy company, at an estimated rent of $1,000 per acre or $484,000 per year. These revenues of $484,000 per year could be used to offset the revenue loss to the Public Library and Recreation and Park Department from termination of the existing lease between the City and Chevron.

RECOMMENDATION

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

[4] Total acreage in Kern County and Fresno County, bequeathed to the City in 1941 by Alfred Fuhrman, is 1480 acres, which includes 800 acres under lease to Chevron.

[5] AEPC Group, LLC prepared a report in June 2016 for the SFPUC Renewable Energy Generation Group, evaluating the feasibility of generating solar power on the 680 acres in Kern County and Fresno County not under lease to Chevron.

Item 10 **File 16-1041**	**Departments:** Office of Community Investment and Infrastructure (OCII)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves an air rights lease between OCII as landlord and T8 Housing Partners, L.P (T8 Housing) as tenant for Transbay Block 8, located at 250 Fremont Street. The air rights lease is for 75 years through 2091, with a 24-year option to extend the lease through 2111, totaling 99 years. T8 Housing will construct 80 rental housing units, affordable to households with income equal to 50 percent of the Area Median Income.

Key Points

- Transbay Block 8 is part of the Transbay Redevelopment Plan, approved by the Board of Supervisors in 2005, and once developed, will consist of neighborhood retail, market rate condominiums, market rate and developer-subsidized below market rate rental housing, and 80 affordable housing units. Transbay 8 Urban Housing, an affiliate of Related California Urban Housing, LLC, purchased Transbay Block 8 from OCII at a purchase price of $71 million. Transbay 8 Urban Housing will develop the neighborhood retail and market rate condominiums and rental units and developer-subsidized below market rate rental units.
- Related and TNDC formed a joint venture and established a limited partnership, T8 Housing Partners, L.P. (T8 Housing) to develop the 80 units of OCII-subsidized affordable housing. Currently, all of Transbay Block 8, including the air rights parcels, is owned by Transbay 8 Urban Housing. Transbay 8 Urban Housing will transfer the air rights parcels allocated to the construction of 80 affordable housing units to OCII prior to the end of 2016. OCII will then enter into the 75-year air rights lease with T8 Housing, in which T8 Housing will construct the 80-unit affordable housing project. Construction of the 80-unit affordable housing project at 250 Fremont Street will begin in approximately January 2017 and is expected to be substantially complete by July 2019.

Fiscal Impact

- Base annual rent paid by T8 Housing to OCII is $15,000 per year. Annual residual rent of up to $727,237 would be paid by T8 Housing to OCII if T8 Housing has sufficient income after expenses to pay residual rent. The combined base and residual rent of $742,237 equals 10 percent of the pro-rata share of the Block 8 sales price of $7,422,374 attributable to the affordable air-rights parcels value for unrestricted use.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

