


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

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June 19, 2020

**TO:** Budget and Finance Committee  
**FROM:** Budget and Legislative Analyst   
**SUBJECT:** June 24, 2020 Budget and Finance Committee Meeting

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<b>Item 8</b> <b>Files 20-0517</b>	<b>Department:</b> Mayor's Office of Housing & Community Development
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed emergency ordinance would allow the Mayor's Office of Housing &amp; Community Development (MOHCD) and the Real Estate Division to amend ground leases during the 60 days the emergency authority is granted for 100% affordable housing projects without seeking review from the Citywide Affordable Housing Loan Committee or approval from the Board of Supervisors if certain conditions are met.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• MOHCD policy for affordable housing projects on City-owned land is to enter into below market rate ground leases for up to 99 years. Ground lease rent consists of base rent of \$15,000 per year and residual rent which is payable if the housing project generates surplus cash ("residual receipts"). According to MOHCD policy, 2/3 of residual receipts must be used to repay MOHCD loans and residual ground lease rent. The remaining 1/3 of the residual receipts may, with approval from MOHCD, be retained by the borrower, an affiliate of the affordable housing operator.</li> <li>• According to data provided by MOHCD, older ground leases commit affordable housing borrowers to repay a higher portion of residual receipts to the City than the 2/3 that is now standard. In addition, according to MOHCD, the residual rents for certain projects are higher than the current standard.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• Approximately eight affordable housing projects would be eligible for amended ground leases, with reduced annual rent to the City of \$1.25 million.</li> </ul> <p style="text-align: center;"><b>Policy Consideration</b></p> <ul style="list-style-type: none"> <li>• Because the proposed emergency ordinance waives lease review authority under Charter Section 9.118 and Administrative Code Section 23.30, we consider approval of the legislation a policy matter for the Board of Supervisors.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approval of the proposed ordinance is a policy matter for the Board of Supervisors.</li> </ul>	

## MANDATE STATEMENT

City Charter Section 2.107 states that the Board of Supervisors may pass emergency ordinances on their first reading with a 2/3 affirmative vote. Emergency ordinances become effective upon approval by the Mayor, the expiration of the ten-day period for the Mayor to approve or veto, or the Board of Supervisors' override of the Mayor's veto. Emergency ordinances expire sixty days after their passage.

## BACKGROUND

Chapter 120 of the Administrative Code allows the Mayor's Office of Housing & Community Development (MOHCD) to develop lending programs and associated lending policies for affordable housing development. MOHCD must consult with applicable City agencies on loans, which is accomplished through the Citywide Affordable Housing Loan Committee.<sup>1</sup> For affordable housing projects on City-owned land, MOHCD will enter into a below market rate ground lease for up to 99 years with the affordable housing operator to ensure affordability of the project. According to MOHCD's Policy on Ground Leases dated August 2015, ground lease rent is equal to 10 percent of the appraised fair market value of the property, and consists of base rent of \$15,000 and residual rent. According to MOHCD's current Residual Receipts Policy dated April 2016, in general, 2/3 of surplus cash ("residual receipts") must be used to repay MOHCD loans and residual ground lease rent. The remaining 1/3 of the residual receipts may, with approval from MOHCD, be retained by the borrower, an affiliate of the affordable housing operator.

According to data provided by MOHCD, older ground leases commit affordable housing borrowers to repay a higher portion of residual receipts to the City than the 2/3 that is now standard. In addition, according to MOHCD, the residual rents for certain projects are higher than the current standard. According to MOHCD, the COVID-19 related loss of rental income has materially reduced income for certain affordable housing projects.

### **Board of Supervisors' Review and Approval of Ground Leases**

Administrative Code Section 23.30 states that the Board of Supervisors shall approve all leases on behalf of the City as landlord by resolution for which the term is longer than a year and costs over \$15,000 per month. The Board of Supervisors may approve below market rate leases if doing so furthers a public purpose.

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

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<sup>1</sup> The Citywide Affordable Housing Loan Committee is composed of MOHCD Director, Office of Community Investment and Infrastructure Executive Director, and the Department of Homelessness and Supportive Housing Deputy Director for Programs.

