CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: October 25, 2023 Budget and Finance Committee Meeting

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Item 1 **File 23-0692** *(Continued from 10/11/23 meeting)*	**Department:** Department of Children, Youth and their Families (DCYF)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the Fourth Amendment to the grant agreement between the Department of Children, Youth, and their Families (DCYF) and the Japanese Community Youth Council (JCYC) for the Opportunities for All Intermediary Program, increasing the grant amount by $3,400,953 for a total not to exceed $13,727,411, with no change to the grant term ending in June 2024.

Key Points

- Opportunities for All is an initiative that connects young people in San Francisco to paid employment, mentorship, and job training services. The Mayor's Office selected JCYC to operate the program without a competitive procurement process due to its experience with other similar initiatives. In 2019, DCYF executed a grant with JCYC, which has been amended three times, most recently by the Board of Supervisors in May 2022.
- Under the grant agreement, JCYC is a fiscal intermediary for the Opportunities for All Program. The Human Rights Commission places youth interns in a mix of both on-site and remote internships.

Fiscal Impact

- The proposed Fourth Amendment would increase the not-to-exceed amount of the grant agreement by $3,400,953, for a total not to exceed $13,727,411. Based on actual and projected expenditures, the Budget and Legislative Analyst recommends amending the proposed resolution to reduce the not-to-exceed amount by $400,000, for a total not to exceed $13,327,411.

Policy Consideration

- JCYC issued payments of $2.93 million to youth interns in FY 2022-23 despite a grant budget that year of $1.95 million. A $3 million work order from OEWD is intended to pay for costs incurred in FY 2021-22 and FY 2022-23 but not yet invoiced. Initial participation data provided by DCYF via JCYC was lower than subsequent figures provided by the Human Rights Commission. According to DCYF staff, JCYC then reported a lower number of participants to DCYF (1,236) than it actually paid (1,811). Given these discrepancies and the apparent lack of control of fund disbursement, we recommend the Board of Supervisors request the Controller's Office undertake a financial audit of this grant.
- Due to the lack of a competitive procurement process and limited information on program performance, approval is a policy matter for the Board of Supervisors.

Recommendations

- Amend the proposed resolution to (1) reduce the not-to-exceed amount by $400,000, for a total not to exceed $13,327,411, and (2) request the Controller's Office to conduct a financial audit of this grant.
- Approval of the resolution as amended is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

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

BACKGROUND

Opportunities for All is an initiative launched by Mayor London Breed to connect young people in San Francisco to paid employment, mentorship, and job training services. The goal of the program is to provide a workforce opportunity to every interested young person in San Francisco. The program was announced in October 2018 and has had five summer intern cohorts since then.

The Mayor's Office selected Japanese Community Youth Council (JCYC) to operate the program without a competitive procurement process due to its experience on other similar initiatives, such as the Mayor's Youth Employment and Education Program and SF YouthWorks.[1] In June 2019, the Department of Children, Youth, and their Families (DCYF) executed a grant agreement with JCYC for a term of four years, from July 2019 through June 2023, and an amount not to exceed $1,958,000. In October 2019, DCYF executed the First Amendment to the grant, increasing the amount by $1,870,000, for a total not to exceed $3,828,000. In January 2020, DCYF executed the Second Amendment to the grant, increasing the amount by $4,290,000, for a total not to exceed $8,118,000. In May 2022, the Board of Supervisors approved the Third Amendment to the grant, increasing the amount by $2,208,458, for a total not to exceed $10,326,458, and extending the term by one year through June 2024 (File 22-0061).

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the Fourth Amendment to the grant agreement between DCYF and JCYC for the Opportunities for All Intermediary Program, increasing the grant amount by $3,400,953, for a total not to exceed $13,727,411, with no change to the grant term.

Under the grant agreement, JCYC serves as a fiscal intermediary for the Opportunities for All Program. The Human Rights Commission places youth interns in a mix of both on-site and remote internships. JCYC also conducts remote workshops on topics that include job readiness, transferable soft skills development, money management, career interest and identification, and community building.

The Third Amendment was intended to provide sufficient funding for the grant through FY 2023-24. However, the City's FY 2023-24 budget included a $3 million work order from the Office of Economic and Workforce Development (OEWD) to DCYF for the program, which is intended to cover costs incurred in FY 2021-22 and FY 2022-23.

[1] The original grant was awarded in 2019, prior to the creation of Administrative Code Chapter 21G in 2021, which requires competitive solicitations for grants awards.

In August 2023, DCYF issued a Request for Proposals (RFP) for various programs, including Opportunities for All, with new grants to begin in July 2024. The program would be administered by the Human Rights Commission under the next funding cycle.

Performance and Fiscal Monitoring

The grant agreement does not require performance monitoring or specify service or outcome objectives, but states that the grantee will comply with program evaluation. DCYF monitors performance of the grantee through data that grantees enter into DCYF's online contract management system. DCYF staff reviews the data with monthly invoices submitted by the grantees.

The program was budgeted to serve 2,218 interns in FY 2021-22 and 2,360 interns in FY 2022-23. Full program participation is defined as 85 hours of participation during the summer (in FY 2022-23), and full participation during the school year is defined as 240 hours of participation. The results are shown below in Exhibit 1.

Exhibit 1: Program Performance

Goal	FY 2021-22	FY 2022-23
Number of participants served as a percentage of the program's projected number of participants (2,218/2,360).	98%	77%
Percent of participants who participated in the program for 102+/85+ hours during the summer.	No data	No data
Percent of participants who participated in the program for 240+ hours during the school year.	No data	No data
Percent of participants who completed a work-based learning experience lasting at least one month.	96%	87%
Percent of participants who completed a work-based learning experience lasting at least one month and were provided with follow-up support for at least three months.	0%	0%
Percent of surveyed participants who report that an adult in the program understood and really cared about them.	exempt	exempt
Percent of surveyed participants who report developing education or career goals and understanding the steps needed to achieve their goals as a result of the program.	exempt	exempt
Percent of surveyed participants who report developing job search skills, such as resume writing and interviewing, as a result of the program.	exempt	exempt
Percent of surveyed participants who report developing financial literacy skills, such as opening a bank account and making a budget, as a result of the program.	exempt	exempt

Source: DCYF and HRC

Initial data provided by DCYF via JCYC indicated that 794 people participated in the program in FY 2021-22 and 1,236 did in FY 2022-23. Revised data provided by DCYF via the Human Rights Commission shows much higher participation figures: 2,171 in FY 2021-22 and 1,811 in FY 2022-23. According to DCYF staff, only a portion of participants were entered into the DCYF contract management system, however JCYC nevertheless issued payments to participants.

No data was collected regarding the number of hours participants spent in the program. In addition, zero percent of participants who completed a work-based learning experience lasting at least one month were provided with follow-up "support" for at least three months in either FY 2021-22 or FY 2022-23. Four additional performance criteria were not measured because JCYC was deemed to be "exempt" from survey-based program quality measures.

OEWD staff reviewed JCYC's financial documents as part of the FY 2022-23 Citywide Fiscal and Compliance Monitoring program and identified no findings.

FISCAL IMPACT

The proposed Fourth Amendment would increase the not-to-exceed amount of the grant agreement by $3,400,953, for a total not to exceed $13,727,411. Actual and projected expenditures by fiscal year are shown in Exhibit 2 below.

