

**CITY AND COUNTY OF SAN FRANCISCO**

**BOARD OF SUPERVISORS**

**BUDGET AND LEGISLATIVE ANALYST**

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May 28, 2021

**TO:** Government Audit and Oversight Committee

**FROM:** Budget and Legislative Analyst



**SUBJECT:** June 3, 2021 Government Audit and Oversight Committee Meeting

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<p><b>Item 10</b> <b>File 21-0503</b></p>	<p><b>Department:</b> Mayor’s Office of Housing &amp; Community Development</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <p>The proposed resolution would (1) approve the ground lease between the Mayor’s Office of Housing and Community Development (MOHCD) and Balboa Park Housing Partners LP (Balboa Park Housing) for development of the affordable housing project at 2340 San Jose Avenue; (2) approve the loan agreement in which MOHCD would provide a gap loan of \$24,459,458 to Balboa Park Housing for the project; (3) approve the Declaration of Restrictions and Reservations of Easement between the City and Bay Area Rapid Transit (BART) for a “no-build” easement, and easement between the City and BART to relocate an existing storm drain lateral; and (4) adopt findings that the Project is consistent with the General Plan, and the eight priority policies of Planning Code, Section 101.1.</p> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>▪ In 2016 MOHCD selected Balboa Park Housing, a limited partnership formed by Related California and Mission Housing Development Corporation, to develop the Balboa Park project following a competitive Request for Qualifications process, and in 2018 the Board of Supervisors approved the jurisdictional transfer of the property from MTA to MOHCD.</li> <li>▪ Balboa Park is a 131-unit housing project, affordable to families with household income between 30 percent and 80 percent of Area Median Income (AMI). Thirty-nine of the housing units are allocated to Department of Housing and Urban Development (HUD) Project-Based Vouchers/Housing Assistance Payments (also known as Section 8); these units are set aside for current HOPE SF residents who chose to relocate. The project also includes commercial space for up to five businesses or organizations with a public benefit or community-serving purpose.</li> <li>▪ MOHCD and Balboa Park Housing would enter into a 75-year ground lease with one 24-year option to extend for 2340 San Jose Avenue; annual base rent over the term of the ground lease is \$15,000, and total annual rent is up to \$1.4 million, payable only if the housing project generates residual receipts. MOHCD would loan Balboa Park Housing \$24.5 million toward project development, which includes \$2 million in a prior predevelopment loan and \$22.5 million in new loan funds. The loan is for 57 years at 3 percent simple interest; principal and interest are due at the 57-year maturity date.</li> <li>▪ The total project budget is \$119.3 million, funded from federal low-income housing tax credits, State grants and loans, and commercial and MOHCD loan funds.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>▪ The average development cost per housing unit is \$910,630, which is higher than other affordable housing projects in the MOHCD pipeline due to the complexity of the foundation because of the poor soil conditions, the relative proximity of the foundation to the BART tunnel, and construction of an HVAC (heating, ventilation, air conditioning) system to conform to Health Code requirements. The MOHCD subsidy to the Balboa Park project is \$186,713 per housing unit.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>▪ Approve the proposed resolution.</li> </ul>	

## 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.

Administrative Code Section 23.30 provides for Board of Supervisors approval by resolution of leases of City-owned property. Administrative Code Chapter 23A provides for surplus City property to be used for development of affordable housing.

## BACKGROUND

In 2016, the Mayor's Office of Housing and Community Development (MOHCD) issued a Request for Qualifications (RFQ) to select an affordable housing developer for City-owned property at 2340 San Jose Avenue at the intersection of Geneva Avenue and San Jose Avenue, known as the Upper Yard. MOHCD selected Related California (Related) and Mission Housing Development Corporation (Mission Housing) to develop the property,<sup>1</sup> who formed a limited partnership, Balboa Park Housing Partners LP (Balboa Park Housing), to develop the affordable housing project.

In 2018, the Board of Supervisors approved the jurisdictional transfer of the Upper Yard from the San Francisco Municipal Transportation Agency (SFMTA) to MOHCD for development of affordable housing (File 18-0534).

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the following actions:

- (1) Ground lease between MOHCD and Balboa Park Housing for development of the affordable housing project
- (2) Loan agreement in which MOHCD would provide a gap loan of \$24,459,458 to Balboa Park Housing for the project
- (3) Declaration of Restrictions and Reservations of Easement between the City and Bay Area Rapid Transit (BART) for a "no-build" easement
- (4) Easement between the City and BART to relocate an existing storm drain lateral

The proposed resolution would also adopt findings that the Project and proposed transactions are consistent with the General Plan, and the eight priority policies of Planning Code, Section 101.1.