**DETAILS OF PROPOSED LEGISLATION**

The proposed emergency ordinance would allow MOHCD and the Real Estate Division to amend ground leases during the 60 days the emergency authority is granted for 100% affordable housing projects without seeking review from the Citywide Affordable Housing Loan Committee or approval from the Board of Supervisors if the following conditions are met:

- a) The ground lease was already approved by the Board of Supervisors or was assigned to MOHCD from the Office of Community Investment and Infrastructure
- b) MOHCD determines that the affordable housing project will suffer financially related to COVID-19
- c) MOHCD determines that adjusting residual receipts distributions will mitigate the financial impact of COVID-19
- d) The amendment modifies the lease solely to add, change, or remove terms related residual receipts distributions
- e) The amendment does not increase the duration of the lease, or impose any other new obligations on the City

Although the proposed emergency ordinance would be in effect for sixty days, the changes to the ground leases would be permanent.

According to Mr. Michael McLoone, Senior Asset Manager at MOHCD, the amendments would all conform to MOHCD April 2016 Residual Receipts policy.

**FISCAL IMPACT**

Table 1 below summarizes the projects for which ground leases may be amended and expected change in revenues. MOHCD is still finalizing the set of projects. The values below are based on 2018 financial data.

**Table 1: Projects Eligible for Ground Lease Amendments**

Project Name	Address	Sponsor	Affordable Units	Annual Change in City Revenue
Franciscan Towers	217 Eddy	Tenderloin Neighborhood Development Corporation	104	(19,061)
Golden Gate Apartments	1820 Post	Chinatown Community Development Center	71	(206,011)
Antonia Manor	180 Turk	Tenderloin Neighborhood Development Corporation	133	(124,833)
Namiki Apartments	1776 Sutter	Chinatown Community Development Center / Namiki Apartments Residents Association	33	(86,507)
Notre Dame Apartments	1590 Broadway	Chinatown Community Development Center	201	(51,826)
Maria Manor	174 Ellis	Tenderloin Neighborhood Development Corporation	119	(304,202)
Natoma Family Apartments	474 Natoma	Bridge Housing	59	(1)
The Dudley Apartments	172-180 6th	Mercy Housing California	74	0
Derek Silva Community	20 Franklin	Mercy Housing California	68	0
Mary Helen Rogers Senior Community	701-725 Golden Gate	Chinatown Community Development Center	99	(5)
Broadway Sansome Family Housing	235 -295 Broadway	Chinatown Community Development Center	74	0
Dr. George W Davis Senior Housing	1751 Carroll	McCormack Baron Salazar / BHP Multi Senior Svcs	120	(181,158)
Turk & Eddy Apartments	249 Eddy	Tenderloin Neighborhood Development Corporation	80	(96)
Rene Cazenave Apts	25 Essex	Community Housing Partnership	120	0
588 MBN (Mission Bay South Block 7 West)	588 Mission Bay	Related Companies / Chinatown Community Development Center	198	(278,606)
<b>Total</b>				<b>(1,252,306)</b>

Source: MOHCD

As shown above, the total annual revenue loss is estimated to be \$1.3 million. Certain projects show zero savings because they are already deferring their residual rent payments in 2018 to pay

for tenant improvements, however over the longer term a lower residual rent will financially benefit the project.

**POLICY CONSIDERATION**

Because the proposed emergency ordinance waives lease review authority under Charter Section 9.118 and Administrative Code Section 23.30, we consider approval of the legislation a policy matter for the Board of Supervisors.

