CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Sub-Committee

FROM: Budget and Legislative Analyst

SUBJECT: April 3, 2019 Budget and Finance Sub-Committee Meeting

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Item 1 **File 19-0143**	**Department:** San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

The proposed ordinance would amend the Administrative Code to set the minimum size of letter for exterior and interior signage for the Harvey Milk Terminal, Terminal 1 of the San Francisco International Airport. The proposed amendments would require the lettering of "Terminal 1" be below and approximately 75 percent of the lettering for "Harvey Milk Terminal" signage identifying the terminal for drivers. In addition, wherever signage identifying "Terminal 1" appears on the interior or exterior of the terminal or Airport, the words "Harvey Milk" shall appear in equal or greater height.

Key Points

- In 2013, the Board of Supervisors approved an ordinance amending the Administrative Code to establish the Airport Facilities Naming Advisory Committee (Committee). On June 26, 2017, the Committee recommended renaming Terminal 1 after former Supervisor Harvey Milk, as the Terminal is currently undergoing the $2.4 billion renovation.
- In March 2018, the Board of Supervisors approved an amendment to the Administrative Code to name Terminal 1 of the San Francisco International Airport after former Supervisor Harvey Milk. On March 11, 2019, the Rules Committee of the Board of Supervisors considered an ordinance amending the Administrative Code to set the minimum size of letter for exterior signage for the Harvey Milk Terminal. The ordinance was amended in committee to require the minimum size of lettering for signage.

Fiscal Impact

- The Airport had previously budgeted $1,414,498 to complete the signage for naming Terminal 1 after former Supervisor Harvey Milk. The current total budget for signs for the Terminal 1 renovation is approximately $10,000,000.
- The proposed ordinance was amended in committee to require the Airport to (a) include interior and exterior signs and (b) increase the size of "Terminal 1" lettering. The Airport estimates the increased cost of including interior and exterior signs to be $1,300,000.

Policy Consideration

- When the Board of Supervisors approved the ordinance in March 2018, amending the Administrative Code to name Terminal 1 after former Supervisor Harvey Milk, the Airport reported at that time that the costs of new signs could be incorporated into the ongoing Terminal 1 renovation budget.

Recommendation

- Approve the proposed ordinance.

MANDATE STATEMENT

According to Charter Section 2.105, all legislative acts shall be by ordinance and require the affirmative vote of at least a majority of the members of the Board of Supervisors.

BACKGROUND

The San Francisco International Airport has four terminals: Terminal 1, Terminal 2, Terminal 3, and the International Terminal. The $2.4 billion Terminal 1 renovation began in September 2016 and consists of two major Terminal 1 construction projects: Terminal 1 Center Renovation and New Boarding Area B. The program includes a complete replacement of the architectural building envelope, upgrades of all mechanical systems and special systems replacements, interior architectural renovations, facility upgrades such as a new consolidated passenger screening checkpoint, new airline ticket counters, and new concessions program. The renovation is expected to be completed in stages through 2024.

In 2013, the Board of Supervisors approved an ordinance amending the Administrative Code to establish the Airport Facilities Naming Advisory Committee (Committee). The Committee, composed of five Mayor-appointed members and four Board of Supervisors-appointed members for a total of nine members, was tasked with providing recommendations for the naming of a terminal at the Airport after Supervisor Harvey Milk.[1] On June 26, 2017, the Committee recommended renaming Terminal 1, as the Terminal is currently undergoing the renovation mentioned above. The Committee also recommended naming the Airport's access road after Harvey Milk.

In March 2018, the Board of Supervisors approved an amendment to the Administrative Code to name Terminal 1 of the San Francisco International Airport after former Supervisor Harvey Milk (File 18-0872). The amendment requested that the Director of the Airport submit a report to the Board of Supervisors on the steps taken to rename Terminal 1. On November 30, 2018, the Airport submitted the required report to the Board of Supervisors. The report included the approval of two pieces of public art in the terminal and the public unveiling of design elements within the terminal to honor Harvey Milk in the Terminal 1 facility, including proposed interior and exterior treatments, threshold areas, and exhibits.

On March 11 2019, the Rules Committee of the Board of Supervisors considered an ordinance amending the Administrative Code to set the minimum size of letter for exterior signage for the Harvey Milk Terminal, Terminal 1 of the San Francisco International Airport (File 19-0143). The ordinance was then amended in committee to require the minimum size of lettering for exterior and interior signage.

[1] In 1977 Harvey Milk became the first gay person elected to office in San Francisco when he won a supervisor seat. A year later, Harvey Milk was assassinated inside City Hall, along with then-mayor George Moscone, by former supervisor Dan White.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend the Administrative Code to set the minimum size of letter for exterior and interior signage for the Harvey Milk Terminal, Terminal 1 of the San Francisco International Airport. The proposed amendments would require the lettering of "Terminal 1" be below and approximately 75 percent[2] of the lettering for "Harvey Milk Terminal" signage identifying the terminal for drivers. In addition, wherever signage identifying "Terminal 1" appears on the interior or exterior of the terminal or Airport, the words "Harvey Milk" shall appear in equal or greater height.