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<sup>1</sup> Two qualified proposals were reviewed by the selection panel, consisting of representatives from the Excelsior community, Office of Community Investment and Infrastructure, Department of Homelessness and Supportive Housing, San Francisco Municipal Transportation Agency, and Mayor's Office of Housing and Community Development.

**Project Description**

Balboa Park is a 131-unit housing project<sup>2</sup>, affordable to families with household income between 30 percent and 80 percent of Area Median Income (AMI), shown in Exhibit 1 below. Thirty-nine of the housing units are allocated to Department of Housing and Urban Development (HUD) Project-Based Vouchers/Housing Assistance Payments (also known as Section 8); these units are set aside for current HOPE SF residents who chose to relocate.

**Exhibit 1: Balboa Park Income Level by Number of Units<sup>3</sup>**

Area Median Income	Number of Units	Percent of Total
30% AMI	27	21%
50% AMI	55	42%
60% AMI	31	24%
80% AMI	17	13%
Total	130	100%

Source: California Treasurer, Tax Credit Allocation Committee

The housing units would consist of studio, one-bedroom, two-bedroom, and three-bedroom units, as shown in Exhibit 2 below.

**Exhibit 2: Balboa Park Unit Mix by Size**

Unit Size	Number of Units	Percent of Total
Studios	6	5%
One Bedroom	47	36%
Two Bedroom	62	47%
Three Bedroom	16	12%
	131	100%

Source: California Treasurer, Tax Credit Allocation Committee

The project also includes commercial space for up to five businesses or organizations with a public benefit or community-serving purpose.

*Declaration of Restrictions and Affordable Housing Covenants*

A Declaration of Restrictions and Affordable Housing Covenants would be recorded, containing a matrix defining the maximum allowable household income, as a percentage of AMI, by unit type and size. According to the Declaration of Restrictions and Affordable Housing Covenants, 39 units must be rented to Housing Choice Voucher/Section 8 recipients, and all 130 housing units must be rented to tenants within the income limits defined in the matrix.

<sup>2</sup> Includes one manager unit.

<sup>3</sup> The State Treasurer’s Tax Credit Allocation Committee uses Area Median Income (AMI) published by the federal Department of Housing and Urban Development (HUD). MOHCD’s AMI calculation includes unadjusted San Francisco Metro Fair Market Rent as published by HUD, and utility allowances. Based on MOHCD’s formula, the Balboa Park project is affordable to households with income from 40.76 percent to 105 percent of San Francisco AMI.

**Ground Lease**

The proposed ground lease between MOHCD and Balboa Park Housing is for an initial term of 75 years with one 24-year option to extend, for a total 99-year term. Base rent is \$15,000 per year. In accordance with MOHCD’s Residual Receipts Policy, total annual rent is up to \$1.4 million per year, equal to 10 percent of the fair market value of the land, payable to the extent that the Balboa Park project generates sufficient net operating income (operating income less operating expenses).<sup>4</sup>

The ground lease requires that 130 units of housing be rented only to qualified, low-income households, and that 10,791 square feet of commercial space be rented to an early childhood education center, community space and resource center, bike space, and two other spaces for public benefit or community-serving purposes.

**Gap Loan**

The proposed Amended and Restated Loan Agreement is for \$24,459,458, which includes \$2 million in a previously allocated predevelopment loan and \$22,459,458 in new funds for the development of the Balboa Park project<sup>5</sup>. The total development budget of \$119,312,475 is shown in Exhibit 3.

**Exhibit 3: Balboa Park Project Sources & Uses of Funds**

<b>Sources</b>	
MOHCD Gap Loan (File 21-0503)	\$22,459,458
Federal Low Income Housing Tax Credits	56,838,802
Affordable Housing & Sustainable Communities <sup>a</sup>	15,319,112
Permanent Loan <sup>b</sup>	21,395,000
Deferred Developer Fee	3,300,000
General Partner Equity	100
<b>Total Sources</b>	<b>\$119,312,472</b>
<b>Uses</b>	
Construction	\$94,653,892
Soft Costs	16,231,466
Reserves	2,632,114
Developer Fees	5,775,000
Associated Acquisition Costs	20,000
<b>Total Uses</b>	<b>\$119,312,472</b>

Source: MOHCD

<sup>a</sup> California Department of Housing and Community Development

<sup>b</sup> Wells Fargo Bank

<sup>4</sup> The Residual Receipts Policy defines residual receipts as cash that remains after paying operating expenses and debt service (on debt other than MOHCD loans), making deposits to reserves, and making other approved payments (such as fees paid to limited and general partners). Under this Policy, 2/3 of residual receipts go to MOHCD for repayment of MOHCD loans and residual rent payments, and 1/3 of residual receipts go to the housing provider.