BACKGROUND

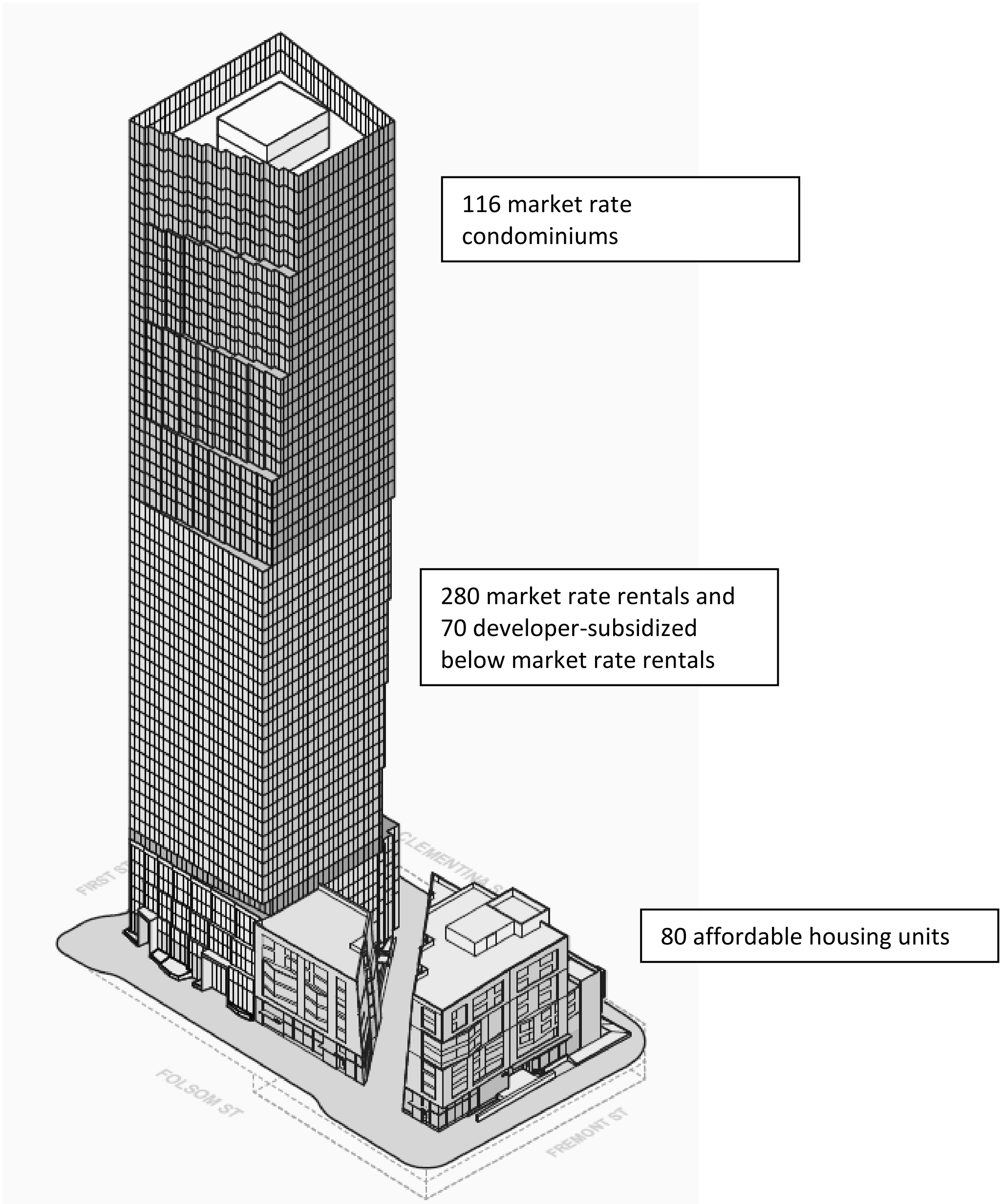
The Transbay Redevelopment Plan[1] was approved by the Board of Supervisors in June 2005, which provided for the redevelopment of a 40-acre area generally bounded by Mission, Main, Second and Folsom Streets, and included redevelopment of the previous Transbay Terminal at First and Mission Streets (File 05-0184; Ordinance No. 124-05).

Transbay Block 8 is a 42,625 square foot site located at 250 Fremont Street in the Transbay Project Area. Related California Urban Housing, LLC (Related) and Tenderloin Neighborhood Development Corporation (TNDC) were selected by the Office of Community Investment and Infrastructure (OCII), the successor agency to the former San Francisco Redevelopment Agency, in June 2014 based on a competitive Request for Proposals process to develop Transbay Block 8. OCII entered into a Development and Disposition Agreement (DDA) with Related's affiliate company, Transbay 8 Urban Housing Associates, LLC (Transbay 8 Urban Housing) and TNDC in April 2015 to develop Transbay Block 8.

Under the DDA, Transbay 8 Urban Housing purchased the Transbay Block 8 land from OCII at a purchase price of $71,000,000. The project to be developed on Transbay Block 8 consists of approximately 17,000 square feet of neighborhood retail space and 546 housing units: 116 market rate condominiums, 280 market rate rental units, 70 developer-subsidized below market rate rental units, and 80 units of OCII-subsidized affordable housing, shown in Figure 1 below.

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

Figure 1: Proposed Transbay Block 8 Development of 546 Housing Units



Transbay 8 Urban Housing will develop the neighborhood retail and market rate condominiums and rental units and developer-subsidized below market rate rental units.