Exhibit 2: Actual and Projected Grant Expenditures by Fiscal Year

Fiscal Year	Expenditures
FY 2019-20 (Actual)	$1,845,000
FY 2020-21 (Actual)	1,771,762
FY 2021-22 (Actual)	3,746,303
FY 2022-23 (Actual)	1,952,567
FY 2023-24 (Actual, through August 2023)	987,699
Subtotal, Actual Expenditures	*$10,303,331*
FY 2023-24 (Projected)	3,020,623
Total Actual and Projected Expenditures	**$13,323,954**

Source: DCYF

Based on actual and projected expenditures, the Budget and Legislative Analyst recommends amending the proposed resolution to reduce the not-to-exceed amount by $400,000, for a total not to exceed $13,327,411. In FY 2023-24, the grant is funded approximately 75 percent by interdepartmental work orders (OEWD and the Planning Department), 17 percent by DCYF funds,[2] five percent by the Community Safety Initiative,[3] and four percent by HOPE SF.

According to the program budget in the proposed amendment, the FY 2023-24 budget funds salaries and benefits (32 percent), JCYC administrative fees and overhead (11 percent), other expenses such as intern compensation (56 percent), and materials and supplies (1 percent).

POLICY CONSIDERATION

Grant Budget

According to DCYF staff, JCYC issued payments of $2.93 million to youth interns in FY 2022-23 despite a grant budget that year of $1.95 million. According to DCYF staff, JCYC then reported a

[2] According to Loren Newquist, DCYF Senior Contracts and Compliance Analyst, DCYF funds for the program are based on availability in the budget, and a majority of this funding in FY 2023-24 is from the Children and Youth Fund.
[3] The Community Safety Initiative is joint program between the San Francisco Human Rights Commission and Collective Impact, a non-profit organization, with a goal of connecting underserved youth with opportunities.

lower number of participants to DCYF (1,236) than it actually paid (1,811). A $3 million work order from OEWD is intended to pay for costs incurred in FY 2021-22 and FY 2022-23 but not yet invoiced because they exceeded the approved grant budget. As noted above, initial participation data provided by DCYF via JCYC was lower than subsequent figures provided by the Human Rights Commission. Given these discrepancies and the apparent lack of control of fund disbursement, we recommend the Board of Supervisors request the Controller's Office undertake a financial audit of this grant.

Due to the lack of a competitive procurement process in selecting the grantee, limited information on program performance, approval is a policy matter for the Board of Supervisors.

RECOMMENDATIONS

1. Amend the proposed resolution to reduce the not-to-exceed amount by $400,000, for a total not to exceed $13,327,411.
2. Amend the proposed resolution to request the Controller's Office to conduct a financial audit of this grant.
3. Approval of the resolution, as amended, is a policy matter for the Board of Supervisors.

Item 2 **File 23-0693** *(Continued from 10/11/23 meeting)*	**Department:** Department of Children, Youth and their Families (DCYF)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the Seventh Amendment to the grant agreement between the Department of Children, Youth, and their Families (DCYF) and YMCA Urban Services (YMCA) for the Truancy Assessment and Resource Center (TARC) Program, extending the term by one year through June 2024, and increasing the grant amount by $606,040, for a total not to exceed $5,390,219.

Key Points

- TARC is a center for truancy intervention services operated by the YMCA, with a target population of San Francisco Unified School District (SFUSD) middle school and high school students. DCYF records from 2011 indicate that YMCA was awarded a contract for truancy intervention services based on a 2011 Request for Proposals (RFP) for violence prevention and intervention services. The grant agreement has since been amended six times.
- TARC provides case management support, educational advocacy, wellness checks, linkage, and referral, for elementary school, middle school, and high school students who are frequently truant. Activities include workshops, community events, and attendance campaigns at school sites. Services are provided in-person and virtually, both during the school year and summer. Under the proposed one-year extension, the program would serve 105 unduplicated participants.
- Data from FY 2022-23 indicates 95 percent program completion in the school year and 89 percent in the summer, although the hours needed for program completion was reduced from the prior year from 15 hours to five hours in the school year and from six hours to two hours in the summer. DCYF reports that the number of actual participants was 133 percent of the target of 105 participants.

Fiscal Impact

- The proposed Seventh Amendment would increase the grant not-to-exceed amount by $606,040, for a total not to exceed $5,390,219, which includes contingency funds of $117,230 (2.2 percent).
- In FY 2023-24, the grant is funded approximately 87 percent by DCYF funds and approximately 13 percent by the Crankstart Foundation, a non-profit.

Recommendations

- Amend the proposed resolution to state that approval is retroactive.
- Approve the resolution, as amended.

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 Truancy Assessment and Resource Center (TARC) is a center for truancy intervention services operated by YMCA Urban Services (YMCA), with a target population of San Francisco Unified School District (SFUSD) middle school and high school students. TARC receives referrals from community based organizations, SFUSD, law enforcement, parents and caregivers, and other partners. TARC delivers truancy intervention services through case management to youth who are frequently truant (10 or more unexcused absences).

Vendor Selection

DCYF records from 2011 indicate that YMCA was awarded a contract for truancy intervention services based on a 2011 Request for Proposals (RFP) for violence prevention and intervention services, although it is unclear if other respondents proposed similar truancy intervention services. YMCA's Truancy Intervention Program was one of 18 programs to receive an award under the 2011 RFP Secondary Prevention service category, out of 49 proposed programs in the service category.

Existing Agreement and Amendments

In August 2013, DCYF retroactively executed a grant agreement with YMCA for a term of one year, from July 2013 through June 2014, and an amount not to exceed $446,009. DCYF has executed six amendments to the grant agreement, as shown in Exhibit 1 below.

Exhibit 1: YMCA TARC Grant Amendments

Amendment	Date Executed	Grant Expiration Date	Not-to-Exceed Amount
Original Agreement	8/16/2013	6/30/2014	$446,009
First Amendment	7/1/2014	6/30/2016	1,056,573
Second Amendment	5/4/2016	6/30/2018	1,732,589
Third Amendment	5/31/2018	6/30/2019	2,828,811
Fourth Amendment	1/9/2019	12/31/2019	2,828,811
Fifth Amendment	4/12/2019	6/30/2020	2,828,811
Sixth Amendment	1/14/2020	6/30/2023	4,784,179

Source: Previous Grant Amendments

DCYF and YMCA have negotiated a Seventh Amendment to extend the grant term through June 2024. Although the grant amount would remain under $10 million, the proposed Seventh Amendment requires Board of Supervisors approval because the total grant term would exceed 10 years.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the Seventh Amendment to the grant agreement between DCYF and YMCA for the TARC program, extending the term by one year through June 2024, and increasing the grant amount by $606,040, for a total not to exceed $5,390,219. Because the existing grant term expired on June 30, 2023, the Budget and Legislative Analyst recommends amending the proposed resolution to state that approval would be retroactive.

Administrative Code Section 21.9 limits any contract to a term of no more than ten years. The proposed Seventh Amendment would extend the grant agreement by one year, for a total term of 11 years. According to Brett Conner, DCYF Grants Manager, DCYF had intended to release an RFP for a new truancy services grant to begin in FY 2023-24, but DCYF's five-year funding cycle was extended one year due to the COVID-19 pandemic. DCYF released an RFP in August 2023 for various programs, including truancy services, with new grants to begin July 2024.

Services

TARC provides case management support, educational advocacy, wellness checks, linkage, and referral for elementary school, middle school, and high school students who are frequently truant. Activities include workshops, community events, and attendance campaigns at school sites. Services are provided in-person and virtually, both during the school year and summer.

Under the proposed one-year extension, the program would serve 105 unduplicated participants. Full participation for a participant is defined as receiving at least 10 hours of case management during the school year (one hour per week for at least 10 weeks) or at least six hours during the summer (one hour per week for at least six weeks). According to DCYF, the proposed amendment reduces the number of hours of case management required for full participation during the school year from at least 15 hours to at least 10 hours because DCYF engaged in an analysis of performance measures for all grants during the COVID-19 pandemic to determine of pre-pandemic measures were still applicable. DCYF observations and TARC reporting demonstrated that 10 hours was a more realistic goal of case management for the program.