<sup>5</sup> MOHCD provided an initial \$2 million predevelopment loan to Balboa Park Housing in 2017 funded by Inclusionary Housing fee revenues, which was increased to \$4.3 million in 2020 to close on the construction loan. The prior \$4.3 million loan is included in the Amended and Restated Loan Agreement, of which \$2.3 million was for predevelopment costs and \$2 million is included in the \$22,459,458 gap loan for the Balboa Park Development project.

The proposed Amended and Restated Loan Agreement provides for the following sources of funds for the \$24,459,458 loan to Balboa Park Housing, shown in Exhibit 4.

**Exhibit 4: Sources of MOHCD Gap Loan**

<b>Source</b>	<b>Amount</b>
2019 General Obligation Bonds	\$15,600,000
2015 General Obligation Bonds	\$7,071,324
Affordable Housing Funds	\$1,788,134
<b>Total</b>	<b>\$24,459,458</b>

Source: MOHCD

The loan is for 57 years with a maturity date no later than October 2078, and bears simple interest of 3 percent per year. All outstanding principal and interest are due on the maturity date.

**Declaration of Restrictions and Reservations of Easement, and Easement Agreement**

The Balboa Park project is adjacent to the Balboa Park BART (Bay Area Rapid Transit) station. According to the Declaration of Restrictions and Reservations of Easement, the Balboa Park project will have windows on the property line with BART, and will require emergency access from the BART property. The proposed Declaration of Restrictions and Reservations of Easement between the City and BART creates a “no-build” area on BART property to allow property line windows and emergency access.

According to the Easement Agreement, BART has a storm drain on the Balboa Park project property. The Easement Agreement between the City and BART creates a perpetual, non-exclusive agreement that provides for the relocation of the storm drain lateral.

**Planning Code and General Plan Conformance**

The Planning Department issued a memorandum in October 2017, stating that the Balboa Park project is not subject to environmental review under the California Environmental Quality Act, and conforms to the Eighty Priority Policies of Planning Code Section 101.1 and is, on balance, in-conformity with the Objectives and Policies of the General Plan. The Planning Department issued a memorandum in October 2018, stating that the proposed Balboa Park project meets the standards of the Planning Code.

**FISCAL IMPACT**

**Project Cash Flow**

The Balboa Park project submitted a 20-year cash flow proforma to the State Treasurer’s Tax Credit Allocation Committee, as part of the review of the project’s eligibility for tax credit financing, which is included in the proposed Amended and Restated Loan Agreement. According

to the 20-year cash flow proforma, the project will have a debt service coverage ratio of 1.15 in the first year of operations, increasing to 1.235 in the fifth year of operations.<sup>6</sup>

MOHCD's Residual Receipts Policy provides a cash flow "waterfall" in which the gap loan and residual rent is paid after other payments are made. Under this policy, fees owed to the developer and the project's limited and general partners, and "soft" debt service (to lenders other than commercial lenders) are paid from residual receipts prior to MOHCD gap loan and residual rent payments. Under the 20-year cash flow proforma, Balboa Park project residual receipts are sufficient to make annual payments on the California Department of Housing and Community Development loan and the MOHCD loan but not on the residual rent. As noted above, the MOHCD loan to Balboa Park Housing has a maturity date of 57 years, at which time outstanding principal and interest (accrued annually as simple 3 percent interest on the outstanding balance) is due in full.

### **Housing Development Costs**

The average development cost per housing unit is \$910,630, based on total project costs of \$119.3 million for 131 housing units. According to the Citywide Affordable Housing Loan Committee report, this cost per housing unit of \$910,630 is significantly higher than other affordable housing projects in the MOHCD pipeline. According to the report, construction costs are higher than average due to the complexity of the foundation because of the poor soil conditions, the relative proximity of the foundation to the BART tunnel, and construction of an HVAC (heating, ventilation, air conditioning) system to conform to Health Code requirements. The MOHCD subsidy to the Balboa Park project is \$186,713, based on a loan of \$24,459,458.

## **RECOMMENDATION**

Approve the proposed resolution

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<sup>6</sup> The debt service coverage ratio is the ratio of net operating income to debt service, and measures the ability of the project to meet debt service obligations. A debt service coverage ratio of 1 or above indicates that a company is generating sufficient operating income to cover its annual debt and interest payments.