**RECOMMENDATION**

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

<p><b>Item 13</b> <b>Files 20-0615</b></p>	<p><b>Department:</b> Homelessness &amp; Supportive Housing</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution (1) approves (i) a Building Lease between the City and 833 Bryant L.P., an affiliate of Mercy Housing and (ii) a Sublease between 833 Bryant L.P. and the City, and (iii) the Preliminary Official Statement and Continuing Disclosure Certificate related to Tax-Exempt Bonds to be issued by the California Housing Finance Agency; and (2) finds conformance with the General Plan and confirm CEQA exemption. The lease and sublease are for a new permanent supportive housing project at 833 Bryant Street for 145 formerly homeless adults.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• 833 Bryant Street is owned by the Homeless Fund No. 1 LLC - which is a subsidiary of the Homes for the Homeless Fund, a partnership of Tipping Point and the Housing Accelerator Fund. The Housing Accelerator fund selected 833 Bryant L.P. , an affiliate of Mercy Housing, to develop the housing project and Episcopal Community Services to provide services. Under the proposed building lease between the City and 833 Bryant, L.P., the City will make annual lease payments of approximately \$2.0 per year over 30 years, which will be a source of payments to repay tax-exempt financing obtained for the project. The sublease provides for Mercy to provide permanent supportive housing at the site.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• Total estimated project development costs are \$55.8 million, which includes tax-exempt financing of \$34.2 million. The City’s lease payments are capped at approximately \$2.0 million per year or \$60.4 million over 30 years. The source of funding for these payments will be the City’s General Fund.</li> </ul> <p style="text-align: center;"><b>Policy Consideration</b></p> <ul style="list-style-type: none"> <li>• This project differs from many other City-financed affordable housing projects in that the land is privately owned. The City could potentially own the land after 30 years under a planned conveyance agreement, but this agreement has not yet been finalized.</li> <li>• The proposed lease between the City and 833 Bryant, L.P. is consistent with City policy and prior Board appropriations to the Department of Homelessness and Supportive Housing for the project. However, because the approval of the proposed lease commits the City to annual General Fund appropriations of up to \$2 million for the next 30 years, the Budget and Legislative Analyst considers approval of the proposed resolution to be a policy matter.</li> </ul> <p style="text-align: center;"><b>Recommendations</b></p> <ol style="list-style-type: none"> <li>1. Amend the proposed resolution to request a report back from the Department of Homelessness and Supportive Housing on finalization of the conveyance agreement to assure the Board that the City has the option to purchase the land at 833 Bryant Street after 30 years and include that report in the legislative file for this item.</li> <li>2. Approval of the proposed resolution, as amended, is a policy matter for the Board of Supervisors.</li> </ol>	

## MANDATE STATEMENT

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

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

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

## BACKGROUND

### **Permanent Supportive Housing Overview**

Permanent supportive housing refers to housing that includes operating subsidies and on-site social services for tenants exiting homelessness who require more intensive services to maintain their housing. The City contracts with homeless services providers and operators of permanent supportive housing, which include case management, support groups, community events, and property management. In addition, the Department of Homelessness and Supportive Housing ("Homelessness & Supportive Housing") enters into contractual agreements with nonprofit organizations for the operating costs of permanent supportive housing projects (such as front desk staff and janitorial service). The Department is responsible for overseeing all of the City's supportive housing portfolio.

### **New Permanent Supportive Housing Project at 833 Bryant**

The proposed resolution is related to a new permanent supportive housing development at 833 Bryant Street. The project will consist of 145 individual residential units, 1 manager unit, 1,030 square feet for the provision of services to tenants and tenant meetings, and 650 square feet of commercial space for a neighborhood-serving business at the ground floor. The residential units would be made available to formerly homeless adults with rent at no more than 30 percent of tenant income and provide ongoing support services and medical support. Potential tenants would be referred by Department of Homelessness and Supportive Housing's Coordinating Entry process, which prioritizes individuals for housing based on vulnerability, length of homelessness and barriers to housing.

According to the proposed Preliminary Official Statement, described below, the project is under construction, which is expected to be complete in the Summer of 2021. Full occupancy is expected at the end of 2021.



## Project Selection

In April 2019, the Board of Supervisors approved an ordinance that amended Chapter 21 of the Administrative Code to allow the Department of Homelessness & Supportive Housing to enter into and amend contracts for homeless services without undergoing a competitive procurement process (File 19-0047). Under that new provision in the Administrative Code, Homelessness & Supportive Housing selected the 833 Bryant Street project for City funding without undergoing a competitive procurement. The Citywide Affordable Housing Loan Committee, which, according to Chapter 120 of the Administrative Code, was established by the Mayor “to make recommendations related to affordable housing development, as well as insuring that underwriting standards are uniform, review of funding applications are streamlined, and funding allocations are coordinated”, did not review this project.<sup>1</sup> The project’s financial viability was evaluated by Homelessness & Supportive Housing staff and the Office of Public Finance in consultation with staff from the Mayor’s Office of Housing and Community Development.

According to Ms. Gigi Whitley, Deputy Director for Administration and Finance at the Department of Homelessness and Supportive Housing, the Housing Accelerator Fund, a non-profit organization providing financing to affordable housing developers, initiated the project at 833 Bryant Street. Using a competitive process that included a Request for Proposals, the Housing Accelerator Fund selected Mercy Housing as the project sponsor and Episcopal Community Services as the supportive services provider. The Department of Homelessness & Supportive Housing expects the final agreement with Episcopal Community Services to exceed \$10 million and have a term greater than 10 years and plans to return for Board of Supervisors’ approval in early 2021 after the bonds are issued.