Performance and Fiscal Monitoring

The grant agreement says that the grantee will comply with any program monitoring but does not specify service or outcome objectives. According to DCYF staff, DCYF monitors performance of the grantee through data that grantees enter into DCYF's online contract management system. DCYF staff reviews the data with monthly invoices submitted by the grantees. Exhibit 2 below shows the performance of this program in FY 2021-22 and FY 2022-23.

Exhibit 2: Program Performance

Goal	FY 2021-22	FY 2022-23
Number of participants served as a percentage of the program's projected number of participants (105).	76%	133%
Percent of participants who participated in the program for 6 hours / 2 hours during the summer.	n/a - no summer program	89%
Percent of participants who participated in the program for 15 hours / 5 hours during the school year.	30%	95%
Percent of surveyed participants who report that an adult in the program understood and really cared about them.	Withheld Due to Insufficient Data	81%
Percent of surveyed participants who report developing education or career goals and understanding the steps needed to achieve their goals as a result of the program.	Withheld Due to Insufficient Data	50%

Source: DCYF

FY 2021-22 performance monitoring indicated that the program served 76 percent of the 105 budgeted participants. However, only 30 percent of participants participated in the program for at least 15 hours during the school year, and 0 percent participated for at least six hours during the summer (the program was not offered in the summer that year). Additionally, no data was provided for two performance measures (percent of participants who report that an adult in the program cared about and understood them and percent who report developing career or education goals because of the program), and the performance report did not provide objectives for any of the measures. In addition, the Department is not tracking whether this program is reducing truancy rates of participants. According to Prishni Murillo, DCYF Senior Community Development Specialist, data was withheld because fewer than 10 participants responded to the youth survey, and program participation and engagement was impacted by the COVID-19 pandemic.

Data from FY 2022-23 indicates 95 percent program completion in the school year and 89 percent in the summer, although the hours needed for program completion was reduced from the prior year from 15 hours to five hours in the school year and from six hours to two hours in the summer. DCYF reports that the number of actual participants was 133 percent of the target of 105 participants.

DCYF staff reviewed YMCA's financial documents as part of the FY 2022-23 Citywide Fiscal and Compliance Monitoring program and identified no findings.

FISCAL IMPACT

The proposed Seventh Amendment would increase the grant not-to-exceed amount by $606,040, for a total not to exceed $5,390,219, which includes contingency funds of $117,230 (2.2 percent). Actual and projected expenditures by fiscal year are shown in Exhibit 3 below.

Exhibit 3: Actual and Projected Grant Expenditures by Fiscal Year

Fiscal Year	Expenditures
FY 2013-14 (Actual)	$381,334
FY 2014-15 (Actual)	282,692
FY 2015-16 (Actual)	289,508
FY 2016-17 (Actual)	295,780
FY 2017-18 (Actual)	305,610
FY 2018-19 (Actual)	431,458
FY 2019-20 (Actual)	589,402
FY 2020-21 (Actual)	599,889
FY 2021-22 (Actual)	585,558
FY 2022-23 (Actual)	733,119
Subtotal, Actual Expenditures	*$4,494,350*
FY 2023-24 (Projected)	778,639
Total Actual and Projected Expenditures	**$5,272,989**
Contingency	117,230
Total Not to Exceed	**$5,390,219**

Source: DCYF

In FY 2023-24, the grant is funded approximately 87 percent by DCYF funds[1] and approximately 13 percent by the Crankstart Foundation, a non-profit.

According to the program budget in the proposed amendment, the FY 2023-24 budget funds salaries and benefits (77 percent), YMCA administrative fees and overhead (15 percent), other expenses such as participant incentives and fieldtrips (7 percent), and materials and supplies (1 percent).

RECOMMENDATIONS

1. Amend the proposed resolution to state that approval is retroactive.
2. Approve the proposed resolution, as amended.

[1] According to Loren Newquist, DCYF Senior Contracts and Compliance Analyst, DCYF funding is based on availability in the budget. The funding allocation for this grant has not been determined for FY 2023-24, but for FY 2022-23 DCYF funds were from the City's General Fund and Children and Youth Fund.

Item 4 **File 23-1001**	**Department:** San Francisco Public Utilities Commission (SFPUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve SFPUC's emergency declaration in an amount not-to-exceed $5,000,000. The emergency contracting authority would be used for sewer main, water main, and street repairs on Fillmore Street between Green Street and Union Street due to a water main break on September 11, 2023.
- Any contracts entered into under the emergency authority are exempt from Administrative Code Chapters 6 (public works contracting policies and procedures), 12A (human rights commission), 12B (non-discrimination in contracts), 12C (non-discrimination in property contracts), and 14B (local business enterprise utilization).

Key Points

- The water main break caused a release of water that damaged another water distribution main and numerous service laterals, damage to the street, and utilities. Flooding occurred on Steiner and Fillmore Streets and between Lombard and Green Streets.
- An engineering estimate provided on October 16, 2023 estimates the cost of the emergency response to be $3,529,000, of which $2,863,400 would be procured under the proposed emergency contracting authority. The SFPUC selected three pre-qualified contractors for various repair work: (1) A. Ruiz Construction Company, (2) JMB Construction, Inc., and (3) J. Flores Construction, Inc. Work commenced on September 11, 2023 and is expected to be completed mid-November. Approximately $660,000 of planning, design, and construction support work is being undertaken by City staff from SFPUC and Public Works.

Fiscal Impact

- The $3,529,000 estimated repair work cost will be sourced from the Local Water Conveyance and Distribution Program, which is funded by 2012 Water Revenue Bonds, and from the Renew Services Program, which is funded by the 2021 Water Revenue Bonds.
- The estimates do not account for $1.4 million in PG&E repair work and other damage claims that may be liabilities of the City.

Policy Consideration

- The proposed $5 million not to exceed amount is $1,471,000 more than the currently known emergency work costs. Delays in the repair work and unforeseen underground conditions may increase contract expenses, so SFPUC requests the full proposed $5 million emergency contracting authority.
- The SFPUC reports that the water main that broke had no prior breaks was categorized as a low priority water main in its water infrastructure repair plan.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

Administrative Code Section 6.60(d) states that emergency work that costs more than $250,000 is subject to Board of Supervisors approval. Prior to the commencement of emergency work above the $250,000 threshold, the Department must also secure approval in writing from the Mayor or the President of the appropriate Board or Commission. If the emergency does not permit approval of the emergency determination by the Board of Supervisors before work begins, the Department must submit a resolution approving the emergency determination to the Board of Supervisors within 60 days of the Department head's declaration of emergency.

BACKGROUND

On September 11, 2023, a break occurred in a 16-inch water transmission main near the intersection of Fillmore and Green Streets. The break caused a release of water that damaged an 8-inch water distribution main and numerous service laterals. Resulting impacts included the failure of the street base, pavement, sewer main, and sewer laterals on Fillmore Street between Union Street and Green Street and the buckling of sidewalks on Filmore Street near Union Street. Flooding occurred on Steiner and Fillmore Streets and between Lombard and Green Streets. Businesses and residential garages and basements were inundated with displaced sand and mud, and water, sewer, and gas services to customers on Fillmore Street were disrupted. The main break also damaged utilities. CDD crews responded to the break and repaired the 16" main on September 11.

On September 14, 2023, the San Francisco Public Utilities Commission (SFPUC) General Manager requested, and the SFPUC President approved, a declaration of emergency, which allowed the SFPUC to immediately contract with construction and professional services firms to perform sewer main, water main, and street and sidewalk repairs on Fillmore Street. The SFPUC considered the declaration necessary because the repair work was beyond the capacity of City staff and needed to be completed as soon as possible.

According to the proposed resolution, the cost for the work is estimated not to exceed $5 million and the Controller has certified that funds are available. The funding source would be water revenue bonds.

The proposed resolution was introduced on September 22, 2023, within the sixty-day timeframe required by Administrative Code Section 6.60(d).