FISCAL IMPACT

The Airport had previously budgeted $1,414,498 to complete the signage for naming Terminal 1 of the San Francisco International Airport after former Supervisor Harvey Milk, and an additional $3,318,493 to complete the artwork and exterior base signage, for a total of $4,733,475. The current total budget for signs for the Terminal 1 renovation is approximately $10,000,000.

Amended Ordinance

As mentioned above, the proposed ordinance was amended in committee to require the Airport to (a) include interior and exterior signs and (b) increase the size of "Terminal 1" lettering. The Airport estimates the increased cost of including interior and exterior signs to be $1,300,000, as shown in Table 1 below.

Table 1: Increased Cost Due to Interior and Exterior Signage

Terminal Signs	$1,000,000
Garage Signs	$200,000
AirTrain Signs	$100,000
Total	**$1,300,000**

According to Ms. Cathy Widener, Director of Government Affairs at the Airport, the above costs of $1,300,000 assume the signage size will remain the same. If upsizing is needed to lengthen the lettering of "Terminal 1," costs could be higher as a result of structural changes needed to accommodate larger signs.

Additional signage will be funded through the Airport's Capital Improvement Plan using General Airport Revenue Bonds.

[2] The lettering was previously required to be 50 percent.

POLICY CONSIDERATION

When the Board of Supervisors approved the ordinance in March 2018, amending the Administrative Code to name Terminal 1 after former Supervisor Harvey Milk (File 17-0872), the Airport reported on the estimated one-time costs to the Airport to replace existing AirTrain Station identification signs, directories, and maps of the Airport and terminals, and a new building sign. Additionally, the Airport reported that new additional costs could be incurred to place new signs at entrances, curbside, entry doors and garages as a result of the Terminal 1 renovation project although the number of new signs had not yet been determined. According to the Airport at that time, the costs of new signs could be incorporated into the ongoing Terminal 1 renovation budget.

RECOMMENDATION

Approve the proposed ordinance.

Item 2 **File 19-0092** *Continued from March 20, 2019 Budget and Finance Committee meeting*	**Department:** Mayor's Office

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would provide businesses with a 10 percent credit on their Homelessness Gross Receipts Tax liability for a given tax year if they irrevocably waive their right to a refund of their tax payments.
- The proposed ordinance would also allow businesses to make an irrevocable gift to the Our City, Our Home Fund and receive a credit on their Homelessness Gross Receipts Tax liability equal to 110 percent of their gift amount.

Key Points

- In November 2018, San Francisco voters approved Proposition C, which added the Homelessness Gross Receipts Tax Ordinance to the San Francisco Business and Tax Regulations Code and imposes the Homelessness Gross Receipts Tax, an additional gross receipts tax on certain businesses in the City.
- The validity of the Homelessness Gross Receipts Tax Ordinance is unclear. To validate the legality of the adoption and enforceability of Proposition C, the City filed a complaint for validation in January 2019.
- Pending resolution of the legal issue, the Controller plans to impound the revenues from the Homelessness Gross Receipts Tax. Despite the unresolved legal question, the City desires to appropriate and spend revenues from the Homelessness Gross Receipts Tax, but only if taxpayers irrevocably waive any right to a refund of those revenues.

Fiscal Impact

- The fiscal impact of the proposed ordinance will depend on the number of businesses that take advantage of the tax liability credit opportunity, and the Homeless Gross Receipts Tax liability of those businesses.
- The Controller’s Office estimates that the Homelessness Gross Receipts Tax will generate new tax revenue of approximately $250 to $300 million annually beginning in 2019.

Recommendation

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

MANDATE STATEMENT

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

BACKGROUND

In November 2018, San Francisco voters approved Proposition C with approximately 61 percent of the vote. Proposition C added the Homelessness Gross Receipts Tax Ordinance to the San Francisco Business and Tax Regulations Code and imposes the Homelessness Gross Receipts Tax, which is an additional gross receipts tax on certain businesses in the City.[1] City Administrative Code Section 10.100-164 established the Our City, Our Home Fund to receive all taxes, penalties, interest, and fees collected from the Homelessness Gross Receipts Tax. The Controller's Office estimates that the Homelessness Gross Receipts Tax will generate new tax revenue of approximately $250 to $300 million annually beginning in 2019.

Revenues from the Homelessness Gross Receipts Tax are dedicated to defined homelessness services and efforts to prevent homelessness, including secure permanent housing for homeless people, mental health services specifically designed for homeless people, services for people who have recently become homeless or who are at risk of becoming homeless and short-term shelter and access to hygiene programs for homeless people.