Homes for the Homeless Fund No. 1 LLC<sup>2</sup> owns the site at 833 Bryant and will enter into a 99-year ground lease with 833 Bryant, L.P., the project sponsor and an affiliate of Mercy Housing.<sup>3</sup> According to the Department of Homelessness and Supportive Housing, the ground lease between 833 Bryant, L.P. and Homes for the Homeless Fund No. 1 LLC anticipates that the City will enter into a lease agreement with 833 Bryant, L.P. 833 Bryant, L.P. will use the City’s lease payments to pay debt service on the tax-exempt bonds (discussed below). The City will then sublease the property back to 833 Bryant, L.P. to develop and operate the housing project. The City will also provide operating and services subsidies for the project.

## California Tax Credit Allocation Committee

The Internal Revenue Service allocates a specific amount of federal low-income housing tax credits to each state, which in California are allocated to affordable housing developers by the State Treasurer’s California Tax Credit Allocation Committee. Project sponsors may apply to that Committee for 4 percent tax credits, which are allocated to projects that meet certain threshold

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<sup>1</sup> The members of the Citywide Affordable Housing Loan Committee are Mayor’s Office of Housing and Community Development, the Office of Community Investment and Infrastructure, and the Department of Homelessness and Supportive Housing.

<sup>2</sup> Homes for the Homeless Fund is a partnership between the Housing Accelerator Fund and Tipping Point Community; Homes for the Homeless Fund No. 1 LLC is a subsidiary of the Housing Accelerator Fund.

<sup>3</sup> The land acquisition cost \$8,273,523 was paid for by Homes for the Homeless Fund.

criteria related to project attributes, and for 9 percent tax credits, which are competitively awarded. To reduce the project’s need for debt and other capital, affordable housing developers typically sell their awarded tax credits to for-profit investors. According to the Office of Public Finance, in April 2020 the project has obtained an allocation of 4 percent tax credits from the California Tax Credit Allocation Committee.

**DETAILS OF PROPOSED LEGISLATION**

**Lease and Sublease**

The proposed resolution would approve (1) a Building Lease agreement between the City and 833 Bryant L.P., an affiliate of Mercy Housing<sup>4</sup> and (2) a Sublease between 833 Bryant L.P. and the City, for a supportive housing project. The Building Lease and Sublease terms are summarized below in Exhibit 1.

**Exhibit 1: Building Lease and Sublease Terms**

	<b>Building Lease</b>	<b>Sublease</b>
<b>Lessor</b>	833 Bryant, L.P.	City
<b>Lessee</b>	City	833 Bryant, L.P.
<b>Effective</b>	Certificate of Occupancy (expected Aug 2021)	Certificate of Occupancy (expected Aug 2021)
<b>Term</b>	30 years	30 years
<b>Payment</b>	1.15x bond debt service, not to exceed \$2,014,800 annually	\$1.00 one-time payment
<b>Site Use</b>	145 units supportive housing*	145 units supportive housing*

Source: Proposed Building Lease and Sublease

Note: If the City does not make operating and services subsidy payments, the site may be operated as affordable rental housing for low and moderate income tenants, in accordance with the tax credit and tax-exempt bond regulations that will apply to the project for 55 years.

As shown above, the City’s payments on the lease will be 1.15 times the debt service of the proposed Tax-Exempt Bonds, which is a requirement of the California Tax Credit Allocation Committee, as further described below. The proposed resolution caps annual lease payments at no more than \$2,014,800 annually, or \$1,158 per unit per month.

The purpose of the building lease is for the City to secure an interest in the project while the project sponsor makes payments on the tax-exempt bonds, described below, that will be used

<sup>4</sup> In order to obtain tax credits, affordable housing developers form partnerships with financial entities consisting of limited partners and general partners. The limited partner, typically an investor, owns 99.99 percent of the partnership and therefore received that share of the project’s available tax credits. The general partner, a developer, owns 0.01 percent of the partnership. According to Preliminary Official Statement, 833 Bryant LP is affiliated with 833 Bryant, LLC, which is the general partner in the limited partnership, 833 Bryant, LP. 833 Bryant, LLC has a 0.01 percent ownership interest and Citibank, the limited investor partner, has a 99.99 percent ownership interest in the limited partnership, 833 Bryant LP.

for permanent financing. The purpose of the sublease is to require Mercy to provide permanent supportive housing at that site.