<u>Contractor Selection Process</u>

SFPUC has existing contracts with multiple vendors to perform work as needed. These contracts were utilized to perform emergency work. Sewer work was divided between two contractors to perform the work as quickly as possible and to be fair and equitable to the contractors, as well as for logistical considerations. A third contractor was used for water drainage infrastructure repairs. The three contracts consist of the following:

- The City Distribution Division (CDD) contracted with A. Ruiz Construction Company to perform sewer replacement and repair work on the 15-inch vitrified clay pipe (VCP) sewer pipe and 14 sewer laterals on Fillmore Street from Union to Green Street. A. Ruiz holds contract WD-2868 “San Francisco Local Water As-needed Paving (FY 21-24)” with the City and was initially employed to assist with the damages to the pavement, curb, and sidewalk on Fillmore Street. When it was discovered that the sewer and sewer lateral lines were also damaged, the City Distribution Division (CDD) determined the most expedient course of action was to utilize A. Ruiz Construction Company to perform the sewer replacement and repair work.
- CDD contracted with JMB Construction, Inc. for the repair and replacement of the 8-inch water main, 20 water service laterals, sidewalk, granite curb, pavement renovation, and curb ramp work on Fillmore Street (Union to Green Streets) and pavement restoration work on Green Street (Fillmore to Steiner Streets). JMB Construction is contracted by the City under contract WD-2889, “As-Needed Service Line Replacement” to perform the water line, service laterals, associated curb, sidewalk, and pavement work.
- CDD contracted with J. Flores Construction, Inc. to repair and replace culverts and catch basins within the intersections of Fillmore and Green Streets and Fillmore and Union Streets. J. Flores is contracted by the City under Contract WW-715 “As-Needed Spot Sewer Replacement No. 43” to perform sewer repair work.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve SFPUC’s emergency declaration in an amount not-to-exceed $5,000,000. The emergency contracting authority would be used for sewer main, water main, and street repairs on Fillmore Street between Green Street and Union Street due to a water main break on September 11, 2023. Any contracts entered into under the emergency authority are exempt from Administrative Code Chapters 6 (public works contracting policies and procedures), 12A (human rights commission), 12B (non-discrimination in contracts), 12C (non-discrimination in property contracts), and 14B (local business enterprise utilization).

The emergency declaration and resulting proposed resolution set the not-to-exceed amount at $5 million, given the uncertainty regarding the full scope of damage and needed repairs. An engineering estimate provided on October 16, 2023 estimates the cost of the emergency response to be $3,529,000, of which $2,863,400 would be procured under the proposed emergency contracting authority. The cost estimate excludes any costs that may result from a claim by PG&E, which estimates its cost to repair the gas main and service laterals to be $1.4 million, as that expense will not be incurred due to contracting. The estimate also excludes any pending claims by residents and businesses impacted by the flooding.

Exhibit 1 below provides the details of the $3,529,000 cost estimate.

Exhibit 1 Estimated Cost of Emergency Work

	Planning	Design	Construction Support	Contracted Work	Total Cost
Emergency Response	$0	$0	$55,200	$176,400	$231,600
15-in. Sewer, Service Laterals, Drainage	$35,400	$30,000	$50,000	$787,000	$902,400
8-inch Water Main & Service Lateral Replacement	$30,000	$70,000	$55,000	$500,000	$655,000
Street, Sidewalk, & Curb Restoration	$50,000	$225,000	$65,000	$1,400,000	$1,740,000
Total	**$115,400**	**$325,000**	**$225,200**	**$2,863,400**	**$3,529,000**

Source: SFPUC

As shown above, total emergency repair work is estimated to cost $3,529,000, of which $2,863,400 will be contracted to A. Ruiz, JMB, and J Flores. Planning, design, and construction support work will be primarily undertaken by SFPUC's Water Enterprise, the Wastewater Enterprise, and the City's Department of Public Works.

According to SFPUC, work commenced on September 11, 2023 and is expected to be completed mid-November.

FISCAL IMPACT

The $3,529,000 estimated cost will be sourced from the Local Water Conveyance and Distribution Program, which is funded by 2012 Water Revenue Bonds, and from the Renew Services Program, which is funded by the 2021 Water Revenue Bonds. The bond proceeds are intended to fund design and construction of water main replacement projects as part of SFPUC's long term capital improvement program to replace up to 15 miles per year of water distribution piping. According to SFPUC, $51.9 million is budgeted in FY 2023-24 for water distribution piping maintenance.

POLICY CONSIDERATION

Not to Exceed Amount

The SFPUC set the not-to-exceed amount in the emergency declaration and the resolution at $5,000,000 shortly after the pipe broke and before SFPUC staff or contractors had a detailed understanding of the conditions underground. As work is ongoing, there are still potential unknowns that could cause the project to incur additional costs, including potential design delays or other unforeseen underground conditions. As such, the SFPUC requests that the authority approved by this resolution include the total not-to-exceed amount so that there is a $1,471,000 million contingency (the difference between the proposed $5 million not to exceed amount and the $3,529,000 in known emergency work costs) to account for potential additional unforeseen costs.

Water Distribution Infrastructure Maintenance

The water main break occurred on a 16-inch water main that was installed in 1949 and damaged an 8-inch water main and numerous service laterals (pipes between the water main and the customer) that were installed in 1960. According to the American Water Works Association, a non-profit association of water utilities and water supply professionals, water pipes laid after 1945 have a useful life of approximately 75 years. Hence, the 16-in water main was at the end of its useful life.

The SFPUC has a continually evolving system to prioritize which water mains it will replace as part of its ongoing replacement plan. In 2012 the CDD produced the "*Initial 10-Year Replacement & Renewal Plan, Amended 2012*" (*the 2012 Plan*) that identified 320 miles of priority replacement pipes. The CDD *Earthquake Response Plan, December 2017,* further refined which pipelines were considered critical. In 2018, water main break data collection was incorporated into the prioritization system. Of the 320 miles of pipe identified in the *2012 Plan*, only 16 miles have been replaced. According to Water Enterprise staff, that is because the *2012 Plan* focused on pipes installed between 1860 and 1930; however, upon examination of break data, pipes that were installed between 1920 and 1970 showed higher break rates.[1] As a result, the Department's focus on pipes with higher break rates has de-emphasized the oldest pipes in the distribution system, which have a longer useful life.

Currently, mains are categorized as either low, medium, or high priority according to established criteria. To be considered high priority, the criteria are a water main must:

- Have been identified for replacement in the *Initial 10-Year Replacement & Renewal Plan*, *Amended 2012*
- Be needed to improve operational functionality and/or improve system pressure
- Have had three or more main breaks along 1,000 ft of the identified pipe segments
- Been identified as a critical pipeline in the *CDD Earthquake Response Plan, December 2017*

The SFPUC reports that the main that broke was categorized as a low priority water main and had no prior breaks. Low priority mains are mains that had been identified for replacement in the Initial *10-Year Replacement & Renewal Plan, Amended 2012* but do not meet the additional Medium Priority criteria of having had two or more breaks along a 2,000-foot segment of the pipe and require replacement for the purpose of improving operational functionality and/or improving system pressure.

RECOMMENDATION

Approve the proposed resolution.

[1] According to the American Water Works Association, pipe manufacturing methods and materials have changed over time, such that as pipes installed in the 1800s have a useful life of 120 years, pipes installed in the 1920s have a useful life of 100 years, and pipes installed after 1945 have a useful life of approximately 75 years. According to data provided by SFPUC staff, the average break per pipe mile for pipes installed between 1860 and 1920 is 1.1 and the average break rate for pipes installed between 1920 and 1970 is 1.9.