The validity of the Homelessness Gross Receipts Tax Ordinance is unclear because of a legal question about whether the tax, which was adopted through a voter initiative, required a simple majority or a two-thirds majority to pass. If it required a two-thirds majority, Proposition C, which received only 61 percent of the vote, would not have passed. To validate the legality of the adoption and enforceability of Proposition C, the City filed a complaint for validation (San Francisco Superior Court Case No. CGC-19-573230) in January 2019.

Pending resolution of the legal issue, the Controller plans to impound the revenues from the Homelessness Gross Receipts Tax, which went into effect January 1, 2019. The first estimated payment is due April 30, 2019.

Despite the unresolved legal question, the City desires to appropriate and spend revenues from the Homelessness Gross Receipts Tax for homelessness services specified by Proposition C, but only if taxpayers irrevocably waive any right to a refund of those revenues based on (a) any argument that the Homelessness Gross Receipts Tax Ordinance required at least a two-thirds majority to pass, or (b) any lawsuit that invalidates the Homelessness Gross Receipts Tax Ordinance.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would provide businesses with a 10 percent credit on their Homelessness Gross Receipts Tax liability for a given tax year if they irrevocably waive their

[1] Businesses pay a rate between 0.175 percent and 0.69 percent of gross receipts above $50 million, depending on business type.

right to a refund of their tax payments. Businesses would quality for the 10 percent credit in a given tax year if they enter into a waiver agreement with the City between January 1 of the following tax year and the date when the business files its original annual tax return. (In other words, to receive the 10 percent credit for tax year 2019, businesses would need to enter into the waiver agreement between January 1, 2020 and the date in 2020 when the business files its 2019 original tax return.)

The proposed ordinance would also allow businesses to make an irrevocable gift to the Our City, Our Home Fund and receive a credit on their Homelessness Gross Receipts Tax liability equal to 110 percent of their gift amount. If the amount of the credit is greater than the business's liability in a given tax year, the unused portion of the credit may be carried forward and applied to the business's Homelessness Gross Receipts Tax liability in future tax years.

The credit would be effective for tax year 2019 and each subsequent tax year until tax year 2024 or the tax year in which San Francisco Superior Court Case No. CGC-19-573230 is resolved, whichever is earlier.

FISCAL IMPACT

The fiscal impact of the proposed ordinance will depend on the number of businesses that take advantage of the tax liability credit opportunity, and the Homeless Gross Receipts Tax liability of those businesses.

If 100 percent of businesses take advantage of the tax credit (either by waiving their right to a refund or making a gift to the Our City, Our Home Fund) each year, the City will credit an estimated $30 million per year, or 10 percent of the Controller's revenue estimations of $300 million per year, of Homelessness Gross Receipts Tax revenue back to businesses. Under this scenario, the City will have access to the remaining $270 million of tax revenue per year. If not all businesses take advantage of the credit opportunity, the amount that the City credits back to businesses will be less than $30 million, and the amount of revenue the City has access to, pending resolution of the legal question, will be less than $270 million.[2]

POLICY CONSIDERATION

If it is determined at a future date that Proposition C is not valid or enforceable, the proposed ordinance will have allowed the City to appropriate some amount of revenue from the Homelessness Gross Receipts Tax that would otherwise have been returned to taxpaying businesses. If it is determined that Proposition C is valid and enforceable, under the proposed ordinance the City will have credited back to businesses up to ten percent of total Homelessness Gross Receipts Tax revenues that could have been spent on services.

[2] For example, if the businesses that enter into the waiver agreement with the City represent 20 percent of total Homelessness Gross Receipts Tax revenue, the credit issued by the City will total $6 million ($300 million in revenues x 20 percent of revenue x 10 percent credit) and the City will have access to $54 million in revenue ($300 million x 20 percent of revenue, less the $6 million in credit).

Regardless of the outcome of the question of Proposition C's validity, the proposed ordinance may benefit the City by allowing earlier access to revenues from the Homelessness Gross Receipts Tax, pending a resolution of the legal question.

RECOMMENDATION

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

Item 3 File 19-0282	Department: Controller's Office (Controller)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would establish the City's FY 2018-19 appropriations limit at $4,443,944,710, as calculated by the Controller. The appropriations limit for FY 2018-19 is based on the amount of the FY 2018-19 appropriations limit and adjusted to reflect increases in (1) the population and (2) cost of living (calculated using the increase in the local assessment roll due to the addition of non-residential new construction).