According to the Department of Homelessness & Supportive Housing, the landowner, Homes for the Homeless Fund No. 1, LLC, will enter into a conveyance option agreement with the City for a term of 99 years (the length of the ground lease), which will give the City the option to purchase the land for \$1 starting at the end of the 30-year Building Lease and Sublease terms. If the option to purchase is exercised, the agreement will require Board of Supervisors' approval.

### **Tax Exempt Bonds**

The proposed resolution would also approve the Preliminary Official Statement and Continuing Disclosure Certificate in connection with the issuance of tax-exempt bonds to permanently finance this project issued by the California Housing Finance Agency. When preparing the final Official Statement and related disclosures, the Controller and City Attorney may modify the Preliminary Official Statement as necessary to reflect changes in the City's financial condition and other facts. These documents provide investors with information regarding the nature of the bonds and project at 833 Bryant Street and are the legally binding documents disclosing the financial risks of purchasing the bonds.

According to the Preliminary Official Statement, the bond transaction will consist of several components. The California Housing Finance Agency, a State Agency, will issue tax-exempt bonds. According to Office of Public Finance, the amount of the bonds is expected to be \$34,163,873 and is expected to be issued July 2020 following Board of Supervisors' approval of the proposed resolution. The California Housing Finance Agency will enter into a Trust Indenture agreement with U.S. Bank National Association, as bond trustee, which will disburse the bond proceeds to 833 Bryant L.P., the bond borrower. The bond holders will be repaid by the project sponsor's assignment of the City's lease payments under the proposed Building Lease.

The California Housing Finance Agency plans to issue the bonds in a negotiated, rather than a competitive sale, in order to obtain the most favorable financing terms. According to the Office of Public Finance, the Housing Accelerator Fund selected Citibank, N. A.,<sup>5</sup> as the underwriter for the bond issuance following a competitive process, which included a Request for Proposals.

### **Other Provisions of the Proposed Resolution**

Finally, the proposed resolution would find the transactions are in conformance with the City's General Plan and the eight priority policies of Planning Code Section 101.1<sup>6</sup> and adopt the

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<sup>5</sup> Citibank, N.A., is an investment and holding company and the 99.99% limited partner investor in 833 Bryant, L.P.

<sup>6</sup> The eight policy priorities are: (1) That existing neighborhood-serving retail uses be preserved and enhanced and future opportunities for resident employment in and ownership of such businesses enhanced; (2) That existing housing and neighborhood character be conserved and protected in order to preserve the cultural and economic diversity of our neighborhoods; (3) That the City's supply of affordable housing be preserved and enhanced; (4) That commuter traffic not impede Muni transit service or overburden our streets or neighborhood parking; (5) That a diverse economic base be maintained by protecting our industrial and service sectors from displacement due to commercial office development, and that future opportunities for resident employment and ownership in these sectors be enhanced; (6) That the City achieve the greatest possible preparedness to protect against injury and loss

Planning Department's determination that the project is not subject to review under the California Environmental Quality Act.

### FISCAL IMPACT

As noted above, the total annual lease payment is capped at \$2,014,800, which over the 30-year life of the bond equals \$60,444,000. The source of funding for these payments will be the City's General Fund. According to Ms. Whitley, the Board of Supervisors previously appropriated \$400,000 in the Department's FY 2020-21 budget for this project, however the lease payments will not be due until one year after the project is occupied, which is expected in FY 2021-22.

Exhibit 2 below shows the sources and uses of funding for the project.

#### Exhibit 2: 833 Bryant Permanent Sources and Uses

<u>Sources</u>	<b>Bond Proceeds</b>	<b>Tax Credit Equity</b>	<b>Total</b>
	\$34,163,873	\$21,661,100	\$55,824,973
<u>Use</u>			
Acquisition Related Costs*	0	1,235,429	1,235,429
Construction Hard Costs	31,325,140	7,562,077	38,887,217
Financing Costs, Fees, and Interest	2,838,733	2,543,102	5,381,835
Developer Fee	0	1,700,000	1,700,000
Other Soft Costs	0	7,437,601	7,437,601
Capital Reserve	0	1,182,891	1,182,891
<b>Total</b>	<b>\$34,163,873</b>	<b>\$21,661,100</b>	<b>\$55,824,973</b>

Source: Department of Homelessness & Supportive Housing

Note: Acquisition costs do not include \$8.3 million in land acquisition costs paid for by Homes for the Homeless, a non-profit.