Items 6 & 7 Files 23-1022 & 23-1023	Department: Controller's Office of Public Finance, Port

EXECUTIVE SUMMARY

Legislative Objectives

- File 23-1022 is a resolution that would authorize the City to issue Special Tax Bonds in an amount not to exceed $58,335,000 and approve the related documents.
- File 23-1023 is a resolution that would approve certain documents and actions related to a Pledge Agreement for proposed Development Special Tax Bonds, allowing for incremental property revenue generated within the Mission Rock Project Area to be used in combination with Mission Rock Special Tax revenues to pay for bond debt service.

Key Points

- Phase 1 of the Mission Rock Development Project includes housing, office space, retail, creation of China Basin Park, and horizontal infrastructure, such as streets and utilities. The development agreement between the Port and Seawall Lot 337 Associate, LLC requires the developer to build horizontal infrastructure and the Port to reimburse those costs.
- Three of the four Phase 1 buildings have received temporary certificates of occupancy, and the fourth building is anticipated to receive its certificate in mid-2024.
- The Board of Supervisors previously approved Project Area I (Mission Rock) within the Port's Infrastructure Financing District, allowing incremental property taxes generated within that area to be used for infrastructure costs. In addition, the Board has approved the Mission Rock Special Tax District and levy of special taxes within that area.
- The City has issued three series of Development Special Tax Bonds, previously authorized by the Board of Supervisors, totaling $107.58 million. Based on market conditions as of September 2023 and the tax revenue generating capacity of the district, the Port is proposing to issue up to $47.0 million of Special Tax Bonds, which is less than the not to exceed amount in the proposed resolution.
- The bonds would be repaid with Development Special Tax, Office Special Tax, and Shoreline (Tax Zone 1) Special Tax revenues collected within the Mission Rock Special Tax District. Incremental property tax revenues may also be used to pay for proposed debt service under the Pledge Agreement for the Development Special Tax Bonds only.

Fiscal Impact

- As of September 2023, the proposed bonds are expected to generate $45.5 million in bond proceeds, have 27- to 30-year terms, and true interest cost of 5.86 percent. Total debt service is expected to be $101.8 million or approximately $3.4 million on average, per year.

Recommendation

- Approve the proposed resolutions.

MANDATE STATEMENT

Section 53395.8(c)(3) of the California Government Code designates the Board of Supervisors as the legislative body for the Port Infrastructure Financing District.

Section 43.10.9 of the Administrative Code incorporates the 1982 Mello-Roos Community Facilities Act, which designates the Board of Supervisors the legislative body for Community Facilities Districts within San Francisco.

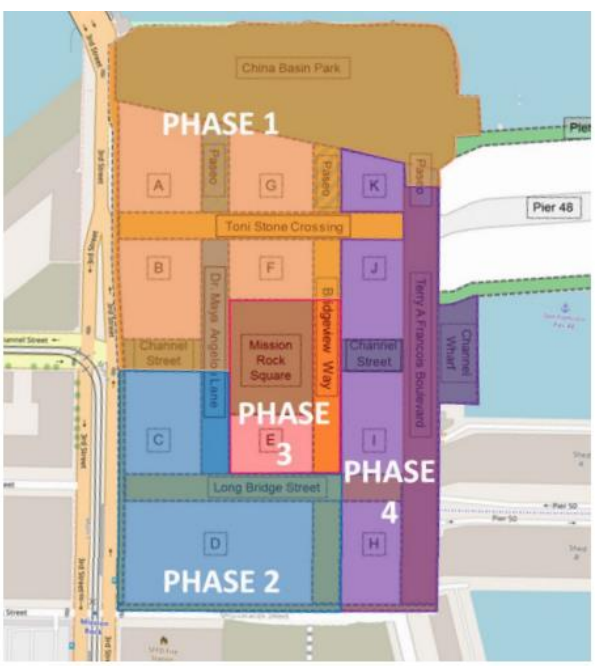
BACKGROUND

Mission Rock Development Project

The Mission Rock development project area comprises two pieces of Port property, Seawall Lot 337 and Pier 48. In February 2018, the Board of Supervisors approved a Disposition and Development Agreement (DDA) between the Port and Seawall Lot 337 Associates, LLC, a joint venture of the San Francisco Giants and Tishman Speyer (File 18-0092). The DDA requires the developer to build horizontal and vertical improvements within the Mission Rock Project Area and the Port to reimburse the developer for certain infrastructure costs.

Phase 1 will include two residential buildings (Parcels A & F) with 537 housing units and two commercial office/life science buildings (Parcels B & G) totaling 620,000 square feet. Phase 1 will also include the development of China Basin Park, a 4.5-acre public park and related infrastructure and is expected to be complete in 2024. The area was previously a parking lot. Exhibit 1 shows the four project phases.

Exhibit 1: Mission Rock Development Project Phases 1-4



Source: Port

Financing Plan

To finance Phase 1 horizontal infrastructure costs, the Port intends to use pre-payment on ground leases, tax-increment financing,[1] and special taxes[2]. Horizontal infrastructure includes entitlements, demolition, raising the site to protect against sea level rise, hazardous soil removal, wet and dry utilities, earthwork and retaining walls, roadways and street utilities, as well as public open space.

Prior Issuances of Special Tax Bonds

The City has issued three series of Development Special Tax Bonds, previously authorized by the Board of Supervisors, totaling $107.58 million. In May 2021, the City issued $43.3 million in Development Special Tax Bonds (Series 2021A).[3] In November 2021, the City issued $54.28 million in taxable Development Special Tax Bonds (Series 2021B) and $10.0 million in tax-exempt Development Special Tax Bonds (Series 2021C).[4]

Phase 1 Project Status

Three of the four buildings have received temporary certificates of occupancy, and the fourth building (Parcel F) is anticipated to receive a temporary certificate of occupancy in mid-2024. Residents began moving into one of the residential buildings (Parcel A) in June 2023. Tenant improvements are in process for Parcel G, which will be Visa's global headquarters. According to the Preliminary Official Statement, leasing efforts are underway for Parcel B, but tenants have not been identified yet. The Port anticipates that China Basin Park will be open in early 2024.

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[1] The Board of Supervisors formed the Port Infrastructure Financing District 2 (Port IFD) in March 2016 (File 13-0264). The Port IFD includes eight project areas which are eligible to receive property tax increment revenues, each of which is subject to Board of Supervisors' approval. In February 2018, the Board of Supervisors established Project Area I (Mission Rock) and Sub-Project Areas I-1 though I-13 within the Port's Infrastructure Financing District 2 (File 17-1314), approved the Infrastructure Financing Plan for that Project Area (File 17-1314), and approved the issuance of up to $1.378 billion tax increment bonds to finance construction of infrastructure within each Project Sub-Area (File 17-1315).

[2] The 1982 Mello-Roos Community Facilities Act allows for the formation of special tax districts to fund public infrastructure improvements. In April 2020, the Board of Supervisors approved a resolution forming Special Tax District No. 2020-1 (Mission Rock Facilities and Services) (File 20-0120) and in May 2020, the Board approved special taxes to be levied in that special tax district to fund infrastructure improvements (File 20-0125) and the sale and issuance of up to $3.7 billion in special tax bonds for infrastructure improvements (File 20-0124).

[3] In December 2020, the Board of Supervisors approved: (1) a resolution (File 20-1292) authorizing the Port to issue Development Special Tax Bonds in an amount not to exceed $43.3 million and approve related documents; and (2) a resolution (File 20-1302) approving the revised Pledge Agreement for the bonds, allowing for incremental property revenue generated within the Mission Rock Project Area to be used in combination with Mission Rock Special Tax revenues to pay for bond debt service.

[4] In May 2021, the Board of Supervisors approved: (1) a resolution (File 21-0385) authorizing the Port to issue Development Special Tax Bonds in an amount not to exceed $64.9 million and approve related documents; and (2) a resolution (File 21-0386) approving the revised Pledge Agreement for the bonds.

