

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

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July 6, 2018

TO: Budget and Finance Sub-Committee

FROM: Budget and Legislative Analyst



SUBJECT: July 12, 2018 Budget and Finance Sub-Committee Meeting

TABLE OF CONTENTS

Item	File		Page
1	18-0356	Contract Amendment - Western Area Power Administration - Low-Cost Power and Scheduling Coordinator Services - Treasure Island and Yerba Buena Island - Not to Exceed \$28,370,000.....	1
5 & 6	17-0878	Resolution of Intention to Form Sub-Project Area G-2, Sub-Project Area G-3, and Sub-Project Area G-4 - Infrastructure Financing District No. 2 (Port of San Francisco, Pier 70)	
	17-0879	Resolution of Intention to Issue Bonds - Not To Exceed \$273,900,000 for Sub-Project Area G-2, \$196,100,000 for Sub-Project Area G-3, and \$323,300,000 for Sub-Project Area G-4 - Infrastructure Financing District No. 2 (Port of San Francisco, Pier 70)	4
7, 8 & 9	17-0880	Resolution of Intention to Establish Infrastructure and Revitalization Financing District No. 2 (Hoedown Yard, Pier 70)	
	17-0881	Resolution Authorizing Executive Director of the Port of San Francisco to Prepare an Infrastructure Financing Plan - Infrastructure and Revitalization Financing District No. 2 (Hoedown Yard, Pier 70)	
	17-0882	Resolution of Intention to Issue Bonds Related to Infrastructure and Revitalization Financing District No. 2 (Hoedown Yard, Pier 70).....	13

TABLE OF CONTENTS (continued)

Item	File		Page
10	17-1081	2011 Airport Lease and Use Agreement - Air India Limited.....	19
11	18-0441	Airport Professional Services Contract - Management and Operation of the Airport's Public and Employee Parking Facilities - Not to Exceed \$124,812,393	22
12	18-0588	De-Appropriation and Re-Appropriation - Expenditures of \$6,174,381 Supporting Increased Workers' Compensation Expenditures - Police Department - FY2017-2018	26
13	18-0661	Health Service System Plans and Contribution Rates - Calendar Year 2019.....	28
15	18-0683	Port Ground Lease and Port/Mayor's Office of Housing and Community Development Memorandum of Understanding - 88 Broadway Family, L.P. - 735 Davis Street - Seawall Lot 322-1 - \$20,000 Annual Base Rent	35
17 & 18	18-0685	Jurisdictional Transfer of City Property - Public Works Department - Mayor's Office of Housing and Community Development - 735 Davis Street - \$0	
	18-0686	Option to Ground Lease and Ground Lease - 735 Davis Senior, L.P. - 735 Davis Street - Ground Lease \$15,000 Annual Base Rent	40

<p>Item 1 File 18-0356</p>	<p>Department: Public Utilities Commission (PUC)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed ordinance approves a third amendment to the existing contract between the San Francisco Public Utilities Commission (SFPUC) and the U.S. Department of Energy’s Western Area Power Administration (WAPA) for WAPA to supply electricity to the Treasure Island Development Authority (TIDA). The proposed third amendment (1) extends the term by four years and three months from September 2020 through December 2024, and (2) increases the contract amount by \$12,419,112 from \$15,950,888 to \$28,370,000. All other contract terms remain unchanged. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • SFPUC has two contracts with WAPA, including (1) a power purchase agreement to supply a base allocation of electricity to TIDA, and (2) the subject contract to provide supplemental electricity and electricity scheduling coordinator services to TIDA. The SFPUC proposes an increase in the contract for WAPA to supply supplemental electricity to TIDA due the forecasted increase in electricity demand from future development on Treasure Island, as well as increases over time to the per-unit cost of electricity. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The base electricity allocation under the power purchase agreement between SFPUC and WAPA is 10,436 megawatts per hour (MWh) per year. SFPUC estimates supplemental electricity purchases, in addition to the base allocation, ranging from 30,948 MWh to 43,064 MWh per year, with an estimated cost of \$12,419,118 in the four-year period from January 2021 through December 2024. • SFPUC only pays for the electricity it actually purchases. Electricity purchases and other costs of the WAPA contract would be paid by SFPUC’s Power Enterprise and recovered through electricity rates charged to residential and commercial customers on Treasure Island and Yerba Buena Island. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed ordinance. 	

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 San Francisco Public Utilities Commission (SFPUC) entered into a power purchase agreement with the U.S. Department of Energy's Western Area Power Administration (WAPA) for WAPA to supply electricity to the Treasure Island Development Authority (File 00-2191). Under the power purchase agreement, WAPA supplies a base allocation of electricity to TIDA for the 20-year period from January 1, 2005 to December 31, 2024.¹

Subsequently, SFPUC entered into a contract with WAPA to provide supplemental electricity², and electricity scheduling coordinator services³ to TIDA for a contract amount of \$3,320,000 and a term from January 2005 to September 2010 (File 04-1351). The Board of Supervisors approved two amendments to this contract extending the term through September 2020, and increasing the contract amount to \$15,950,888 (File 07-1458 and File 11-1096). According to Mr. Randall Smith, SFPUC Acting Manager of Origination and Power Supply, each of the amendments was proposed at WAPA's request, as WAPA typically seeks certainty from its customers to make advanced energy purchases and avoid spikes in the market.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would approve the third amendment to the contract between SFPUC and WAPA to supply supplemental electricity and electricity scheduling coordinator services to TIDA. The third amendment extends the contract term by four years and three months from September 2020 through December 2024 and increases the contract by \$12,419,118 from \$15,950,888 to \$28,370,000. All other contract terms would remain unchanged.

According to Mr. Smith, the increase in the contract amount is due to the forecasted increase in electricity demand from future development on Treasure Island, as well as increases over time to the per-unit cost of electricity. The source of the electricity is unspecified (whether fossil fuel or renewable), as WAPA must purchase power at the lowest available price.

¹ The power purchase agreement was effective in 2000 but the date of initial electricity service was January 1, 2005. SFPUC had a prior power purchase agreement with WAPA in effect from 1998 through 2004.

² Under the 1998-2004 power purchase agreement between SFPUC and WAPA, WAPA guaranteed that TIDA's electricity requirements in excess of the base allocation would be met through a supplemental agreement with PG&E. The subsequent 2005-2024 power purchase agreement did not have a guarantee for supplemental electricity.

³ Scheduling Coordinator Services are required for all electricity transmitters by the California Independent Systems Operator, which operates California's wholesale power grid. The Scheduling Coordinator is needed to meet financial, operational, equipment, software, and security requirements, and to maintain a 24-hour operations center.

FISCAL IMPACT

The base electricity allocation under the power purchase agreement between SFPUC and WAPA is 10,436 megawatts per hour (MWh) per year. SFPUC estimates supplemental electricity purchases, in addition to the base allocation, ranging from 30,948 MWh to 43,064 MWh per year. Table 1 below shows the estimated cost of \$12,419,118 for supplemental electricity purchases in the four-year period from January 2021 through December 2024.

Table 1: Estimated Supplemental Electricity Purchases, 2021 through 2024

Year	Supplemental Electricity (MWh)	Estimated Price per MWh	Total Supplemental Electricity Cost	Electricity Scheduling Coordinator	Total Cost
2021	30,948	\$78.00	\$2,413,944	\$34,000	\$2,447,944
2022	35,074	\$81.00	2,841,009	34,000	2,875,009
2023	39,067	\$84.00	3,281,636	34,000	3,315,636
2024	43,064	\$87.00	3,746,529	34,000	3,780,529
Total	147,435	\$82.90	\$12,283,118	\$136,000	\$12,419,118

SFPUC only pays for the electricity it actually purchases. Electricity purchases and other costs of the WAPA contract would be paid by SFPUC's Power Enterprise and recovered through electricity rates charged to residential and commercial customers on Treasure Island and Yerba Buena Island. According to Mr. Smith, Treasure Island residential customers are not individually metered, but receive a uniform utility fee that bundles water, electricity, and natural gas, averaged across the occupied residential inventory. SFPUC's electricity rate used to calculate this fee, using WAPA power, is \$0.143 per kilowatt hour (kWh), less than PG&E's 2018 retail rate of \$0.191 per kWh.

RECOMMENDATION

Approve the proposed ordinance.

<p>Items 5 and 6 Files 17-0878 and 17-0879</p>	<p>Department: Port</p>
<p><i>These items were amended by the Board of Supervisors on December 5, 2017 and transferred to the Budget and Finance Committee</i></p>	
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p>	
<ul style="list-style-type: none"> • File 17-0878 is a resolution establishing the City’s intent to establish three subproject areas in Port Infrastructure Financing District (IFD) No. 2 – Subproject Areas G-2, G-3, and G-4. • File 17-0879 is a resolution stating the City’s intent to issue bonds, paid by incremental property tax revenue allocated to the IFD and generated within each of the subproject areas. • Approval of these two resolutions does not obligate the Board of Supervisors to establish the IFD subproject areas or issue bonds, which will be subject to future Board of Supervisors approval. 	
<p style="text-align: center;">Key Points</p>	
<ul style="list-style-type: none"> • The Port’s IFD No. 2 provides for incremental property tax revenues generated by development on Port property (including bonds secured by these revenues) to be used for construction of public improvements. The Board of Supervisors formed Port IFD No. 2 in February 2016, and the agreement between the Port and Forest City to develop the Pier 70 Waterfront Site in October 2017. The three proposed IFD subproject areas – G-2, G-3, and G-4 – are for phase 1, 2, and 3 respectively of the development of the Pier 70 Waterfront Site. Property tax increment will be allocated to public improvements within the three subproject areas, as well as to Pier 70-wide improvements. • 100 percent of the City and the Educational Revenue Augmentation Fund (ERAF) share of property tax increment will be allocated to the subproject areas. The total limit on the property tax increment that can be allocated to the IFD from the subproject areas over their 45-year terms is \$3.0 billion. 20 percent of the property tax increment must be set-aside for shoreline restoration, removal of bay fill, public access to the waterfront, and/or environmental remediation of the waterfront. 	
<p style="text-align: center;">Fiscal Impact</p>	
<ul style="list-style-type: none"> • The proposed resolution to issue bonds (File 17-0879) would authorize the issuance of bonds in a not-to-exceed amount of \$793.3 million, which is 3x the anticipated bond issuance of \$216 million. According to the Port, this authorization accounts for property assessments that exceed projections, lower interest rates, and new waterfront projects. • While the proposed resolution states that the Board of Supervisors intends to authorize the issuance and sale of bonds in the maximum not-to-exceed amount of \$793.3 million, according to the Port’s bond counsel, the proposed resolution limits the use of bonds to pay for the costs of public improvements described in the Infrastructure Financing Plan. 	
<p style="text-align: center;">Recommendation</p>	
<ul style="list-style-type: none"> • Approve the proposed resolutions. 	

MANDATE STATEMENT / BACKGROUND**Mandate Statement**

California Government Code Section 53395.8 authorizes the establishment of an Infrastructure Financing District (IFD) on Port property. Section 53395.8(c)(3) designates the Board of Supervisors as the legislative body for the Port IFD.