As shown above, the total cost of the project is \$55.8 million.

Exhibit 3 below shows the cost per unit.

#### Exhibit 3: Cost per unit

Total Cost (Ex. 2)	\$55,824,973
Residential Units	145
Cost per Unit	\$385,000

Source: BLA Analysis

of life in an earthquake; (7) That landmarks and historic buildings be preserved; and, (8) That our parks and open space and their access to sunlight and vistas be protected from development.

As shown above, the total cost per unit is \$385,000. According to the Department, the unit cost is lower than comparable affordable housing projects in part because the construction is modular design and the City’s streamlined entitlement process for affordable housing projects.

**POLICY CONSIDERATION**

The Mayor’s Office of Housing and Community Development (MOHCD) provides gap financing to most City affordable housing projects. MOHCD’s general practice is for the City to own the land and enter into a ground lease with the affordable housing sponsor, and to provide gap loans to the sponsor for predevelopment, construction and permanent financing, which are repayable if the affordable housing project generates sufficient net income to make the payments. MOHCD gap loans are one source of funds for affordable housing projects, which also receive developer-secured financing such as tax credit equity, loans, State grants, and other sources.

Financing for the 833 Bryant Street project, which is a project of the Department of Homelessness and Supportive Housing, differs from other City-financed affordable housing projects in that the land is privately owned, and the City is paying a lease payment that will allow the project to cover total debt service on the tax-exempt loan from the General Fund, equal to approximately \$2.0 million annually in General Fund payments or \$60.4 million over 30 years. This lease payment has no opportunity for the City to receive repayment.

The City’s practice to ground lease City land for up to 99 years ensures the affordability of the housing project over the up to 99-year ground lease term. The ground lease between 833 Bryant, L.P. and the Homes for the Homeless No. 1 LLC obligates 833 Bryant, L.P., the affordable housing sponsor, to develop and operate the affordable housing for 99 years, and the Building Lease between the City and 833 Bryant, L.P. requires affordability for at least 30 years. The City could potentially own the land after 30 years under a planned conveyance agreement, noted above, but this agreement has not yet been finalized. According to Ms. Whitely, the conveyance agreement will be finalized prior to the execution of the lease between the City and 833 Bryant, L.P. The Board of Supervisors should request a report back from the Department of Homelessness and Supportive Housing on finalization of the conveyance agreement to assure the Board that the City has the option to purchase the land at 833 Bryant Street after 30 years.

The proposed lease between the City and 833 Bryant, L.P. commits the City to lease payments up to \$2.0 million per year over 30 years to repay tax-exempt bond financing obtained by 833 Bryant, L.P. to construct the project. The Budget and Legislative Analyst estimates that the present value of the 30-year lease payments to 833 Bryant, L.P. is comparable to the one-time upfront financing provided by the City to two similar affordable housing projects.<sup>7</sup> While the City financing may be comparable, site ownership/control is less than other affordable housing projects financed by the City, in which the City owns the land and has the opportunity to participate in project receipts in the event that the project generates surplus cash.

<sup>7</sup> The two projects are 1068 Mission Street, and Mission Bay South Block 9.

The proposed lease between the City and 833 Bryant, L.P. is consistent with City policy and prior Board appropriations to the Department of Homelessness and Supportive Housing for the project. However, because the approval of the proposed lease commits the City to annual General Fund appropriations of up to \$2 million for the next 30 years, the Budget and Legislative Analyst considers approval of the proposed resolution to be a policy matter.

## RECOMMENDATIONS

1. Amend the proposed resolution to request a report back from the Department of Homelessness and Supportive Housing on finalization of the conveyance agreement to assure the Board that the City has the option to purchase the land at 833 Bryant Street after 30 years and include that report in the legislative file for this item.
2. Approval of the proposed resolution, as amended, is a policy matter for the Board of Supervisors.