Completion of Phase 1 is two years behind schedule based on the target completion date of February 2022 in the DDA Schedule of Performance. According to Port staff, delays are due to several factors, including delays in obtaining a key horizontal permit (the Street Improvement Permit), complexity of sequencing as vertical construction on all four parcels was done concurrently as horizontal construction was also proceeding, construction of complex district sustainability features (such as the blackwater treatment plant and energy system), supply chain issues due to the COVID-19 pandemic, and unforeseen conditions related to underground utilities, soils, and dewatering.

Phase 1 Budget

The Phase 1 horizontal infrastructure construction budget has increased from $145.4 million in 2019 to $218.5 million as of October 2023, an increase of $73.0 million (50 percent). Increases are due to the complexity of project sequencing, unforeseen conditions described above, unanticipated security improvements and reinforcement of concrete in China Basin Park (including moving China Basin Park into Phase 1), inflation, sea-level rise protection, and design features (such as non-standard finishes and hardscapes plus the infrastructure associated with the district sustainability systems) that required additional Developer and City staff costs to implement the project according to the October 6, 2023 memo from the Port Executive Director to the Port Commission on the Phase 1 revised final budget (Port Phase 1 Budget Memo).

The first $201.92 million of the construction budget is expected to be funded by Developer equity, followed by an anticipated $16.53 million in Port capital contribution.[5] Developer equity and Port capital are repaid along with a return on investment (18 percent for the Developer and 10 percent for the Port) by proceeds from prepaid ground leases, CFD bond issuances, pay-as-you-go (Pay-Go) special taxes not dedicated to bond debt service, and tax increment. Entitlements for the project were also funded by prepayments on ground leases and CFD bond issuances.

DETAILS OF PROPOSED LEGISLATION

File 23-1022: The proposed resolution would authorize the Port to issue Special Tax Bonds in an amount not to exceed $58,335,000 and approve the related documents: Official Statement, a Second Supplement to Development Fiscal Agent Agreement, Office Special Tax Fiscal Agent Agreement, Shoreline (Tax Zone 1) Special Tax Fiscal Agent Agreement, Bond Purchase Agreement, and Continuing Disclosure Certificate. The proposed resolution would authorize a negotiated sale for the proposed bonds.

File 21-0385 would also clarify that the Rate and Method of Apportionment of Special Tax will be administered in such a way that treats the Shoreline Special Tax levied in Tax Zone 1 and the

[5] In October 2023, the Port Commission approved a capital contribution of up to $16,525,375 for Phase 1 to be repaid from project sources before Phase 2 Developer equity. The Port may seek a supplemental appropriation from the Board of Supervisors for the capital contribution if necessary or include it in a future Annual Appropriations Ordinance.

Shoreline Special Tax levied in Tax Zone 2 as separate special taxes. This will allow the Shoreline Special Tax Bonds to be secured in a way that reflects the distinctions between Zone 1 and Zone 2 Shoreline Special Taxes.

File 23-1023: The proposed resolution would approve certain documents and actions related to a Pledge Agreement for the Port IFD and the proposed Development Special Tax Bonds, including approval of the financing plan and authorization of appropriate officers of the City to execute any certificates, agreements, and other documents and take any other actions necessary on behalf of the Port IFD in connection with the proposed Development Special Tax Bonds.

Mission Rock Special Taxes & Bond Series

The CFD includes four separate special taxes, including (1) the Development Special Tax, which funds horizontal infrastructure with an expected 45-year life; (2) the Office Special Tax which funds horizontal infrastructure with an expected 120-year life; (3) the Shoreline Special Tax which funds ongoing shoreline protection studies as well as facilities and tax revenue from Phase 1 can also fund horizontal infrastructure with an expected 120-year life; and (4) Contingent Services Special Tax which funds ongoing maintenance and services if not provided by the Master Association.

The proposed bonds would be issued in up to four series, secured by separate special taxes:

1. The 2023A Development Special Tax Bonds (tax-exempt)
2. The 2023B-1 Office Special Tax Bonds (tax-exempt)
3. The Taxable 2023B-2 Office Special Tax Bonds
4. The 2023C Shoreline (Tax Zone 1) Special Tax Bonds (tax-exempt)

Pledge Agreement

Under the previously approved Pledge Agreement, property tax increment generated within the Mission Rock Project Area may be used in combination with Mission Rock Special Tax revenues to pay for bond debt service.[6] Property Tax increment would only be used for the Development Special Tax Bonds and not the Office and Shoreline Special Tax Bonds, as per the Rate and Method of Apportionment of Special Tax.

Fiscal Agent Agreements

The Fiscal Agreement and the First Supplement to the Fiscal Agent Agreement document the bond attributes for the previously authorized series of bonds, including the maturity and interest rate, the use of Development Special Taxes and tax increments to repay the proposed bonds, and allowable uses of bond proceeds and reserves. The Second Supplement to the Fiscal Agent

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[6] Under the DDA's Financing Plan, although the proposed Development Special Tax Bonds will be secured by the Mission Rock Development Special Tax revenue, ground lease tenants will receive a credit on their Development Special Taxes based on the prior year's tax increment revenue. According to the Port, this reduction in taxes enhances the value of the land, which is owned by the Port, and ground lease proceeds. Ground lease proceeds were used to finance a portion of the horizontal infrastructure entitlement costs.

Agreement will document the bond attributes for the proposed Development Special Tax Bond (Series 2023A). Bond attributes for the proposed Office Special Tax Bonds (Series 2023B) and the Shoreline (Tax Zone 1) Special Tax Bonds (Series 2023C) are documented in separate Fiscal Agent Agreements.

The Fiscal Agent Agreements are between the City and Zions Bancorporation, National Association, the fiscal agent responsible for holding and disbursing bond proceeds consistent with the Fiscal Agent Agreements and Pledge Agreement. According to the Port, Zions Bancorporation, the National Association was selected through a competitive process undertaken by the Port's municipal advisor, PFM.

Bond Purchase Agreement

The City intends to issue the proposed bonds as a negotiated, rather than a competitive sale. According to the October 3, 2023 memo from the Controller's Office of Public Finance on the proposed bond issuance (Office of Public Finance Memo), this is necessary because the Mission Rock Project Area is a real estate development project, and bonds will be sold without a rating. The City's independent Municipal Advisor (PFM) recommended a negotiated sale for these transactions.

The Bond Purchase Agreement is between the City and Stifel, Nicolaus & Company, Incorporated, on behalf of itself and Piper, Sandler & Company, the underwriters for the proposed bonds. According to the Office of Public Finance Memo, the two firms were selected as the underwriters through a competitive solicitation from the Office of Public Finance's pool of qualified underwriters.

Official Statement & Continuing Disclosure Statement

The Preliminary Official Statement describes the legal structure of the bonds as well as sources of revenue and significant risks related to repayment for the benefit of prospective investors. The final Official Statement includes the same information as the Preliminary Official Statement and the results of the pricing of the Bonds for the benefit of prospective purchasers of the Bonds.

The proposed resolution allows the Port and the Office of Public Finance to issue an annual Continuing Disclosure Statement, which provides financial information relevant to existing and prospective bond investors.

Bond Sizing

Under the City's Amended and Restated Local Goals and Policies for Community Facilities Districts and Special Tax Districts, the amount of CFD special tax bonds sold is constrained by the: (a) appraised value of the taxable property within the special tax district; and (b) the tax revenue generating capacity of the Special Tax District. The appraised value of the taxable property within the Special Tax District must be at least three times the par value of the proposed bonds and outstanding bonds. In addition, the ongoing tax capacity less administrative expenses must be at least 110 percent of the debt service requirement of the special tax bonds.