Port IFD No. 2 and Pier 70

Pier 70 is an approximately 69-acre site on the Port's Central and Southern Waterfront, bounded by Mariposa, Illinois, and 22nd Streets. In 2014, Pier 70 was listed as the Union Iron Works Historic District on the National Register of Historic Places. Pier 70 includes the Ship Repair Facility¹, the Historic Core², Crane Cove Park³, Irish Hill⁴, and the Waterfront Site for mixed use development. On October 31, 2017, the Board of Supervisors approved several pieces of legislation to establish the Pier 70 Mixed-Use District Project, and provide for the development of the 28-acre Waterfront Site within Pier 70.

The Board of Supervisors formed the Port IFD No. 2 in February 2016 and adopted the Infrastructure Financing Plan (Ordinance 27-16).⁵ IFD No. 2 provides for project areas, including Project Area G on Pier 70. Project Area G currently has one subproject area – Subproject Area G-1 – covering the Pier 70 Historic Core. At that time, the Board of Supervisors approved the issuance of up to \$25.1 million in bonds to be repaid by the City's share of incremental property tax generated by development with the Pier 70 Historic Core (or Subproject Area G-1) to pay for street and sidewalk improvements, electrical improvements to Building 102, and improvements to Crane Cove Park. The Infrastructure Financing Plan provided for issuance of the bonds in FY 2021-22.

DETAILS OF PROPOSED LEGISLATION

File 17-0878: The proposed resolution establishes the City's intent to establish three subproject areas - Subproject Area G-2, Subproject Area G-3, and Subproject Area G-4 - in Port Infrastructure Financing District No. 2. According to the proposed Resolution of Intent, the Board of Supervisors resolves to take the following actions:

- (1) Conduct proceedings to establish the three subproject areas on the 28-acre Waterfront Site within the Union Iron Works Historic District;

¹ The Port issued a Request for Proposals in July 2017 to select a new operator for the ship repair facility.

² The Historic Core of the Union Iron Works Historic District consists of the Bethlehem Steel Main Office Building and Powerhouse, the Union Iron Works Administration building, and the Union Iron Works Machine Shop and Foundry. The Board of Supervisors approved a 66 year lease with Orton Development, Inc., in 2014 to rehabilitate the five buildings. Rehabilitation of these historic buildings (except for the Powerhouse) is anticipated to be completed and the buildings ready for occupancy between fall 2017 and late 2018.

³ Crane Cove Park is a 9-acre waterfront park; construction of phase 1 of the park, which is partially funded by 2008 Clean and Safe Neighborhood General Obligation Bonds, is expected to be completed in March 2018.

⁴ Irish Hill Park is a 1.5 acre site adjacent to Illinois Street planned for open space. Irish Hill is a contributing resource to the Historic District.

⁵ Infrastructure Financing District No. 1 was Rincon Hill Area, authorized by the Board of Supervisors in 2011.

- (2) Direct the Port Executive Director to prepare an Infrastructure Financing Plan for each subproject area;
- (3) Declare the Board's intent to use incremental property tax revenue allocated by the City to the IFD and generated within the subproject areas to finance public facilities; and
- (4) Hold public hearings and take other actions necessary to establish the three subproject areas.

The Resolution of Intent does not obligate the Board of Supervisors to establish each of the IFD subproject areas, which will be subject to future Board of Supervisors approval by ordinance.

While the proposed resolution directs the Port Executive Director to prepare an Infrastructure Financing Plan for each subproject area, the Port has submitted the proposed Infrastructure Financing Plan for Subproject Areas G-2, G-3, and G-4. The proposed resolution does not provide for approval of the supplemental Infrastructure Financing Plan, which will be subject to approval when the Board of Supervisors considers the future ordinance establishing the three IFD subproject areas.

File 17-0879: The proposed resolution states the City's intent to issue bonds, paid by incremental property tax revenue allocated to the IFD and generated within each of the subproject areas in amounts not-to-exceed:

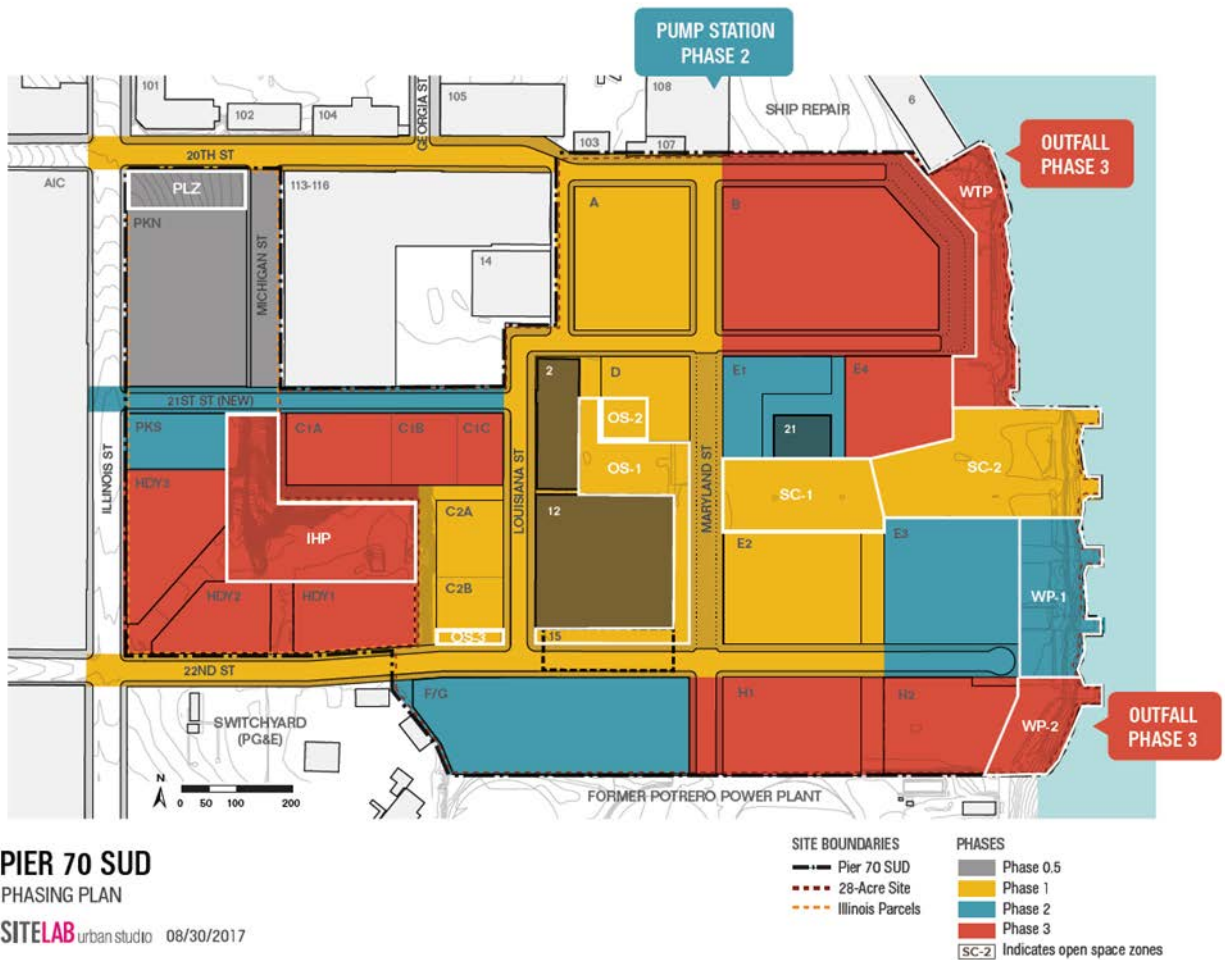
- \$273,900,000 for Subproject Area G-2;
- \$196,100,000 for Subproject Area G-3; and
- \$323,300,000 for Subproject Area G-4.

According to the proposed resolution, the intent is to pay directly for some of the costs of public facilities in each of the subproject areas and to use a portion of the bond proceeds to reimburse these costs. Approval of the proposed resolution does not obligate the Board of Supervisors to issue the bonds, which will be subject to future Board of Supervisors approval.

Subproject Areas

IFD Subproject Areas G-2, G-3, and G-4 encompass the 28-acre Waterfront Site project within the Union Iron Works Historic District, bounded by Illinois Street on the west, the Bay on the east, 20th Street on the north, and 22nd Street and the former Potrero Power Plant on the south, as shown in Exhibit 1 below.

Exhibit 1: Proposed Waterfront Site Project



The project is divided into three phases.

- Subproject Area G-2 incorporates phase 1 development. Phase 1 extends from approximately 2018 to 2021.
- Subproject Area G-3 incorporates phase 2 development from approximately 2022 to 2024.
- Subproject Area G-4 incorporates phase 3 development from approximately 2025 to 2028.

Public Improvements and Facilities to be Funded by the IFD Subproject Areas

Forest City is responsible to develop (or cause to be developed) horizontal infrastructure for the 28-acre Waterfront Site, subject to reimbursement with IFD tax increment and proposed Community Facilities Districts (CFD) assessments, including bonds issued against the IFD tax increment and CFD assessments. Horizontal infrastructure work consists of:

- Demolition and abatement
- Site grading, drainage, and utility infrastructure
- Geotechnical improvements for seismic stability
- Low pressure water system and non-potable water system
- Pedestrian, bicycle, and transportation access
- Auxiliary Water Supply System (AWSS)
- Combined sewer and storm water system

Infrastructure work in each of the phases consists of the following improvements within the respective subproject areas: demolition and abatement of existing structures; earthwork, soil disposal, and retaining walls; work on AWSS, low pressure water, reclaimed water, and combined sewer/storm water systems; street, park and open space improvements; and historical building rehabilitation.

Phase I (Subproject Area G-2) is from approximately 2018 to 2021. Phase II (Subproject Area G-3) is from 2022 to 2024. Phase III (Subproject Area G-4) is from 2025 to 2028.

Additional Pier 70-wide work to be funded by the proposed IFD subproject areas, subject to Board of Supervisors approval, include improvements to Irish Hill Park, rehabilitation of Buildings 106 and 111, shipyard electrical work and improvements, improvements to Crane Cove Park not funded by general obligation bonds, and public realm improvements.

Port IFD Guidelines

The Board of Supervisors approved guidelines in 2013 for establishment of the Port IFD (File 13-0264). These guidelines include (among other provisions):

- The Infrastructure Financing Plan to be developed by the Port must include a projection of revenues to the City's General Fund that will be generated by the project area.
- If the State's IFD law allows allocation of the State share of property tax increment to a waterfront district, then the City must allocate to the waterfront district the share of City property tax increment that maximizes the State allocation.
- Property tax increment allocated to public improvements should be sufficient to attract developer equity and market rate development in the project area.
- Property tax increment in excess of the allocation to public improvement in the project area will be allocated to the City's General Fund.

- Annual property tax increment will be allocated to maintain public infrastructure and improvements only if other sources are not available or sufficient.