Related and TNDC formed a joint venture and established a limited partnership, T8 Housing Partners, L.P. (T8 Housing) to develop the 80 units of OCII-subsidized affordable housing. T8 Housing's total estimated projects costs to develop the 80 units of affordable housing are $37.0 million. Financing comes from loans from OCII, Wells Fargo, federal tax credits and other sources.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize OCII, as landlord, to execute an air rights lease with T8 Housing, as tenant, for the air right parcels owned by OCII at 250 Fremont Street for the purpose of developing 80 units of affordable housing for low-income households. The initial lease term is 75 years through approximately November 2091 and the annual base rent during the initial term is $15,000, as shown in Table 1 below.

Table 1: Air Rights Lease Terms

Lease Term	
Initial Term	75 years
Option to Extend	24 years
Total Lease Term	99 years
Rent to be Paid by T8 Housing to OCII During Initial Term	
Base Annual Rent	$15,000
Residual Rent [a]	727,237
Total Annual Rent	$742,237

[a] Residual rent due only if property generates surplus cash

Under the proposed air rights lease, T8 Housing will construct and maintain 79 units of affordable housing for low income households and one manager's unit, totaling 80 units. The units will be affordable to households with incomes equal to 50 percent of the Area Median Income.[2] The composition of the units is as follows:

- 40 one-bedroom apartments (including one manager's unit)
- 16 two-bedroom apartments
- 24 three-bedroom apartments

Air Rights Parcels

The Transbay Block 8 land was conveyed by OCII to Transbay 8 Urban Housing in December 2015. Currently, all of Transbay Block 8, including the air rights parcels, is owned by Transbay 8 Urban Housing. At the close of the Transbay 8 Urban Housing's construction financing, expected to be in early December, Transbay 8 Urban Housing will transfer the air rights parcels designated for the construction of 80 affordable housing units to OCII.

OCII will then enter into the 75-year air rights lease with T8 Housing, in which T8 Housing will construct the 80-unit affordable housing project. The proposed air rights lease between OCII and T8 Housing gives T8 Housing a leasehold interest in the property which allows T8 Housing to obtain financing to construct the 80-unit affordable housing project at 250 Fremont Street.

[2] 50 percent of the Area Median Income for a family of four in 2016 is $53,850.

Construction of the 80-unit affordable housing project at 250 Fremont Street is expected to begin in approximately January 2017 and is expected to be substantially complete by July 2019. Upon completion of the project, OCII would transfer the affordable housing loan obligation, asset and air rights lease to the Mayor's Office of Housing and Community Development (MOHCD), which is the City's designated successor Housing Agency in accordance with State Dissolution Law.

At the end of 75 years, T8 Housing has the option to extend the air rights lease for an additional 24 years through approximately November 2115, for a total lease term of 99 years, and would be required to retain the affordability restrictions on the 80 units. After expiration of the air rights lease, T8 Housing would retain ownership of the building and the City would retain ownership of the land.

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

- This ground lease provides housing for very low-income families;
- This ground lease is consistent with the Transbay Project Area Plan;
- The less than fair market value rent of $15,000 per year for 75 years is necessary to achieve affordability for low and very low income households; and
- The present value of the rent payments of $15,000 per year for 75 years is equivalent to the current value of the property because the property value is decreased due to the low income generated by the affordable rents.[3]

FISCAL IMPACT

Base annual rent paid by T8 Housing to OCII is $15,000 per year, which is less than fair market rent. Annual residual rent of up to $727,237 would be paid by T8 Housing to OCII if T8 Housing has sufficient income after expenses to pay residual rent. The combined annual base and residual rent of $742,237 equals 10 percent of the value of $7,422,374 of the air rights parcels to be leased to T8 Housing for affordable housing development.[4]

According to Ms. Sally Oerth, OCII Deputy Director, the residual rent structure under the proposed ground lease is standard for affordable housing projects. By allowing T8 Housing to pay residual rent only if T8 Housing's income after expenses is sufficient to pay the residual rent, T8 Housing is able to rent the 80 affordable housing units to low and very-low income families at affordable rent.

RECOMMENDATION

Approve the proposed resolution.

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

[4] The value of $7,422,374 is the value of these air rights parcels for unrestricted use, and is pro-rated based on the total purchase price of $71,000,000.