In this case, the tax revenue-generating capacity of the special tax district is the limiting factor.[7] According to the Port, the total maximum tax revenue after projected administrative expenses of the Mission Rock Development, Office, and Shoreline (Zone 1) Special Taxes for FY 2023-24 is $8.8 million. The estimated debt service is $8.0 million (including annual debt service for the first three bond series of $5.5 million and the proposed issuance of $2.5 million), which provides 110 percent coverage.

Not to Exceed Amount

Based on market conditions as of September 5, 2023 and the tax revenue generating capacity of the district, the Port expects to issue up to $47.0 million of Special Tax Bonds, which is less than the not to exceed amount of $58,335,000 in the proposed resolution. Due to volatility in the municipal bond market, the Port conducted a sensitivity analysis to project the sizing of the bonds if interest rates change. Based on this analysis, the par amount of the bonds could be as low as $40,860,000 if interest rates increase by one percent and as high as $58,335,000 (the not to exceed amount in the proposed resolution) if interest rates decrease by 1.5 percent.

FISCAL IMPACT

Exhibit 2 below shows the sources and uses of the proposed bonds. Based on market conditions as of September 5, 2023, the Port intends to issue up to $47.0 million of Special Tax Bonds net of a discount of $1.5 million. If interest rates decline, the Port could issue up to $58,335,000 in Special Tax Bonds, as discussed above.

[7] The appraised value as of September 15, 2023 of the leasehold interests within the Mission Rock Special Tax Area is $698,880,000, which permits up to $232,960,000 in total bond proceeds using a three-to-one value to lien ratio. The first three issuances totaling $107,580,000 together with the proposed second issuance of up to $58,335,000 in Bonds would result in $165,915,000 in total issuance, which is within the permitted amount based on the appraised value.

Exhibit 2: Sources and Uses of Proposed 2023 Special Tax Bonds

	Development Tax	Office Tax	Shoreline Tax	Total
Sources				
Par Amount	$9,120,000	$19,520,000	$18,405,000	$47,045,000
Discount	(262,844)	(643,700)	(607,165)	(1,513,709)
Total Sources	**$8,857,156**	**$18,876,300**	**$17,797,836**	**$45,531,291**
Uses				
Project Fund	7,656,763	16,370,586	15,435,022	39,462,371
Debt Service Reserve	869,736	1,797,992	1,695,517	4,363,246
Delivery Expenses	330,657	707,722	667,296	1,705,675
Cost of Issuance	*193,857*	*414,922*	*391,221*	*1,000,000*
Underwriter's Discount	*136,800*	*292,800*	*276,075*	*705,675*
Total Uses	**$8,857,156**	**$18,876,300**	**$17,797,836**	**$45,531,291**

Source: Office of Public Finance

The proposed resolution in File 23-1022 limits the underwriter's discount to 1.5 percent of the bonds' par value. Based on the values in Exhibit 2 above, the estimated underwriter's discount is 1.5 percent of the bonds' par value. The debt service reserve amount is based on 125 percent of the average annual debt service and will depend on market conditions at the time of sale. Costs of issuance include legal and consultant fees.

Debt Service

The proposed Development Special Tax Bonds assume a 27-year term, and the Office and Shoreline Special Tax Bonds assume a 30-year term. Based on an estimated true interest cost of 5.86 percent, total debt service is expected to be $101.8 million, or approximately $3.4 million on average, per year. The bonds would be repaid with Development Special Tax, Office Special Tax, and Shoreline (Tax Zone 1) Special Tax revenues collected within the Mission Rock Special Tax District. Incremental property tax revenues captured by the Infrastructure Financing District may also be used to pay for proposed debt service under the Pledge Agreement for the Development Special Tax Bonds only. The Port anticipates that tax increment will fully offset the Development Special Tax once the property is determined to be fully assessed under the Rate and Method of Apportionment. The Office of Public Finance expects the bonds will be issued in December 2023.

As we noted in our report on the Mission Rock Development & Disposition Agreement (File 18-0092), the Agreement states that the developer cannot compel the City to use General Fund or Harbor Fund monies (except for lease revenues generated in the project site and Port capital committed to the Project in a Port Commission approval of a Phase Budget) to reimburse the developer for its costs to develop the horizontal infrastructure or other developer obligations under the DDA.

Impact on Phase 1 Budget

The proposed bonds, which have an estimated interest rate of 5.86 percent (based on market conditions as of September 2023), would repay developer equity earning the higher of an 18 percent return or 1.5 times peak equity for the phase. According to the Port, replacing higher-interest developer equity with low-interest public financing, preserves the Port's land value in later phases of the project. The Phase 1 budget assumes a Developer equity contribution of $201.92 million, which will accrue an 18 percent annual return. Increasing the amount of bond proceeds will allow the City to repay the Developer's equity contribution more quickly and replace the 18 percent per year debt with lower interest bond debt service.

The previously issued bonds totaling $107.58 million repaid $99.03 million of developer equity for Phase 1 costs, and the proposed bonds would further repay an estimated $39.5 million in developer equity with approximately $48.1 million remaining in developer equity to be repaid as of October 2023. This amount, as well as the anticipated Port Capital Contribution of $16.53 million plus interest will be repaid from Phase 2 sources, including prepaid ground leases, future bonds, and pay-go taxes.

POLICY CONSIDERATION

Phase 1 Commercial Space

Reductions in the demand for office space have resulted in higher vacancy rates and lower rents. Parcel G is under a 15-year lease to Visa according to the Preliminary Official Statement, but leasing for Parcel B, the other Phase 1 commercial parcel, is still in progress. According to Port staff, the parcel leasehold owner is responsible for paying the Mission Rock Special Taxes (even if vacancies persist), and the Developer does not anticipate that vacancies will impact the ability to pay taxes. In the unlikely event that the parcel owner is unable to pay taxes, the Port would initiate foreclosure proceedings.

Phase 2 Start Date is Pending

According to the Port Phase 1 Budget Memo, the Phase 2 budget is not currently viable due to high construction costs, high interest rates, and high commercial vacancies. Phase 2 is currently on hold pending improvements in market conditions, and the start date is unknown. Until Phase 2 financing sources are available, any remaining developer equity and the Port capital contribution for Phase 1 will continue to accrue an 18 percent and 10 percent rate of return, respectively. Port staff have hired a consultant to assist the Port Staff and Developer in monitoring market conditions and will continue to update the Port Commission. According to the Port, if Phase 2 starts in March 2026, the total estimated developer return on the horizontal infrastructure construction budget would be $62.10 million, and the estimated Port Capital return would be $2.64, for total Phase 1 costs of $283.19 million including the cost of construction.

RECOMMENDATION

Approve the proposed resolutions.

Items 8 - 11 **Files 23-0969, 23-0970, 23-0971, 23-0972** *(Resolutions continued from 9/27/23 meeting)*	**Departments:** Controller (CON) Mayor's Office of Housing & Community Development (MOHCD)

EXECUTIVE SUMMARY

Legislative Objectives

File 23-0969: is an ordinance that would call and provide for a special election on March 5, 2024 to request voter approval for a $300 million of general obligation bond to fund three affordable housing programs: (1) $258 million for new rental housing, (2) $30 million to preserve rental housing, and (3) $12 million for homeownership downpayment assistance.

File 23-0971: is an ordinance that would provide for a special election on March 5, 2024 to request voter approval for a $300 million of general obligation bond to fund three affordable housing programs: (1) $240 million for new rental housing, (2) $30 million to preserve rental housing, and (3) $30 million for rental housing for victims and survivors of homelessness and violence.

Files 23-0970 and 23-0972: are resolutions that would determine and declare that incurring the proposed debt is in the public interest and necessity.