Proposed Infrastructure Financing Plan Provisions

The proposed Infrastructure Financing Plan for Subproject Areas G-2, G-3, and G-4 contain the following provisions, which must be included in the financing plan to be prepared by the Port:

- The property tax increment would be allocated to the IFD from each subproject area for 45 years beginning in the fiscal year in which the property tax increment generated by the subproject area equals at least \$100,000.
- The amount of the property tax increment in each year would be the difference between the assessed taxable property value in FY 2015-16 and the assessed taxable property value in the tax year.
- The entire City and the Educational Revenue Augmentation Fund (ERAF) share of property tax increment generated in the subproject areas will be allocated to the subproject areas.
- The total limit on the property tax increment that can be allocated to the IFD from the subproject areas over their 45-year terms is \$3.0 billion, of which \$845 million is the limit on the ERAF share and \$2.15 billion is the limit on the City’s share, as shown below. These limits reflect projected total property tax increment plus a contingency factor of approximately 90 percent to account for variables such as higher assessed values of taxable property due to resales.

Subproject Area	City Share	ERAF	Total
G-2	\$747,000,000	\$293,000,000	\$1,040,000,000
G-3	553,500,000	217,000,000	770,500,000
G-4	855,000,000	335,000,000	1,190,000,000
Total	\$2,155,500,000	\$845,000,000	\$3,000,500,000

- 20 percent of the property tax increment must be set-aside for shoreline restoration, removal of bay fill, public access to the waterfront, and/or environmental remediation of the waterfront in accordance with California Government Code. The 20 percent allocation requirement applies to IFD Project Area G as a whole. Because the Infrastructure Financing Plan for IFD Subproject Area G-1 (covering the Historic Core of the Union Iron Works Historic District), approved by the Board of Supervisors in February 2016, allocates 64 percent of the property tax increment to Crane Park and other waterfront projects, the Port may allocate less than 20 percent of property tax increment generated by Subproject Areas G-2, G-3, and G-4.

- Bonds issued by the IFD and secured by the City's share of the property tax increment must be repaid within 45 years. The IFD cannot issue new bonds secured by the ERAF share of the property tax increment after 20 years.

FISCAL IMPACT

Sources and Uses of Funds

Estimated sources and uses of funds are \$1.0 billion (2017 dollars), as shown in Exhibit 2 below.

Exhibit 2: Sources and Uses of Funds

	2017 Dollars
Sources	
Annual Tax Increment	\$596,719,493
Bond Proceeds	137,428,825
Developer Capital	133,832,094
Advances of Land Proceeds	164,931,373
Total Sources	\$1,032,911,784
Uses	
Bond Debt Service	\$253,892,744
Interest on Advanced Funds	22,974,947
Repayment Developer Capital	121,166,407
Repayment Advances of Land Proceeds	101,662,800
Subproject Areas Public Improvements	287,908,679
Pier 70 Wide Public Improvements	53,041,434
Sea Level Rise Protection	130,378,925
Educational Revenue Augmentation Fund ⁶	61,885,847
Total Uses	\$1,032,911,784

Source: Infrastructure Financing Plan

Timing of Sources and Uses

The developer, Forest City, will contribute capital to pay for project costs, prior to property tax increment and other project funds becoming available. The Infrastructure Financing Plan assumes that the developer will contribute \$133.8 million in developer capital through FY 2028-29.

Beginning in FY 2018-19, the Infrastructure Financing Plan assumes that proceeds from the sale of land or prepayment of ground leases will become available to begin paying for project costs, including repayment of the developer capital.

⁶ The \$61.9 million allocation to ERAF is the estimated amount of ERAF tax increment that is not needed to pay ERAF-secured debt.

Beginning in FY 2019-20, the Infrastructure Financing Plan assumes that the Port will begin issuing bonds, secured by property tax increment generated by Subproject Area G-2. Bond proceeds will be a source of funds to pay for public project costs.

Estimates of Annual Property Tax Increment Generated by Subproject Areas G-2, G-3, G-4

Incremental property taxes generated by development of Subproject Areas G-2, G-3, and G-4 depend on the assessed value of this development. A report prepared by Berkson Associates for the Port in August 2017 estimates that development in Subproject Areas G-2, G-3, and G-4 will have an assessed value of \$1.7 billion (2017 dollars), resulting in annual property tax increment of \$17 million (based on 1.0 percent property tax rate), of which 90 percent⁷ equals \$15.6 million (2017 dollars). The actual assessed value and associated property taxes will depend on the mix of residential and commercial properties, and when each of these properties is completed and enrolled in the City's tax rolls.

The Infrastructure Financing Plan⁸ estimates that Subproject Areas G-2, G-3, and G-4 would begin to generate incremental property taxes (which would be allocated to the IFD) in FY 2023-24, FY 2028-29, and FY 2029-20 respectively. However, according to the plan, the actual commencement date for when property tax increment would be allocated to the IFD would depend on the fiscal year in which each subproject area generated property tax increment of \$100,000 or more.⁹

Bond Issuance

The proposed resolution (File 17-0879) provides for the intent to issue bonds, secured by property tax increment. The bond authorization would be for up to \$793.3 million, including

- \$273.9 million for Subproject Area G-2;
- \$196.1 million for Subproject Area G-3; and
- \$323.3 million for Subproject Area G-4.

According to the Infrastructure Financing Plan, the Port anticipates issuing IFD bonds for Subproject Areas G-2, G-3, and G-4 of up to \$216 million¹⁰. The Port is requesting bond authorization of up to \$793.3 million, or more than 3x the anticipated bond issuance, to account for (a) property assessments that exceed projections, (b) issuance of additional bonds to pay for sea level rise and other projects, and (c) interest rates that are lower than the underwritten level. According to the Port, the Port is requesting a higher bonding cap to allow for flexibility should the project generate more incremental property tax revenues or the cost of funds is lower than projected.

⁷Based on approximately 65 percent City share and 25 percent ERAF share

⁸ The Infrastructure Financing Plan for Subproject Areas G-2, G-3, and G-4 was prepared by the Port's consultant, Century Urban, and submitted to the Port in October 2017.

⁹ The Berkson report estimated annual property tax increment of \$15.6 million (2017 dollars).

¹⁰ The Infrastructure Financing Plan assumes an interest rate of 7 percent, a term of 30 years, issuance costs/reserves of 13 percent, and an annual debt service cover ratio of 1:1 to 1:3. Estimated net loan proceeds to be applied to projects is \$169.6 million. The amount of \$216 million is included on Table 4, page 37 of the Infrastructure Financing Plan.

The proposed resolution states that the Board of Supervisors intends to authorize the issuance and sale of bonds for each subproject area in the maximum not-to-exceed amounts noted above, but that the resolution does not obligate the Board of Supervisors to issue bonds. According to the Port's bond counsel, the proposed resolution limits the use of bonds to pay for the costs of public improvements described in the Infrastructure Financing Plan, as noted below:

- Bond authorization for Subproject Area G-2 is 273.9 million and the estimated cost of facilities in Appendix G-2 for Subproject Area G-2 is \$141.3 million;
- Bond authorization for Subproject Area G-3 is \$196.1 million and the estimated cost of facilities in Appendix G-3 for Subproject Area G-3 is \$72.97 million; and
- Bond authorization for Subproject Area G-4 is \$323.3 million and the estimated cost of facilities in Appendix G-3 for Subproject Area G-3 is \$46.3 million.

The bond authorization under the proposed resolution may also be applied to Pier 70-wide projects, in addition to the projects in the three subproject areas, subject to future Board of Supervisors approval.

POLICY CONSIDERATION

As noted in the Budget and Legislative Analyst's report to the October 19, 2017 Budget and Finance Committee, IFD and IRFD bonds are a new debt instrument. Whether investors will be interested in purchasing these bonds is not known, especially if the credit markets are tight at the time that the City is ready to issue the bonds.

According to the Infrastructure Financing Plan, bonds may be issued by the IFD or by CFDs formed within the Pier 70 IFD Subproject Areas G-2, G-3, and G-4. While the proposed legislation states the City's intention to issue IFD bonds, the Infrastructure Financing Plan assumes that IFD or CFD bonds may be issued, and that property tax increment will be used to repay the bonds. The type of bond to be issued will be determined based on market conditions at the time of issuance. The Infrastructure Financing Plan provides for bonds to be issued in FY 2019-20, although Subproject Area G-2 may not generate property tax increment until FY 2023-24 to secure the bonds. Legislation to approve formation of CFDs within the three Pier 70 subproject areas has not been introduced.

RECOMMENDATION

Approve the proposed resolutions.

<p>Items 7, 8 and 9 Files 17-0880, 17-0881 and 17-0882</p>	<p>Department: Port</p>
<p><i>These items were amended by the Board of Supervisors on December 5, 2017 and transferred to the Budget and Finance Committee</i></p>	
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p>	
<p><u>17-0880</u> is a resolution establishing the City’s intent to establish Infrastructure and Revitalization Financing District (IRFD) to finance the construction of affordable housing within Pier 70 and Parcel K South.</p>	
<p><u>17-0881</u> is a resolution directing the Port Executive Director to prepare an Infrastructure Financing Plan for the IRFD.</p>	
<p><u>17-0882</u> is a resolution stating the City’s intent to issue bonds in amounts not-to-exceed \$91,900,000. Files 17-0880 and 17-0881 are resolutions of intent, and do not obligate the Board of Supervisors to establish the IRFD or issue bonds.</p>	
<p style="text-align: center;">Key Points</p>	
<ul style="list-style-type: none"> • The Hoedown Yard is a 3 acre property owned by PG&E and adjacent to Pier 70. The City has an option to purchase the property or sell the option to purchase to a third party, but the City has not exercised that option. The Infrastructure Financing Plan assumes that the Hoedown Yard will be developed with condominium units, which will generate property tax increment revenue to fund affordable housing development. • The proposed resolution states that the Board of Supervisors intends to authorize the issuance of bonds secured by the Hoedown Yard IRFD property tax increment in the maximum not-to-exceed amount of \$91.9 million. According to the Port’s bond counsel, the proposed resolution limits the use of bonds to pay for the costs of authorized facilities, including acquisition, improvements, and associated costs. 	
<p style="text-align: center;">Fiscal Impact</p>	
<ul style="list-style-type: none"> • The Port anticipates issuing IRFD bonds of up to \$25.5 million, which is more than three times the requested bond authorization of up to \$91.9 million. The Port is requesting a higher bonding cap to allow for flexibility if the project generates more incremental property tax revenues or the cost of funds is lower than projected. 	
<p style="text-align: center;">Recommendation</p>	
<ul style="list-style-type: none"> • Approve the proposed resolutions. 	

MANDATE STATEMENT

California Government Code Section 53369 authorizes the Board of Supervisors to establish an Infrastructure and Revitalization Financing District (IRFD) on Port property and to act as the legislative body for the IRFD.

BACKGROUND

The Hoedown Yard comprises two parcels owned by the Pacific Gas and Electric Company (PG&E) totaling approximately 3 acres adjacent to the 28-acre Pier 70 Waterfront Site. The Board of Supervisors approved an option agreement between the City and PG&E in 2014 (File 14-0750) in which the City could exercise the option for approximately \$8,283,726, or sell the option through a competitive sale to a third party. The sale of the Hoedown Yard option to a third party is subject to future Board of Supervisors approval.

On October 31, 2017, the Board of Supervisors approved several pieces of legislation to establish the Pier 70 Special Use District Project, which includes the Hoedown Yard.