<b>Item 15</b> <b>File 20-0479</b>	<b>Department:</b> Office of Public Finance
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <p><b>File 20-0479</b> is a resolution determining and declaring that the public interest and necessity demand the acquisition or improvement of real property, including (1) facilities to deliver services for persons experiencing mental health challenges, substance use disorder, and/or homelessness; (2) parks, open space and recreation facilities, including green and climate resilient infrastructure; and (3) streets, curb ramps, street structures and plazas. An ordinance (File 20-0478) is pending before the Board of Supervisors, providing for a proposition to be submitted to the voters in November 2020 to approve \$438,500,000 in General Obligation bonds to fund the acquisition and improvement of real property referenced in File 20-0479.</p> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The 2020 Health and Recovery General Obligation Bond report describes the projects to be acquired or constructed, using the proposed bond proceeds.</li> <li>• \$197 million would be allocated to (i) permanent supportive housing and shelter projects, and (ii) projects for mental health and substance use disorder services.</li> <li>• \$200 million would be allocated to two categories of open space and park projects: (i) neighborhood parks, and (ii) programmatic scopes. Neighborhood park projects were prioritized based on projects that had already undergone public review, design studies, and environmental review. Programmatic scope are broad categories for which specific projects have yet to be identified.</li> <li>• \$41.5 million would be allocated to address the capital needs in the public right of way and public space. Projects include (i) street resurfacing projects, which makes up the majority of proposed funding, (ii) curb ramps, and (iii) street structures and plazas.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• According to the Office of Public Finance, issuance of \$438.5 million in General Obligation bonds would result in estimated average annual debt service of \$29.3 million and total debt service over the life of the bonds of \$850.8 million. Estimated average annual property tax increase to a residential property owner, with an assessed valuation of \$600,000 and \$7,000 homeowner's exemption, would be \$61.89.</li> <li>• According to the Office of Public Finance, the proposed \$438.5 million in General Obligation bonds falls within the Charter debt limit requirement and City policy to limit the impact of debt service on property tax rates.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approval of the proposed resolution is a policy matter for the Board of Supervisors.</li> </ul>	

## MANDATE STATEMENT

City Charter Section 9.106 states that the Board of Supervisors is authorized to provide for the issuance of general obligation bonds in accordance with the Constitution of the State of California. General obligation bonds may be issued and sold in accordance with state law or any local procedure adopted by ordinance. There shall be a limit on outstanding general obligation bond indebtedness of three percent of the assessed value of all taxable real and personal property, located within the City and County

## DETAILS OF PROPOSED LEGISLATION

**File 20-0479:** The proposed resolution determines and declares that the public interest and necessity demand the acquisition or improvement of real property, including (1) facilities to deliver services for persons experiencing mental health challenges, substance use disorder, and/or homelessness; (2) parks, open space and recreation facilities, including green and climate resilient infrastructure; and (3) streets, curb ramps, street structures and plazas.

An ordinance (File 20-0478) is pending before the Board of Supervisors, providing for a proposition to be submitted to the voters in November 2020 to approve \$438,500,000 in General Obligation bonds to fund the acquisition and improvement of real property referenced in File 20-0479.

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

1. The proposed bond-funded projects are necessary and in the public interest;
2. The proposed bond-funded projects with estimated costs of \$438.5 million cannot be funded from operating revenues;
3. The proposed General Obligation bonds were referred to the Planning Department, as required by the Charter and Administrative Code, conform to the Planning Code's priority policies, and are consistent with the General Plan; and
4. The approval time limits specified in Administration Code Section 2.34 are waived;<sup>1</sup> and
5. Prior eligible City expenditures are to be reimbursed by the bond proceeds, for which the procedures are defined on page 10 of the proposed resolution.

The proposed resolution also provides that the ordinance submitting the proposed General Obligation bonds to the voters (File 20-0478 pending before the Board) authorizes landlords to pass through 50 percent of the resulting property tax increase to residential tenants.

The proposed resolution further makes findings in compliance with the California Environmental Quality Act (CEQA), detailed on pages 7 through 9 of the proposed resolution;

File 20-0487 is a resolution pending before the Board of Supervisors that amends the City's ten-year capital expenditure plan for FY 2020-2029 to amend the General Obligation bond program to include the proposed bonds of \$438,500,000.

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<sup>1</sup> Administrative Code Section 2.34 requires the Board of Supervisors to approve submitting General Obligation bonds to the voters no less than 141 days before the election.



**Proposed Health and Recovery Bond**

The 2020 Health and Recovery General Obligation Bond report describes the projects to be acquired or constructed, using the proposed bond proceeds. Total proposed General Obligation bond allocations are shown in Table 1 below.