Key Points

- The FY 2024-2033 Capital Plan includes a schedule of planned debt and other capital financing. The schedule shows a $340 million general obligation bond for affordable housing and shelters will be requested for voter approval in March 2024. The Capital Planning Committee has since voted to shift $40 million for shelters to the November 2024 election. Prior to issuing the proposed debt, the Board must find that such indebtedness is in the public interest and schedule an election to seek voter approval for the debt.

Fiscal Impact

- According to the Office of Public Finance, the proposed bonds are projected to have an annual interest rate of 6.5 percent over approximately 20 years, with estimated total debt service payments of $544.5 million, including approximately $244.5 million in interest and $300 million in principal. The Office of Public Finance estimates average annual debt service payments of $24.8 million.

Policy Consideration

- The proposed legislation includes two different proposals for the single affordable housing general obligation bond request to voters scheduled in the City's capital plan for March 2024. The Mayor's proposal includes $12 million for downpayment assistance whereas President Peskin's proposal includes $30 million for rental housing for victims and survivors.

Recommendation

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

MANDATE STATEMENT

City Administrative Code Section 2.34 requires that a resolution determining the public interest and necessity for the acquisition, construction or completion of any municipal improvement funded by property taxes be adopted by the Board of Supervisors not less than 141 days before the election at which such proposal will be submitted to the voters. Approval of such resolutions requires a 2/3 vote by the Board of Supervisors.

According to Article 16, Section 18(a) of the State of California Constitution, no county, city, town, township, board of education, or school district, shall incur any indebtedness or liability for any purpose exceeding in any year the income and revenue provided for such year, without the approval of two-thirds of the voters of the public entity voting at an election to be held for that purpose.

BACKGROUND

The FY 2024-2033 Capital Plan includes a schedule of planned debt and other capital financing. The schedule shows a $340 million general obligation bond for affordable housing and shelters will be requested for voter approval in March 2024. The Capital Planning Committee has since voted to shift $40 million for shelters to the November 2024 election. According to the Office of Public Finance, a resolution will be introduced for the Board of Supervisors to amend the capital plan to reflect this change.

2019 Affordable Housing General Obligation Bond

Voters approved a $600 million general obligation bond in 2019, of which $425 million has been issued. Of the $425 million in bond proceeds, approximately $7 million was for issuance costs and $254 million has been spent or encumbered as of June 2023, leaving a remaining balance of $165 million in bond proceeds.[1]

The 2019 general obligation bond has approximately $175 million in authorized but unissued bonds, which is allocated among the following programs: $35 million in low-income housing, $13 million for preservation/downpayment assistance, $107.5 million for senior housing, and $20 million for educator housing.

DETAILS OF PROPOSED LEGISLATION

Files 23-0969 and 23-0971 are ordinances that each call for a special election on March 5, 2024 to request voter approval for a $300 million general obligation to fund various affordable

[1] The remaining $165 million balance of issued but unspent bond proceeds is allocated among the following programs: $95 million for public housing, $35 million for low-incoming housing, $29 million for preservation and downpayment assistance, and $5 million for senior housing.

housing programs, detailed in Exhibit 1 below. Files 23-0970 and 23-0972 are resolutions that determine such indebtedness is in the public interest. In particular:

Sponsored by the Mayor's Office and Board of Supervisors President Peskin:

File 23-0969: is an ordinance that would call and provide for a special election on March 5, 2024 to request voter approval for a $300 million general obligation to fund three affordable housing programs: (1) $258 million for new rental housing, (2) $30 million to preserve rental housing, and (3) $12 million for homeownership downpayment assistance.

File 23-0970: is a resolution that would determine and declare that the public interest and necessity demand: (1) construction and rehabilitation of new affordable rental housing, (2) preservation of affordable rental housing, and (3) expansion of the City's Downpayment Assistance Program.

Sponsored by Board of Supervisors President Peskin:

File 23-0971: is an ordinance that would provide for a special election on March 5, 2024 to request voter approval for a $300 million general obligation to fund three affordable housing programs: (1) $240 million for new rental housing, (2) $30 million to preserve rental housing, and (3) $30 million for rental housing for victims and survivors of homelessness and violence.

File 23-0972: is a resolution that would determine and declare that the public interest and necessity demand: (1) construction and rehabilitation of new affordable rental housing, (2) preservation of affordable rental housing, and (3) develop or rehabilitate housing for households that have survived homelessness, street violence, domestic violence and abuse, sexual abuse and assault, and/or human trafficking.

The proposed legislation would also:

- Find that the estimated cost of $300 million for such proposed projects will be too great to be paid out of the ordinary annual income and revenue of the City and will require expenditures greater than the amount allowed by the annual tax levy;
- Find that the bond proposal is not subject to review under the California Environmental Quality Act (CEQA);
- Find that the proposed bonds are in conformity with the General Plan, and the eight priority policies of Planning Code, Section 101.1(b);
- Waive the time requirements specified in Administrative Code, Section 2.34;
- Authorize landlords to pass-through 50 percent of the resulting property tax increase to residential tenants under Administrative Code, Chapter 37; and,
- Declare the City's intention to use bond proceeds to reimburse capital expenses incurred prior to the issuance of the proposed bonds

Possible uses of the bond proceeds are shown in Exhibit 1 below, based on the ordinances scheduling a special election.

Exhibit 1: Possible Uses of Bond Funds

Uses	Mayor	Peskin
New & Rehab	$258,000,000	$240,000,000
Preservation	30,000,000	30,000,000
Downpayment Assistance	12,000,000	0
Victims & Survivors*	0	30,000,000
Total	**$300,000,000**	**$300,000,000**

Source: Files 23-0969 and 23-0971

Note: Victim and Survivor housing is defined in File 23-0972 as serving households that have survived homelessness, street violence, domestic violence and abuse, sexual abuse and assault, and/or human trafficking.

Exhibit 2 below shows each program's expected unit count and area median income (AMI) limits, as defined in the respective ordinances.

Exhibit 2: Units and Households Served

Program	Mayor	Peskin	Household Area Median Income
New Rental	1,400	1,298	Up to 80% AMI
Preservation Rental	60	60	30% - 120% AMI
Downpayment Assistance	30	0	Up to 200% AMI
Victims & Survivor Rental	0	71-162	Up to 80% AMI
Rental Units	**1,460**	**1,429 - 1,520**	
Ownership Units	**30**	**0**	

Source: BLA and MOHCD

Note: Unit estimates are based on the following assumptions: $185,000 per unit local funding for new rental housing, $500,000 per unit local funding for preservation, $400,000 per unit for downpayment assistance, and $185,000 - $420,000 for victim and survivor housing, which may not be able to leverage the same funding sources as rental affordable housing for the general population.

Approval of the proposed $300 general obligation bond would require approval by at least two-thirds of San Francisco voters. All issuances of the bonds and appropriations of the bond fund proceeds would be subject to Board of Supervisors approval. At that time, CEQA review and approval of the specific projects may be required, and the project costs would be identified.

FISCAL IMPACT

Debt Service

According to Vishal Trivedi, Financial Analyst in the Office of Public Finance, the proposed bonds are projected to have an annual interest rate of 6.5 percent over approximately 20 years, with estimated total debt service payments of $544.5 million, including approximately $244.5 million in interest and $300 million in principal. The Office of Public Finance estimates average annual debt service payments of $24.8 million.

Property Taxes

Repayment of such annual debt service would be recovered through property tax revenues. According to the Office of Public Finance, the average property tax rate for the proposed bonds would be $5.70 per $100,000 of assessed valuation, half of which could be passed through to tenants.

Debt Limit

According to the FY 2024-2033 Capital Plan, the proposed bonds are consistent with the City's current debt management policy to maintain the property tax rate for City general obligation bonds below the FY 2005-06 rate of $0.12 per $100 of assessed value.

POLICY CONSIDERATION

The proposed resolutions are competing proposals for the single affordable housing general obligation bond request to voters scheduled in the City's capital plan for March 2024.

RECOMMENDATION

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