DETAILS OF PROPOSED LEGISLATION

File 17-0880: The proposed resolution establishes the City's intent to establish Infrastructure and Revitalization Financing District (IRFD) No. 2 (Hoedown Yard) to finance the construction of affordable housing within Pier 70 and Parcel K South. According to the proposed Resolution of Intent, the Board of Supervisors resolves to take the following actions:

- (1) Conduct proceedings to establish an infrastructure and revitalization financing district on the land commonly known as Hoedown Yard;
- (2) Declare the Board's intent to use incremental property tax revenue allocated to the City and generated within the Hoedown Yard to finance affordable housing and related facilities located within the Waterfront Site and Parcel K South; and
- (3) Hold public hearings and take other actions necessary to provide notice of the intent to establish the infrastructure and revitalization financing district.

The Resolution of Intent does not obligate the Board of Supervisors to establish the IRFD, which shall be subject to future Board of Supervisors approval.

File 17-0881: The proposed resolution directs the Port Executive Director to prepare an Infrastructure Financing Plan for Infrastructure and Revitalization Financing District No. 2 (Hoedown Yard).

File 17-0882: The proposed resolution states the City's intent to issue bonds, paid by incremental property tax revenue allocated to the City and generated within the Hoedown Yard, in amounts not-to-exceed \$91,900,000.

According to the proposed resolution, the intent is to pay for some of the costs of affordable housing and related facilities prior to the issuance of the bonds, and to use a portion of the

bond proceeds to reimburse costs of developing the affordable housing and related facilities that are incurred prior to issuance of the bonds.

Hoedown Yard

The Hoedown Yard is bounded by Illinois Street on the west, 22nd Street on the south, Irish Hill and Parcel K South on the north, and the Waterfront Site on the east, as shown in Exhibit 1 below.

Exhibit 1: Hoedown Yard Site



The Infrastructure Financing Plan assumes that the Hoedown Yard will be developed with 367 condominium units, within 384,365 gross building square feet, which will generate property tax increment revenue under the IRFD to fund affordable housing development on the Waterfront Site and Parcel K South. Because affordable housing will not be developed on the Hoedown Yard site, the condominiums will also be assessed a 28 percent in-lieu fee payable to the Mayor’s Office and Housing and Community Development (MOHCD) for development of affordable housing outside of the Pier 70 Special Use District.

Affordable Housing to be Funded by the IRFD

The formation of the Hoedown Yard IRFD will provide a funding source for the development of 327 affordable housing units and supporting infrastructure and amenities within the Waterfront Site and Parcel K South of the Pier 70 Special Use District.

Proposed Hoedown Yard Infrastructure Financing Plan Provisions

The proposed Hoedown Yard Infrastructure Financing Plan contains the following provisions:

- The property tax increment would be allocated to the IRFD for 40 years beginning in the fiscal year in which the property tax increment generated by Hoedown Yard equals at least \$100,000.
- The amount of the property tax increment allocated to the IRFD in each year would be 64.59 percent of the revenue generated by the 1.0 percent tax rate on the incremental assessed property value.
- The total limit on the property tax increment that can be allocated to the IRFD over the 40-year term is \$315.8 million. This limit reflects the projected total allocated tax increment of \$157.9 million plus a contingency factor of 100 percent to account for variables such as higher assessed values of taxable property due to resales.

FISCAL IMPACT

Sources and Uses of Funds

Estimated sources and uses of IRFD funds are approximately \$88 million (2017 dollars), as shown in Exhibit 2 below.

Exhibit 2: Sources and Uses of Funds

	2017 Dollars
Sources	
Annual Tax Increment	\$70,170,000
Bond Proceeds	18,263,000
Total Sources	\$88,433,000
Uses	
Bond Debt Service	\$33,158,000
Affordable Housing	18,969,000
General Fund ^a	36,306,000
Total Uses	\$88,433,000

^a Excess tax increment is allocated to the General Fund
Source: Infrastructure Financing Plan

Timing of Sources and Uses

Beginning in FY 2023-24, the Infrastructure Financing Plan assumes that the Port will begin issuing IRFD bonds, secured by property tax increment generated by Hoedown Yard development, as discussed further below. Bond proceeds will be a source of funds to pay for affordable housing and related facilities and to re-pay bond debt. Excess tax increment revenue would be allocated to the City's General Fund.

Estimates of Annual Property Tax Increment Generated by Hoedown Yard

Incremental property taxes generated by development of Hoedown Yard depend on the assessed value of the development. A report prepared by Berkson Associates for the Port in August 2017 estimates that development of Hoedown Yard will result in total assessed value of \$225 million (2017 dollars), resulting in annual property tax increment of \$2.25 million (based on 1.0 percent property tax rate), of which 65 percent¹ equals \$1.46 million (2017 dollars). The actual assessed value and associated property taxes will depend on the number of residential properties and when each of these properties is completed and enrolled in the City's tax rolls.

The Infrastructure Financing Plan² estimates that Hoedown Yard would begin to generate incremental property taxes (which would be allocated to the IRFD) in FY 2024-25 and FY 2026-27, to coincide with the expected completion of two phases of development. However, according to the plan, the actual commencement date for when property tax increment would be allocated to the IRFD would depend on the fiscal year in which Hoedown Yard generated property tax increment of \$100,000 or more.

Bond Issuance

The proposed resolution (File 17-0882) provides for the intent to issue bonds, secured by property tax increment. The bond authorization would be for up to \$91,900,000. According to the Infrastructure Financing Plan, the Port anticipates issuing IRFD bonds for Hoedown Yard of up to \$22.2 million³. The requested bond authorization of up to \$91.9 million is more than four times the anticipated bond issuance to account for (a) property assessments that exceed projections and (b) interest rates that are lower than the underwritten level. According to the Port, the Port is requesting a higher bonding cap to allow for flexibility should the project generate more incremental property tax revenues or the cost of funds is lower than projected.

The proposed resolution states that the Board of Supervisors intends to authorize the issuance and sale of bonds for Hoedown Yard in the maximum not-to-exceed amount of \$91.9 million, but that the resolution does not obligate the Board of Supervisors to issue bonds. According to the Port's bond counsel, the proposed resolution limits the use of bonds to pay for the costs of authorized facilities, including acquisition, improvements, and associated costs.

¹ Based on approximately 64.59 percent City allocation share.

² The Infrastructure Financing Plan for Hoedown Yard was prepared by the Port's consultant, Century Urban, and submitted to the Port in October 2017.

³ The Infrastructure Financing Plan assumes an interest rate of 7 percent, a term of 30 years, issuance costs/reserves of 13 percent, and an annual debt service cover ratio of 1.1:1 to 1.3:1. Estimated bond proceeds to be applied to affordable housing and debt service totals \$22.2 million.

POLICY CONSIDERATION

As noted in the Budget and Legislative Analyst's report to the October 19, 2017 Budget and Finance Committee, IRFD bonds are a new debt instrument. Whether investors will be interested in purchasing these bonds is not known, especially if the credit markets are tight at the time that the City is ready to issue the bonds. The Infrastructure Financing Plan assumes that the first bonds will be issued in FY 2023-24, although Hoedown Yard may not generate property tax increment until FY 2024-25 to secure the bonds.

As noted above, Hoedown Yard is currently owned by PG&E and the City has an option to purchase the property or sell the option to purchase to a third party, but the City has not exercised that option as of November 1, 2017. It is not known when the City will either purchase the Hoedown Yard or sell the option to purchase it to a third party. As a result, it is not known who would develop Hoedown Yard or when they would develop it, which could affect the ability to generate property tax increment.

RECOMMENDATION

Approve the proposed resolutions.

Item 10 File 17-1081	Department: San Francisco International Airport (Airport)
EXECUTIVE SUMMARY	
<p>Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would approve the terms of the 2011 Lease and Use Agreement to add Air India. The agreement would be from the date of Board of Supervisors approval in approximately July 2108 through June 30, 2021, a term of approximately 35 months (2 years and 11 months). <p>Key Points</p> <ul style="list-style-type: none"> • In 2011, the Airport negotiated a new Lease and Use Agreement (2011 Lease) with its domestic and international airlines. The 2011 Lease allows airlines to provide flight operations and rent terminal space at the Airport with a common set of provisions, including rent and landing fees, permitted uses, and use of common facilities. The 2011 Lease will expire June 30, 2021. • Air India Limited (Air India) commenced flight operations at the Airport under Operating and Space Permits executed in December 2015. The airline now wishes to sign onto the 2011 Lease. By signing the 2011 Lease, the airline will continue paying the same Shared Use Fees, but will receive a 20 percent discount on Landing Fees. The Airport Commission approved the 2011 Lease with Air India on July 25, 2017. <p>Fiscal Impact</p> <ul style="list-style-type: none"> • Air India will rent Joint Use Space in the International Terminal; Joint Use Space rent is determined annually by a formula, with 20 percent of the total rent assessed equally to all airlines, and 80 percent assessed proportionally based on the number of inbound and outbound passengers traveling on each airline each year. According to the Airport, in FY 2018-19 Air India is expected to pay approximately \$1.55 million in Joint Use Space rent. • In addition to Joint Use Space rent, airlines also pay Landing Fees to the Airport, which are set annually as part of the Airport Rates and Charges. Air India began paying landing fees to the Airport in December 2017 as part of the Air Carrier Incentive Program, which waived fees for the first two years of Air India's service at the Airport. Monthly landing fees paid by Air India to the Airport increased from \$91,857 in December 2017 to \$128,118 in June 2018. By signing onto the 2011 Lease, Air India would receive an approximate 25 percent cost reduction on Landing Fees. The actual amount of Landing Fees to be paid by Air India in FY 2018-19 will depend on the level of service provided by Air India at San Francisco International Airport. <p>Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. 	

MANDATE STATEMENT

City Charter Section 9.118(a) states that contracts entered into by a department, board, or commission that (i) have anticipated revenues of \$1 million or more, or (ii) have anticipated revenues of \$1 million or more and require modifications, are subject to Board of Supervisors approval.

BACKGROUND

In 2011, the San Francisco International Airport (Airport) negotiated a new Lease and Use Agreement (2011 Lease) with its domestic and international airlines. The 2011 Lease allows airlines to provide flight operations and rent terminal space at the Airport, and provides a common set of lease provisions that are used for these airlines. Such provisions include rent and landing fees paid by the airlines to the Airport, permitted uses of the premises, use of common facilities, and numerous other provisions. The 2011 Lease will expire on June 30, 2021.

Air India Limited (Air India) commenced flight operations at the Airport under Operating and Space Permits executed in December 2015. The airline now wishes to sign onto the 2011 Lease. By signing the 2011 Lease, the airline will continue paying the same Shared Use Fees, but will receive a 20 percent discount on Landing Fees. The Airport Commission approved the 2011 Lease with Air India on July 25, 2017.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the terms of the 2011 Lease and Use Agreement to add Air India. The agreement would be from the date of Board of Supervisors approval in approximately July 2108 through June 30, 2021, a term of approximately 35 months (2 years and 11 months). The key provisions of the 2011 Lease for Air India are summarized in Table 1 below.