**Table 1: Proposed Bond Allocation**

<b>Program Area</b>	<b>Amount</b>
Health and Homelessness	\$197 million
Parks and Open Spaces	\$200 million
Right of Way Repair	\$41.5 million
<b>Total</b>	<b>\$438.5 million</b>

Health and Homelessness

The proposed bond funds would be allocated to permanent supportive housing and shelter projects, and projects for mental health and substance use disorder services. Bond-funded projects totaling \$197 million include (a) acquisition and construction of a new Behavioral Health Access Center; (b) improvements to community health facilities, such as the Chinatown Health Center; (c) acquisition and construction of permanent supportive housing and behavioral health residential facilities; and (d) improvements and stabilization for board and care and other residential facilities. Table 2 below shows the proposed allocation of bond funds.

**Table 3: Proposed Bond Allocation to Health and Homelessness**

<b>Program Area</b>	<b>Amount</b>
Permanent supportive housing and shelter	\$90 million
Mental health and substance use disorder	\$107 million
<b>Total</b>	<b>\$197 million</b>

Parks and Open Spaces

The proposed bond funds would be allocated to two categories of projects, neighborhood parks and programs. According to the 2020 Health and Recovery Bond Report, neighborhood park projects were prioritized based on projects that had already undergone public review, design studies, and environmental review. Programmatic scope are broad categories for which specific projects have yet to be identified. According to the 2020 Health and Recovery Bond Report, the Recreation and Park Commission will review and approve funding allocated to specific projects; environmental review under the California Environmental Quality Act (CEQA) will be completed after project identification and development.

**Table 3: Proposed Bond Allocation to Parks and Open Spaces**

<b>Program Area</b>	<b>Amount</b>
<b>Neighborhood Parks</b>	
Buchanan Mall	\$2 million
Gene Friend Recreation Center	\$50 million
Herz Playground Recreation Center (HOPE SF)	\$10 million
India Basin	\$29 million
Japantown Peace Plaza	\$25 million
Contingency	\$5 million
<b>Subtotal Neighborhood Parks</b>	<b>\$121 million</b>
<b>Programmatic Scope</b>	
Citywide Parks	\$18 million
Recovery Parks	\$18 million
Playgrounds	\$10 million
Community Opportunity Fund	\$6 million
Sustainability	\$20 million
Mini Parks	\$1 million
Trails	\$2 million
Community Gardens	\$0.6 million
Contingency	\$1.4 million
<b>Subtotal Programmatic Scope</b>	<b>\$77 million</b>
Administration	\$2 million
<b>Total Neighborhood Parks and Programmatic Scope</b>	<b>\$200 million</b>

Right of Way

The proposed bond funds would be allocated to project to address the capital needs in the public right of way and public space. Street resurfacing projects would make up the majority of projects. The specific street resurfacing projects would be prioritized based on the pavement score, usage (such as transit corridors), project readiness, equitable geographic distribution, and public inquiries. The other two project areas are curb ramps, and street structures and plazas.

**Table4: Proposed Bond Allocation to Right of Way Repairs**

<b>Program Area</b>	<b>Amount</b>
Street resurfacing	\$31.5 million
Curb Ramps	\$5 million
Street Structures and Plazas	\$5 million
<b>Total</b>	<b>\$41.5 million</b>

**FISCAL IMPACT***Debt Service and Property Taxes*

According to the Office of Public Finance, issuance of \$438.5 million in General Obligation bonds would result in estimated average annual debt service of \$29.3 million and total debt service over the life of the bonds of \$850.8 million. Estimated average annual property tax increase to a residential property owner, with an assessed valuation of \$600,000 and \$7,000 homeowner's exemption, would be \$61.89.

*Debt Limit and Tax Rates*

Charter Section 9.106 sets the City's debt limit at 3 percent of assessed valuation. According to the Office of Public Finance, based on the City's FY 2019-20 net assessed valuation of \$281.8 billion, the City's General Obligation bond debt capacity is \$8.4 billion. As of June 2020, the City's outstanding General Obligation bond debt is \$2.4 billion and authorized and unissued General Obligation bond debt is \$2.2 billion. If all authorized debt were to be issued, including the proposed \$438.5 million in General Obligation bonds, total City General Obligation bond debt would be \$5.0 billion, less that the \$8.4 billion debt limit.

The City's policy is to limit the impact of General Obligation bond debt on property tax rates; the policy defined in the Capital Plan sets the property tax rate at no more than the FY 2005-06 rate. According to the Office of Public Finance, approval of the proposed General Obligation bonds is consistent with City policy.

**RECOMMENDATION**

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