Table 1: Key Provisions of 2011 Lease for Air India

Lease Terms – Air India and Fiji Airways	
Term	Approximately two years and eleven months from approximately July 2018 through June 30, 2021
International Terminal Joint Use Space	627,414 square feet
International Terminal Joint Use Space Rent	Determined annually by formula: 20% divided equally between all airlines, 80% assessed proportionally based on number of airline passengers
Landing Fees	Determined annually by Airport Rates and Charges; currently \$5.54 per 1,000 pounds for FY 2018-19
Deposit	Two months of Terminal Area Rentals, Landing Fees, usage fees per rates and charges

FISCAL IMPACT

Under the 2011 Lease, Air India will rent Joint Use Space in the International Terminal. Joint Use Space rent is determined annually by a formula, with 20 percent of the total rent assessed equally to all airlines, and 80 percent assessed proportionally based on the number of inbound and outbound passengers traveling on each airline each year. The Joint Use Space Formula is used to determine rent for all airlines in service at the Airport, regardless of whether or not the airline has signed onto the 2011 Lease. According to Mr. Dan Ravina, Airport Senior Property Manager, in FY 2018-19 Air India is expected to pay approximately \$1.55 million in Joint Use Space rent.

In addition to Joint Use Space rent, airlines also pay Landing Fees to the Airport, which are set annually as part of the Airport Rates and Charges. Air India began paying landing fees to the Airport in December 2017 as part of the Air Carrier Incentive Program¹, which waived fees for the first two years of Air India's service at the Airport. Monthly landing fees paid by Air India to the Airport increased from \$91,857 in December 2017 to \$128,118 in June 2018.

The Landing Fee for FY 2018-19 is \$5.54 per 1,000 pounds for airlines that have signed the 2011 Lease, and \$6.93 per 1,000 pounds for airlines that have not signed the 2011 Lease. By signing onto the 2011 Lease, Air India would receive an approximate 25 percent cost reduction on Landing Fees. The actual amount of Landing Fees to be paid by Air India in FY 2018-19 will depend on the level of service provided by Air India at San Francisco International Airport.

RECOMMENDATION

Approve the proposed resolution.

¹ The Federal Aviation Administration (FAA) allows airports to offer incentives to attract carrier service; the program is outlined in the FAA's *Policy and Procedures Concerning Use of Airport Revenue*.

Item 11 File 18-0441	Department: San Francisco International Airport
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would approve a contract between the Airport and New South Parking for the management and operation of the Airport's public and employee parking facilities. The contract would be for five years from July 1, 2018 through June 30, 2023 and for a not-to-exceed amount of \$124,812,393 <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Airport uses a private contractor to manage the public and employee parking facilities at the Airport. New South Parking-California (New South Parking) provided management and operation of the Airport's public and employee parking facilities for a five-year contract from July 2012 to June 2017. The Airport issued a Request for Proposals (RFP) for a new parking facility contract in September 2016, but due to a protest, the Airport did not award a contract. The Board of Supervisors approved a one-year extension to the existing contract with New South Parking through June 2018 to allow for a new RFP process (File 17-0409). The Airport issued a new RFP for the management and operations of the Airport's public and employee parking facilities in September 2017; based on a competitive scoring process, New South Parking received the highest score. • The contract provides for New South Parking to manage and operate public and employee parking facilities, and the Airport Impound Lot for towing and storage of abandoned and illegally parked vehicles. New South Parking would be responsible for the new multi-story long term parking garage scheduled to open in 2019. New South Parking could also be designated to operate Airport hotel parking beginning in 2019, if the hotel manager elects to not manage hotel parking. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The annual contract budget is \$23,515,681 for Year One and \$124,812,393 over the five-year period from July 1, 2018 to June 30, 2023. • In FY 2016-17, Airport parking operations generated approximately \$118 million in revenues; in FY 2017-18 parking operations revenues are projected to be \$112.1 million. According to the Airport, the projected decrease in revenues in FY 2017-18 compared to FY 2016-17 are due to increased parking rates, which the Airport were increased to mediate parking demand for long-term parking while the new long-term garage is being built. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • 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 San Francisco Airport operates 14,887 public parking spaces as well as 6,706 employee parking spaces. The Airport uses a private contractor to manage the public and employee parking facilities at the Airport, including collecting all public parking fees and charges, including the processing of credit card charges; distributing employee permits and collecting all fees and charges associated with the employee parking program; providing security services for the parking facilities; and providing maintenance and janitorial services for the parking facilities.

New South Parking-California (New South Parking) provided management and operation of the Airport's public and employee parking facilities for a five-year contract from July 2012 to June 2017. The Airport issued a Request for Proposals (RFP) for a new parking facility contract in September 2016, but due to a protest, the Airport did not award a contract. The Board of Supervisors approved a one-year extension to the existing contract with New South Parking through June 2018 to allow for a new RFP process (File 17-0409).

The Airport issued a new RFP for the management and operations of the Airport's public and employee parking facilities in September 2017 with proposals due in November 2017. The Airport received proposals from three firms, all of which met the minimum qualifications. Based on a competitive scoring process, New South Parking received the highest score, and the Airport Commission awarded the parking facility management and operations contract to New South Parking on April 3, 2018.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a contract between the Airport and New South Parking for the management and operation of the Airport's public and employee parking facilities. The contract would be for five years from July 1, 2018 through June 30, 2023 and for a not-to-exceed amount of \$124,812,393.

The contract provides for New South Parking to manage and operate public and employee parking facilities, and the Airport Impound Lot for towing and storage of abandoned and illegally parked vehicles. New South Parking would be responsible for the new multi-story long term parking garage scheduled to open in 2019. New South Parking could also be designated to operate Airport hotel parking beginning in 2019, if the hotel manager elects to not manage hotel parking.

Under the contract, New South Parking would be responsible for:

- Automated parking systems, including parking access and revenue control system, license plate recognition and inventory, pay-on-foot stations, FasTrak, electric vehicle charging, and other systems;
- Parking operations, valet, janitorial, facilities maintenance, and security staff;
- 24-hour per day, 7 days per week operations;
- Revenue cashiering, collection, auditing, reporting, and depositing;
- Customer service; and
- Employee parking permits.

New South Parking would subcontract with Central Parking System, Inc. for janitorial and security services, SF Parking LLC, MPM Group LLC, and E-Laundry USA LLC.

FISCAL IMPACT

The annual contract budget is \$23,515,681 for Year One and \$124,812,393 over the five-year period from July 1, 2018 to June 30, 2023. The annual budget consists of \$23,400,681 for operating costs, increasing by 3 percent per year, and a flat management fee of \$115,000 per year, shown in Table 1 below.

Table 1: Contract Budget in FY 2018-19

New South Parking Budget	
<u>Salaries and Fringe Benefits</u>	
Garage Staff (Cashiers, Supervisors, Valet Attendants)	\$5,821,352
Onsite Managers, Administrative, Maintenance Staff	<u>2,133,650</u>
Subtotal Salaries and Benefits	\$7,955,002
Paid Time Off	882,580
Payroll Taxes and Workers Compensation	1,377,878
Parking Facilities Operating Expenses	481,982
Insurance and Other Administrative Expenses	161,142
Subtotal New South Parking Budget	<u>\$10,858,584</u>
Sub-Contracted Services Budget	
Janitorial	\$3,923,056
Security and Traffic Control	5,220,699
Credit Card Merchant Fees	2,489,637
Other	908,701
Sub-Contracted Services	<u>\$12,542,093</u>
Total Contract and Sub-Contract Budget	<u>\$23,400,677</u>
Management Fee	\$115,000
Total	<u>\$23,515,677</u>

Source: Contract between Airport Commission and New South Parking-California

Table 2: Total Contract Budget, FY 2018-19—FY 2022-23

Fiscal Year	Reimbursed Costs	Management Fee	TOTAL
FY 2018-19	\$23,400,681	\$115,000	\$23,515,681
FY 2019-20	24,102,701	115,000	24,217,701
FY 2020-21	24,825,782	115,000	24,940,782
FY 2021-22	25,570,556	115,000	25,685,556
FY 2022-23	26,337,673	115,000	26,452,673
TOTAL	\$124,237,393	\$575,000	\$124,812,393

Source: Contract between Airport Commission and New South Parking-California, GP

Revenues

In FY 2016-17, Airport parking operations generated approximately \$118 million in revenues; in FY 2017-18 parking operations revenues are projected to be \$112.1 million. According to Adam Gubser, Airport Parking Manager, the projected decrease in revenues in FY 2017-18 compared to FY 2016-17 are due to increased parking rates. In June 2016, parking rates were increased to mediate parking demand for long-term parking while the new long-term garage is being built. The Airport expects revenues to match FY 2017-18 levels or increase in 2019 when a new long term garage opens. Depending on the demand with the addition of the new long term garage, parking rates will be reviewed and adjusted accordingly.

RECOMMENDATION

Approve the proposed resolution.

Item 12 File 18-0588	Departments: Police Department
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <p>The proposed ordinance (a) de-appropriates \$6,174,381 from Police Department’s permanent salaries account and (b) appropriates \$6,174,381 to the Police Department’s workers compensation account.</p> <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The Police Department’s FY 2017-18 expenditures for workers’ compensation exceeded the budgeted amount by \$6,174,381 due to illnesses, injuries, and deaths. • The Department has a General Fund salary savings because funded positions have been vacant due to injury, illness, and death. Compensation for the individuals associated with these incidents are recorded in the workers’ compensation account, rather than the salary account, creating a savings in salary account and a deficit in the workers’ compensation account. • The proposed ordinance transfers \$6,174,381 from the Police Department’s General Fund FY 2017-18 appropriation for salaries to the Department’s FY 2017-18 General Fund appropriation for workers’ compensation expenditures. • The Department considers these expenses extraordinary and does not expect its workers’ compensation expenditures to exceed the budgeted amount in FY 2018-19. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed ordinance. 	

MANDATE STATEMENT

Charter Section 9.105 provides that amendments to the Annual Appropriation Ordinance be subject to Board of Supervisors approval by ordinance, after the Controller certifies the availability of funds.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance (a) de-appropriates \$6,174,381 from Police Department's permanent salaries account and (b) appropriates \$6,174,381 to the Police Department's workers' compensation account.

FISCAL IMPACT

The proposed ordinance transfers \$6,174,381 from the Police Department's General Fund FY 2017-18 appropriation for salaries to the Department's General Fund FY 2017-18 appropriation for workers' compensation expenditures. The Department has a General Fund salary surplus because funded positions have been vacant due to injury, illness, and death. Table 1 below summarizes the Police Department's budget and actual spending for workers' compensation.

Table 1: Police Department Workers' Compensation Budget and Actual Expenditures, FY 2017-18

FY 2017-18	Amount
Budget	\$15,691,689
Expenditures	\$21,866,069
Funding deficit	\$6,174,380

Source: San Francisco Police Department

According to Ms. Catherine McGuire, Chief Financial Officer for the Police Department, workers' compensation expenditures in FY 2017-18 have exceeded the budget originally allocated to that account due to extraordinary illnesses, injuries, and deaths. Compensation for the individuals associated with these incidents are recorded in the workers' compensation account, rather than the salary account, creating a savings in salary account and a deficit in the workers' compensation account. The Department considers these expenses extraordinary and does not expect its workers' compensation expenditures to exceed the budgeted amount in FY 2018-19.

RECOMMENDATION

Approve the proposed ordinance.

Item 13 File 18-0661	Department: Health Service System (HSS)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed ordinance would approve the San Francisco Health Service System’s (SFHSS’s) health, vision, and dental plans and contribution rates for calendar year 2019. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The SFHSS administers non-pension benefits, including health, vision, dental and other benefits, such as life and long-term disability insurance. The Health Service Board adopts the annual health, vision, dental and other insurance plans, and the respective plan premiums and premium equivalents to be paid by SFHSS employers and members. • The Health Service Board is required to conduct a survey of the 10 most populous California counties each year to determine the average of the health premium contributions made by these counties. Based on this survey, the average 2019 contribution is \$672.08 per member per month, which is \$22.91 or 3.5 percent more than the 10-county average monthly contribution of \$649.17 in 2018. • Compared to 2018 rates, the total 2019 City health premium amounts are proposed to (a) decrease by \$6.8 million or 2.1 percent for Kaiser, (b) increase by \$23.6 million or 8.8 percent for Blue Shield, and (c) increase by \$3.5 million or 4.1 percent for the City Plan. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The total estimated City, employee, and retiree costs for health, vision, and dental plans, as well as long-term disability and life insurance plans, are \$759,653,254 in 2019, which is a \$18,346,751 or 2.5 percent increase from \$741,306,504 in 2018. • Of the \$759,653,254, the City’s (as employer) total estimated costs for the health, vision, and dental plans, and long-term disability and life insurance plans in 2019 are \$672,770,126, which is a \$14,605,032 or 2.2 percent increase from \$658,165,093 in 2018. • The balance of \$86,883,129 (\$759,653,254 total 2019 costs less \$672,770,126 City 2019 costs) is paid by employees and retirees. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed ordinance. 	

MANDATE STATEMENT

City Charter Section A8.423 states that the Health Service Board is required to conduct a survey of the 10 most populous California counties, excluding San Francisco, to determine the average contribution made by each county toward health plan premiums for employees, excluding dental plan premiums. The Health Service Board is then required to certify to the Board of Supervisors the average contribution as determined by this survey. City Charter Section A8.428 also requires the City to contribute to the Health Service System Trust Fund to pay the costs of health plan premiums.

BACKGROUND

The Health Service Board oversees the San Francisco Health Service System (SFHSS). The SFHSS administers non-pension benefits, including health, vision, dental and other benefits, such as life and long-term disability insurance. The Health Service Board adopts the annual health, vision, dental and other insurance plans, and the respective plan premiums and premium equivalents to be paid by SFHSS employers and members.

- SFHSS employers include the City and County of San Francisco (City), the San Francisco Unified School District (SFUSD), the San Francisco Community College District (SFCCD), and the San Francisco Superior Court (Superior Court).
- SFHSS members are active and retired employees of the above noted employers, their dependents, and members of eligible boards and commissions. Dependents include children, spouses, domestic partners, surviving spouses of deceased members, and other legal dependents.

City and Employee Contribution Models

Most negotiated contribution formulas for City employees fall into the following two percentage-based employee premium contribution models:

- Under the '93/93/83 Contribution Model', the City contributes up to 93 percent of the monthly premium for employee-only and employee plus one dependent coverage, capped at 93 percent of the second-highest cost plan. The City also contributes up to 83 percent of the monthly premium for employees with two or more dependents, capped at 83 percent of the second-highest cost plan.
- Under the '100/96/83 Contribution Model', the City contributes 100 percent of monthly premiums for employee-only coverage. The City contributes up to 96 percent of the monthly premiums for employees with one dependent, capped at 96 percent of the second-highest cost plan. The City also contributes up to 83 percent of the monthly premium for employees with two or more dependents, capped at 83 percent of the second-highest cost plan.

10-County Survey Average

The 10-county survey average is used as a basis for calculating the employer contribution to the monthly health plan premium for all retirees. Based on the survey, the 10-county average employer contribution for calendar year 2019 is \$672.08 per member per month. The \$672.08 average contribution per month is \$22.91 or 3.5 percent more than the average monthly contribution of \$649.17 in 2018.

Health Service System Trust Fund

Under Charter Section A8.428, employer and SFHSS member contributions to health plan premiums are deposited in the Health Service System Trust Fund. As of June 30, 2017, the Health Service System Trust Fund balance was \$72,526,081.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would approve the Health Service System's health, vision, and dental plans as well as life insurance and long-term disability insurance plans and contribution rates for calendar year 2019.

On June 14, 2018, the Health Service Board approved the following health, vision, dental, life and long-term disability insurance plans and premiums for the period from January 1, 2019 through December 31, 2019.

Health Plans and Premiums

Kaiser Permanente HMO¹

Kaiser Permanente (Kaiser) covers active, early retirees and Medicare retirees. The total Kaiser HMO premium amounts paid by the City as employer and active and retired City employees are \$6.8 million, or 2.1 percent less in CY 2019 than in CY 2018. These amounts are shown in Table 1 below. No plan changes were approved by the Health Service Board for 2019.

Blue Shield California HMOs

The total the Blue Shield of California (Blue Shield) Access+ and Trio flex-funded plan premium amounts paid by the City as employer and active and retired City employees are \$23.6 million, or 8.8 percent, more in CY 2019 than in CY 2018. These amounts are shown in Table 1 below. No plan changes were approved by the Health Service Board for 2019.

City Plan PPO and Medicare Advantage PPO²

The City contracts with UnitedHealthcare (UHC) to administer self-funded health plans for active employees and early retirees³ (the City Plan PPO) and for Medicare-eligible retirees (UHC Medicare Advantage PPO).

¹ A HMO (Health Maintenance Organization) offers care through a closed panel of providers, in which members select a primary care physician, who manages their care. The HMOs pay the medical groups on a per capita basis.

² Under a PPO (Preferred Provider Organization), physicians, hospitals, and other providers are in network and paid by the purchaser (through a third party administrator) on a fee for service basis based on negotiated contracts.

City Plan

The City Plan is a self-funded plan administered by UnitedHealthcare (UHC) for active employees and early retirees. Five changes were approved by the Health Service Board for the 2019 City Plan:

- A new plan, “City Plan—Choice Not Available”, was approved to provide lower member contributions for those who lack geographic access to other plans offered by Blue Shield and Kaiser;
- A provider re-contracting initiative will result in increased average discounts for provider services, without any change in the provider composition of the PPO network;
- An increase to member-paid prescription drug copayments to match those in Blue Shield Access+ and Trio plans;
- An increase to member-paid out-of-network deductibles; and
- A change to rate tiers to moderate contribution requirements for City Plan early retiree families.

UHC Medicare Advantage PPO

The UHC Medicare Advantage PPO Plan, previously known as the “New City Plan”, covers all non-Kaiser Medicare eligible retirees. The Health Service Board approved the following plan changes for 2019:

- A new preferred diabetic supplies program that allows for reduced member copayments for kidney dialysis, urgent care, and certain therapy services;
- A change to the prescription drug formulary to better align with Medicare standards; and
- Post-discharge meal delivery, care-related transportation, and nutritional counseling benefits.

The increase in the total City Plan premium payments paid by the City as employer and active and retired City employees is \$3.5 million, or 4.1 percent more in CY 2019 than in CY 2018. Active and retired City employees will pay \$1.6 million of the \$3.5 million increase, representing an increase of 12.4 percent in CY 2019 compared to CY 2018, as shown in Table 1 below. According to the City’s actuarial consultant, Aon, in addition to the five changes outlined above, a major factor in the total premium increase for CY 2019 is the reduction in available funds in the City Plan rate stabilization reserve. The \$1,661,000 remaining in the City Plan rate stabilization reserve fund will apply to the 2019 City Plan rates. This amount is substantially less than the \$4,529,000 amount applied for the 2018 plan year.

³ Retired employees of less than 65 years of age and therefore not eligible for Medicare.

Vision Plan

Members enrolled in any of the health plans receive vision benefits through Vision Service Plan (VSP), a third party insurer and a fully-funded plan. The cost of the Basic Plan vision benefit is included in the cost of the medical plan for all monthly health plan premiums.

In 2018, VSP administered enrollment in the buy-up Premium Plan. For 2019, SFHSS will administer enrollment in the Premium Plan, resulting in lower member contributions for the Premium Plan by \$1.50 per month for all coverage tiers in the 2019 plan year.

For 2019, the projected cost to the City, SFUSD, SFCCD, and the Superior Court for the VSP vision plan is \$5.2 million of which \$3.6 million is the City's cost as the employer. The employer portion of vision plan costs will remain constant from 2018 to 2019, as the Basic Plan premiums are not changing from 2018 to 2019.

Dental Plans

SFHSS offers three dental plans, including one PPO (Delta Dental PPO) and two HMOs (Delta Care USA and UnitedHealthcare Dental). The City pays part of the cost of dental benefits for active employees while retirees pay the full cost of their dental plans.

Five enhancements were approved by the Health Service Board for the 2019 Delta Dental PPO plan:

- SmileWay Program: Allows members with specific chronic conditions (diabetes, heart disease, HIV/AIDS, rheumatoid arthritis, or stroke) to receive an annual periodontal scaling and root planing procedure as well as more frequent teeth cleaning/periodontal maintenance services;
- Cost Estimator Tool: Provides members the ability to model the estimated cost of specific services in advance and will suggest as an option, alternative, less-costly providers;
- Accident Benefit Rider: Additional coverage for dental services for conditions caused directly or independently of all other causes by external, violent, and accidental means;
- Adult orthodontic lifetime maximum increases by \$1,000 in each provider tier category (to match child orthodontia maximum levels); and
- Remove 6-month waiting period for prosthodontic and orthodontic coverage.

For plan year 2019, the City will contribute (1) the total premium toward each of the dental HMO plans for active employees, and (2) the monthly premium minus employee contributions ranging from \$5.00 to \$15.00 per month for the self-funded Dental PPO plan. Member contributions for the three dental plans, with the exception of the Dental PPO plan for active employees, remain unchanged from the 2018 plan year.

The City's employer and member premium contributions for the dental PPO plan are expected to decrease by \$1.9 million, or 4.0 percent, to \$45.9 million in plan year 2019, as shown in Table 1 below. The decrease is due to a combination of recent favorable experience for active

employees and the availability of rate stabilization reserve balance funds, even after consideration of the benefit enhancements.

Life and Long-Term Disability Insurance

SFHSS will continue to contract with Aetna Life Insurance Company for life and long-term disability insurance in 2019.⁴ Basic life insurance (employer paid), supplemental life insurance (member paid), and long-term disability insurance (employer and member paid) premiums remain unchanged and are guaranteed through December 31, 2019. The total cost of the life and long-term disability insurance is \$9.4 million and the cost to the City is approximately \$8.4 million in plan year 2019, as shown in Table 1 below.

Second Opinion Benefit

The medical second opinion benefit added in 2017 will continue in 2019 at a cost of \$1.15 per member per month (reduced from \$1.40 per member per month in 2018). The benefit enables covered members and dependents to contact a second opinion vendor, Best Doctors, an organization that has nationally renowned experts with extensive and specific medical expertise. This second opinion benefit should ensure that diagnosis and treatment plans are appropriate, cost-effective and least invasive based on clinical evidence.

Federal Affordable Care Act Requirements

According to the June 19, 2018 memorandum to the Board of Supervisors from the City's actuarial consultant, Aon, the following Affordable Care Act taxes and fees that applied in 2018 do not apply to the 2019 SFHSS health plans:

- The Patient Centered Outcomes Research Institute Fee (PCORI) of \$2.39 per member per year in 2018 expires after calendar year 2018. Therefore, no PCORI fee obligation is due in calendar year 2019.
- The Health Insurance Tax (HIT) is applied to all fully insured or flex-funded plans, including vision and dental plans offered by SFHSS. There is a one-year moratorium on this fee for plan year 2019. Based on a 2017 decision by the California Department of Managed Health Care, the HIT tax does not apply to the Blue Shield flex-funded plan.

FISCAL IMPACT

2019 Total City Costs

As shown in Table 1 below, the total estimated cost for the City as employer and active and retired City employee for health, vision, and dental plans, as well as long-term disability and life insurance, is \$759,653,254 in 2019, which is an \$18,346,751 or 2.5 percent increase from \$741,306,504 in 2018. The total estimated costs for the health, vision, and dental plans, as well as long-term disability and life insurance, for the City as employer in 2019 is \$672,770,126 which is a \$14,605,032 or 2.2 percent increase from \$658,165,093 in 2018.

⁴ Although Hartford Life and Accident Insurance Company acquired the group life and disability business from Aetna Life Insurance in 2017, Aetna will continue as a separate entity until 2020.

**Table 1: Total Plan Costs for the City, Employees and Retirees in 2019 Compared to 2018
Current Membership**

	2018	2019	Increase / (Decrease)	Percent
City Costs Only				
Kaiser HMO	\$295,855,438	\$289,892,499	(\$5,962,939)	-2.02%
Blue Shield HMO	\$237,492,778	\$258,052,199	\$20,559,421	8.66%
City Plan	\$72,330,138	\$74,256,693	\$1,926,555	2.66%
Subtotal Health and Vision Plan	\$605,678,354	\$622,201,391	\$16,523,037	2.73%
Dental	\$44,085,559	\$42,167,554	(\$1,918,005)	-4.35%
Long Term Disability and Life Insurance	\$8,401,181	\$8,401,181	\$0	0.00%
Total City Costs	\$658,165,093	\$672,770,126	\$14,605,032	2.22%
Employee and Retiree Costs Only				
Kaiser HMO	\$35,897,587	\$35,042,136	(\$855,451)	-2.38%
Blue Shield HMO	\$29,868,009	\$32,892,013	\$3,024,004	10.12%
City Plan	\$12,718,606	\$14,291,771	\$1,573,165	12.37%
Subtotal Health and Vision Plan	\$78,484,202	\$82,225,920	\$3,741,719	4.77%
Dental	\$3,696,780	\$3,696,780	\$0	0.00%
Long Term Disability and Life Insurance	\$960,429	\$960,429	\$0	0.00%
Total Employee and Retiree Costs	\$83,141,410	\$86,883,129	\$3,741,719	4.50%
Total Costs				
Kaiser HMO	\$331,753,025	\$324,934,635	(\$6,818,390)	-2.06%
Blue Shield HMO	\$267,360,787	\$290,944,212	\$23,583,425	8.82%
City Plan	\$85,048,744	\$88,548,464	\$3,499,720	4.11%
Subtotal Health and Vision Plans	\$684,162,555	\$704,427,311	\$20,264,755	2.96%
Dental	\$47,782,339	\$45,864,334	(\$1,918,005)	-4.01%
Long Term Disability and Life Insurance	\$9,361,609	\$9,361,609	\$0	0.00%
Total Costs	\$741,306,504	\$759,653,254	\$18,346,751	2.47%

Source: San Francisco Health Service System

The employer contribution amounts shown in Table 1 above are included in the FY 2018-19 and FY 2019-20 budgets currently pending before the Board of Supervisors.

The balance of \$86,883,129 (\$759,653,254 total 2019 costs less \$672,770,126 City 2019 costs) is paid by employees and retirees.

RECOMMENDATION

Approve the proposed ordinance.

<p>Item 15 File 18-0683</p>	<p>Department: Mayor's Office</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> ▪ The proposed resolution approves several actions to enable development of affordable housing at 88 Broadway, which is under the jurisdiction of the Port, including (1) approving the Mitigation Monitoring and Reporting program under the California Environmental Quality Act (CEQA), (2) affirming the Port Commission’s findings regarding the Public Trust, and adopting findings that the proposed project is consistent with the General Plan, (3) authorizing an option to ground lease for up to 75 years and the form of the ground lease between the Port and the property developer, 88 Broadway Family, L.P. (a partnership between the nonprofit housing developer BRIDGE Housing Corporation and the private developer John Stewart Company), and (4) authorizing a Memorandum of Understanding between the Port and the Mayor’s Office of Housing and Community Development (MOHCD) for MOHCD to pay the fair market value of the ground lease. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> ▪ State Assembly Bill (AB) 2649, adopted in 2012, allowed development of affordable housing at 88 Broadway for up to 75 years, subject to State Lands Commission approval. In 2015, MOHCD selected 88 Broadway Family, L.P. through a competitive process to develop low and moderate income housing on the property. ▪ Approval of the proposed option to ground lease is to be calendared at the July 10, 2018 Port Commission meeting. Therefore, approval of the proposed resolution by the Board of Supervisors is contingent on approval of the option agreement by the Port Commission. Also, as of the writing of this report, the State Lands Commission has not granted final approval of the proposed use of 88 Broadway for affordable housing. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • AB 2649 requires that the City pay fair market value for the use of Port property for affordable housing, appraised at \$14.9 million. MOHCD and the Port expect that inclusionary housing fees generated by market-rate housing development on Parcel K North adjacent to the Pier 70 Special Use District, would be used as a source of funds for MOHCD to pay the fair market value of the 75-year ground lease for 88 Broadway. • Under the proposed ground lease, 88 Broadway Family L.P (the tenant) would pay base rent to the Port of \$20,000 in the first year, which would be increased every five years based on increases in the Area Median Income (AMI) but would not be less than \$20,000. The Port projects base rent revenues of \$4,075,442 over the course of a 75 year lease. • In addition, six percent of the floor space at 88 Broadway will be dedicated to commercial/retail activities. Under the proposed ground lease, 88 Broadway Family L.P will pay rent to the Port equal to 30 percent of net revenues from the retail operation. The Port projects revenues of \$1,445,166 over the course of a 75 year lease. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> ▪ Approve the proposed resolution contingent on final approval of the project by the Port Commission and the State Lands Commission. 	

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

The San Francisco Port owns land at 88 Broadway which is currently being used as a parking lot. State Assembly Bill (AB) 2649, adopted in 2012, allowed development of affordable housing at 88 Broadway for up to 75 years, subject to State Lands Commission approval that the site is no longer necessary for public trust or Burton Act purposes.¹

In 2014 the Port Commission approved a Memorandum of Understanding (MOU) between the Port and the Mayor's Office of Housing and Community Development (MOHCD) to explore the feasibility of developing the site for affordable housing.

In 2015, MOHCD issued a Request for Proposals (RFP) to develop affordable senior and family rental housing on the Broadway site. Nonprofit housing developer BRIDGE Housing Corporation collaborated with the John Stewart Company, a private corporation, to respond to the RFP. The two groups were selected as the most qualified developer of two respondents and jointly established 88 Broadway Family, L.P.

In June 2018, Clifford Advisory, L.L.C. appraised the fair market value of the property at \$14,900,000.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would:

- (1) Adopt the Mitigation Monitoring and Reporting Program under the California Environmental Quality Act (CEQA) for an affordable housing project at 88 Broadway along with an affordable housing project on city-owned property at 735 Davis Street;
- (2) Affirm the Port Commission's Public Trust findings and adopt findings that the Project is consistent with the General Plan, and the eight priority policies of Planning Code, Section 101.1;
- (3) Authorize an option to ground lease the property to 88 Broadway Family, L.P.; the option would be in effect from the Board of Supervisors approval of the proposed resolution through June 30, 2019 with a 12-month option to extend through June 30, 2020. The terms of the lease are: an initial 57-year ground lease, with one 18-year option to extend², between the City as landlord and 88 Broadway Family, L.P. as tenant

¹ The Burton Act granted tidelands within the city limits to San Francisco in 1968, which gave control of these lands to the Port subject to the trust agreement. Under the trust agreement, use of Port land is generally restricted to maritime commerce and recreational uses.

² MOHCD typically develops 99 year ground leases for affordable housing development; the lease at 88 Broadway is 75 years in total to comply with the Burton Act.

for \$20,000 annual base rent to construct 124 units of multifamily rental housing for low and moderate income persons at 88 Broadway;

- (4) Authorize the execution of a Memorandum of Understanding between the Port and the Mayor's Office of Housing and Community Development for payment of fair market value for the Port Property and other interdepartmental coordination
- (5) Authorize the Acting Director of Real Estate and Director of MOHCD to execute documents, make certain modifications, and take certain actions in furtherance of the resolution.

Low and Moderate Income Housing Development

88 Broadway Family, L.P will demolish the surface parking lot currently located at 88 Broadway in order to build two six-story, mixed use residential buildings for 124 affordable apartments for family and senior housing, plus one manager unit. The apartments would consist of 18 studios, 37 one-bedroom apartments, 46 two-bedroom apartments, and 24 three-bedroom apartments. The 124 apartments would be leased to families at the following income levels: 5 units are reserved for households at or below 30 percent of the Area Median Income (AMI); 44 units are reserved for households at or below 50 percent AMI; 55 units are reserved for households at or below 60 percent AMI; 11 units are reserved for households at or below 80 percent AMI; 5 units are reserved for households at or below 100 percent AMI; 5 units are reserved for households at or below 120 percent AMI. In addition, the residential buildings would include retail/commercial space taking up approximately six percent of the usable floor space.³

Total development costs for 88 Broadway are estimated to be \$90,729,865. Development is funded by federal Low Income Housing Tax Credits, loans and grants from the State of California, developer equity, MOHCD gap financing, and other sources.

The key provisions of the Ground Lease are shown in Table 1 below.

Table 1: Key Provisions of Ground Lease

Lease Terms: 88 Broadway	
Size of Property	37,810 square feet
Lease Period	57 years (approximately March 2019 through March 2076)
Options to extend lease	Tenant has one 18-year option to extend the lease through 2094 for a total lease term of 75 years
Base rent	\$20,000 per year
Adjustments to base rent	Base rent will be adjusted every fifth year; Rent is adjusted by taking base rent multiplied by the percent change in AMI, unless AMI has decreased
Taxes, insurance, maintenance, utilities	Paid by tenant
Appraised Value	\$14,900,000, appraised June 15, 2018
Number of Units	124 Affordable rental housing units

Source: Lease between 88 Broadway Family, L.P and the City and County of San Francisco

³The building will have a total of 145,800 square feet; 8,700 square feet are reserved for commercial use.

Planning Department Determination

In March 2018, the Planning Department completed an environmental review which determined that the project could not have a significant effect on the environment. The Department also put mitigation measures in place to avoid potentially significant environmental effects. In April 2018 the Historic Preservation Commission approved the project and issued a Certificate of Appropriateness. Finally, in June 2018, the Planning Department found the project to be in conformity with the General Plan and the eight priority policies of Planning Code Section 101.1.

Additional approvals required

Approval of the proposed option to ground lease is to be calendared at the July 10, 2018 Port Commission meeting. Therefore, approval of the proposed resolution by the Board of Supervisors is contingent on approval of the option agreement by the Port Commission.

Also, as noted above, AB 2649, allowed development of affordable housing at 88 Broadway for up to 75 years, subject to State Lands Commission approval that the site is no longer necessary for public trust or Burton Act purposes. As of the writing of this report, the State Lands Commission has not granted final approval of the proposed use of 88 Broadway for affordable housing.

FISCAL IMPACT

According to the proposed Memorandum of Understanding (MOU) between the Port and MOHCD, as compensation for the ground lease for use of 88 Broadway as affordable housing, the Port will be paid (1) fair market value of the 75-year ground lease by MOHCD at the current appraised value of \$14.9 million,⁴ and (2) rent paid by the property tenant to the Port.

Fair Market Value of 88 Broadway

AB 2649 requires that the City pay fair market value for the use of Port property for affordable housing.⁵ Under the proposed MOU between the Port and MOHCD, MOHCD will pay the fair market value from any source of funds available to MOHCD. MOHCD and the Port expect that inclusionary housing fees generated by market-rate housing development on Parcel K North⁶, adjacent to the Pier 70 Special Use District, would be used as a source of funds for MOHCD to pay the fair market value of the 75-year ground lease for 88 Broadway.⁷

⁴ According to the MOU, if the ground lease does not close within 9 months, the property will need to be re-appraised.

⁵ The Board of Supervisors adopted an ordinance in 2012 (File 12-0816, Ordinance No. 232-12) that stated: "The Port would be authorized to enter into a lease for affordable housing at below market rents if the Port receives fair market value by other means".

⁶ Parcel K North is Port-owned land outside of the public trust, which the Port plans to sell to a private developer for development of market rate housing. Market rate housing developed on Parcel K North is subject to the City's inclusionary housing requirements.

⁷ The Port would continue to own the land; payment of fair market value by MOHCD to the Port is compensation for the 75-year ground lease.

According to Ms. Faith Kirkpatrick, MOHCD project manager, MOHCD estimates that inclusionary housing fees generated by market rate housing development on Parcel K North will be sufficient to cover the fair market value of 88 Broadway plus interest. Ms. Kirkpatrick states that these inclusionary housing fees have not been dedicated to other MOHCD affordable housing development.

Rent Paid by Tenant

Under the proposed ground lease, 88 Broadway Family L.P (the tenant) would pay base rent to the Port of \$20,000 in the first year, which would be increased every five years based on increases in the Area Median Income (AMI) but would not be less than \$20,000. If the base rent were to remain at \$20,000 for the duration of the initial 57 year term, the Port would receive \$1,140,000 in total base rent. Should the tenant agree to extend the lease for an additional 18 years, the City would receive an additional \$360,000. According to Mr. Ricky Tijani, Port Development Project Manager, the Port projects base rent revenues of \$4,075,442 over the course of a 75 year lease.

In addition, six percent of the floor space at 88 Broadway will be dedicated to commercial/retail activities. Under the proposed ground lease, 88 Broadway Family L.P will pay rent to the Port equal to 30 percent of net revenues from the retail operation. According to Mr. Tijani, the Port expects to receive approximately \$16,000 in average annual revenues from commercial and retail subleases. The Port projects revenues of \$1,445,166 over the course of a 75 year lease.

If 88 Broadway Family L.P subleases to wireless communication sites, advertising, or other uses, 88 Broadway Family L.P will pay the Port 50 percent of sublease rent. Since none of these subleases are contemplated at this time, the Port does not have estimates for these additional revenues at this time.

RECOMMENDATION

Approve the proposed resolution contingent on final approval of the project by the Port Commission and the State Lands Commission.

Items 17 and 18 Files 18-0685 and 18-0686	Department Mayor's Office of Housing and Community Development
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EXECUTIVE SUMMARY**Legislative Objectives**

- The proposed resolutions (i) approve the jurisdictional transfer of City property at 735 Davis Street from Public works to the Mayor's office of Housing and Community Development (MOHCD) for affordable housing (ii) authorize an option to ground lease 735 Davis Street to 735 Davis Senior, L.P. (a partnership between the nonprofit developer BRIDGE Housing Corporation and the private developer John Stewart Company), and the form of the ground lease for a term of 75 years with one 24 year option to extend, and with an annual base rent of \$15,000 in order to construct a 100 percent affordable, 53-unit multifamily rental housing development for low to moderate income seniors and formerly homeless seniors; (iii) adopt findings that the Ground Lease is consistent with the California Environmental Quality Act, the General Plan, and the eight priority policies of Planning Code Section 101.1; and (iv) adopt the Mitigation Measures and Improvement Measures Monitoring and Reporting Program.

Key Points

- The City owns property at 735 Davis Street under the jurisdiction of the Department of Public Works. Public Works intends to transfer this property MOHCD at no cost to MOHCD to develop new affordable housing. MOHCD selected 735 Davis Senior, L.P. through a competitive process in 2015 to develop the affordable housing.
- In 2015, MOHCD issued a Request for Proposals (RFP) to develop affordable senior rental housing on the Davis Street site. Nonprofit housing developer BRIDGE Housing Corporation collaborated with the John Stewart Company, a private corporation, to respond to the RFP. The two groups were selected as the most qualified developer and jointly established 735 Davis Senior, L.P.

Fiscal Impact

- The City will receive \$15,000 in annual base rent from 735 Davis Senior, L.P. Over the 75 year term of the lease, the City will receive \$1,125,000.
- Should surplus cash be available from the tenant, the City may receive up to \$415,000 annually in residual rent, However, MOHCD does not expect to receive residual rent in the foreseeable future.

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

The City owns property at 735 Davis Street under the jurisdiction of the Department of Public Works. At present the property is used as parking lot and the current tenant is on a month-to-month lease. Public Works intends to transfer this property to the Mayor's Office of Housing and Community Development (MOHCD) at no cost to MOHCD for the purpose of developing of new affordable housing.

In 2015, MOHCD issued a Request for Proposals (RFP) to develop affordable senior rental housing on the Davis Street site. Nonprofit housing developer BRIDGE Housing Corporation collaborated with the John Stewart Company, a private corporation, to respond to the RFP. The two groups were selected as the most qualified developer and jointly established 735 Davis Senior, L.P.

In June 2018, Clifford Advisory, LLC appraised the fair market value of the property at 4,300,000.

DETAILS OF PROPOSED LEGISLATION

The proposed resolutions would:

File 18-0865

- Authorize a jurisdictional transfer of City property at 735 Davis Street from Public Works to the Mayor's Office of Housing and Community Development for affordable housing for the transfer price of \$0;

File 18-0686

- Authorize an option to ground lease the property to 735 Davis Senior, L.P.; the option would be in effect from Board of Supervisors approval of the proposed resolution through June 30, 2019 with a 12-month option to extend through June 30, 2020 (a period of approximately 1 year and 11 months);
- Adopt findings that the Ground Lease is consistent with the California Environmental Quality Act (CEQA), the General Plan, and the eight priority policies of Planning Code Section 101.1; and
- Adopting the Mitigation Measures and Improvement Measures Monitoring and Reporting Program;
- Authorize the Acting Director of Real Estate and Director of MOHCD to execute documents, make certain modifications, and take certain actions in furtherance of the resolution, as defined therein.

Affordable Housing Project

735 Davis Senior, L.P. will construct 53 affordable apartments for low income seniors. The apartments would consist of 23 studios, 29 one-bedroom apartments, and one two-bedroom apartment. The 53 apartments would be leased to seniors at the following income levels: 15 units reserved for individuals at or below 40 percent of the Area Median Income (AMI); 10 units reserved for individuals at or below 50 percent AMI; 20 Units reserved for individuals at or below 60 percent AMI; and 8 units reserved for individuals at or below 70 percent AMI^{1,2}. Total development costs for 735 Davis Street are estimated to be \$37,559,778. Development is funded by federal Low Income Housing Tax Credits, loans and grants from the State of California, developer equity, tax exempt revenue bond construction loans, MOHCD gap financing, and other sources.

Ground Lease

File 18-0686 approves the form of the ground lease; if 735 Davis Senior, L.P. exercises the option to enter into the ground lease, future Board of Supervisors approval is not required. The key provisions of the Ground Lease are shown in Table 1 below.

Table 1: Key Provisions of Ground Lease

Lease Terms: 735 Davis Street

Size of Property	10,656 square feet
Lease Period	75 years (approximately March 2019 through March 2094)
Options to extend lease	Tenant has one 24-year option to extend the lease through 2118 for a total lease term of 99 years
Base rent	\$15,000 per year
Adjustments to base rent	None
Residual rent	Up to \$415,000 per year ^a
Adjustments to residual rent	10 percent of fair market value on the 15 th anniversary of the first rent payment and every 15 years thereafter
Taxes, insurance, maintenance, utilities	Paid by tenant
Appraised Value	\$4,300,000- appraised June 24, 2018
Number of Units	53 Senior housing units

Source: Proposed Ground Lease

^a 735 Davis Senior, L.P. could pay total annual rent (base rent and residual rent) up to 10 percent of the appraised value of the property. As of June 2018, the appraised value is \$4.2 million; therefore, total annual rent is up to \$430,000 and residual rent is up to \$415,000 (the difference between total annual rent and base rent of \$15,000).

¹ The resolution stipulates that the rents must be set at levels no greater than HUD adjusted 60% area median income. HUD makes cost adjustment to account for areas with high housing costs. The new calculation is called the "HUD adjusted AMI." MOHCD reports unadjusted AMI, thus a person making 70% of unadjusted AMI still falls within the HUD adjusted 60% AMI category.

² 2018 Area Median Income for San Francisco for one person is \$82,900; therefore, 40 percent of AMI is \$33,150; 50 percent of AMI is \$41,450; 60 percent of AMI is \$49,750; and 70 percent of AMI is \$58,050.

Planning Department Determination

In March 2018, the Planning Department completed an environmental review which determined that the project could not have a significant effect on the environment. The Department also put mitigation measures in place to avoid potentially significant environmental effects. In April 2018, the Historic Preservation Commission approved the project and issued a Certificate of Appropriateness. Finally, in June 2018, the Planning Department found the project to be in conformity with the General Plan and the eight priority policies of Planning Code Section 101.1.

FISCAL IMPACT

The City would receive \$15,000 annually in base rent, not adjusted for inflation, from 735 Davis Senior, L.P. Over the 75 year term of the lease, the City would receive \$1,125,000 in total base rent. Should the tenant agree to extend the lease for an additional 24 years, the City would receive an additional \$360,000.

Should surplus cash be available from the tenant after payment of all operating expenses, the City may receive residual rent. Annual residual rent is up to 10 percent of the appraised fair market value of the property, minus the base rent. At the current appraised value of the property is \$4,300,000, and the base rent is \$15,000, the residual rent is up to \$400,000 per year. The residual rent would be amended every 15 years to reflect the updated fair market value of the company. Should the tenant not have surplus cash to pay residual rent in a given year, it would need to provide written documentation to the City to verify the insufficiency. According to Ms. Faith Kirkpatrick, MOHCD Project Manager, MOHCD does not anticipate receiving residual revenues for the next twenty years at a minimum due to the high operating costs, including debt repayment obligations, associated with the housing and low revenues.

RECOMMENDATION

Approve the proposed resolution