Key Points

- The California Constitution places annual limits on the appropriations of tax proceeds made by the State, school districts, and local governments in California. The annual appropriations limit is based on the appropriations limit for the preceding fiscal year and adjusted for (1) the change in population, and (2) the change in the cost of living. There are two definitions that local governments may use to calculate the cost of living adjustment: (1) the change in California per capita personal income, or (2) the change in the local assessment roll due to the addition of non-residential new construction.
- In almost every year, the Controller has used the change in California per capita personal income as its cost of living factor. However, the Controller has now updated its calculation of the assessment roll factor for FY 2014-15 through FY 2018-19 to accurately reflect the guidelines in "Article XIIIB California Constitution Appropriation Limit Procedure Guidelines for California Counties" prepared by the County Accounting Standards and Procedures Committee. In four of the five years, the revised assessment roll factor exceeded the change in California per capita personal income.

Fiscal Impact

- The appropriations limit does not apply to tax proceeds appropriated for: (a) debt service, (b) federal mandates for Social Security and Medicare, and (c) qualified capital outlays. Consequently, the Controller excluded $658,913,427 from the City's total FY 2018-19 tax proceeds of $4,843,619,161, resulting in net tax proceeds subject to the appropriations limit of $4,184,705,735.
- The City's FY 2018-19 appropriation limit, as calculated by the Controller, is $4,443,944,710. The FY 2018-19 net tax proceeds of $4,184,705,735 are $259,238,975 less than the FY 2018-19 appropriation limit of $4,443,944,710.

Policy Consideration

- For the FY 2018-19 appropriations limit, the Controller elected to use the percentage change in the local assessment roll from the preceding year for the jurisdiction due to the addition of local nonresidential new construction to calculate the cost of living adjustment. Had the Controller elected to use the percentage change in per-capita personal income from the preceding year, the appropriations limit would have been calculated at $4,064,775,777.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

California Constitution Article XIIIB states that each local government must set an annual appropriations limit as calculated using the preceding year's appropriations limit adjusted for (1) the change in population and (2) the change in the cost of living.

BACKGROUND

On November 6, 1979, California voters approved Proposition 4, known as the Gann Initiative, which added Article XIIIB to the California Constitution. Article XIIIB (later amended by State Proposition 111, as approved by the voters in June of 1990) places annual limits on the appropriations of tax proceeds made by the State, school districts, and local governments in California. The annual appropriations limit is based on the appropriations limit for the preceding fiscal year and adjusted for (1) the change in population, and (2) the change in the cost of living.

Per Article XIIIB Section 9 and California Government Code Section 7901, the appropriations limit does not apply to any tax proceeds appropriated for (a) debt service, (b) federal mandates for Social Security and Medicare, (c) qualified capital outlays, and (d) other federal mandates.

California Government Code Section 7901(b) defines the change in population as the population growth for the calendar year preceding the beginning of the fiscal year for which the appropriations limit is to be determined. According to the California Department of Finance, in calendar year 2017, San Francisco's population growth was 1.14 percent.

California Constitution Article XIIIB Section 8(e)2 allows the local government to use one of the two following definitions to calculate the cost of living adjustment:

Definition 1: The percentage change in California per-capita personal income from the preceding year, estimated to be 3.67 percent in FY 2017-18, or

Definition 2: The percentage change for the local jurisdiction in the assessment roll from the preceding year due to non-residential new construction, estimated to be 13.58 percent in FY 2017-18.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would establish the City's FY 2018-19 appropriations limit at $4,443,944,710, as calculated by the Controller. The appropriations limit for FY 2018-19 is based on the amount of the FY 2018-19 appropriations limit and adjusted to reflect increases in (1) the population and (2) cost of living (calculated using the increase in the local assessment roll due to the addition of non-residential new construction).

FISCAL IMPACT

Updated Adjustments to the Appropriation Limit

Cost of living is determined by using either the change in California per capita personal income or the increase in the local assessment roll due to the addition of non-residential new construction. According to the Controller's Office, the City is allowed to choose whichever percentage change is higher. In almost every year, the Controller has used the change in California per capita personal income as its cost of living factor. However, the Controller has now updated its calculation of the assessment roll factor.

For FY 2014-15 through FY 2018-19, the Controller calculated the assessment roll factor to accurately reflect the guidelines in "Article XIIIB California Constitution Appropriation Limit Procedure Guidelines for California Counties" prepared by the County Accounting Standards and Procedures Committee. In four of the five years, the revised assessment roll factor exceeded the change in California per capita personal income. Table 1 below summarizes the revised limits (before voter-approved overrides):

Table 1: Revised Appropriation Limits, FY 2014-15 through FY 2018-19[1]

Fiscal Year	Previous Limit	Revised Limit
2014-15	$2,917,987,003	$3,061,397,457
2015-16	3,066,413,447	3,242,369,265
2016-17	3,265,329,234	3,452,699,230
2017-18	3,422,386,737	3,781,327,469
2018-19	-	4,343,960,284

According to Mr. Michael Mitton at the Controller's Office, the appropriation limits were revised beginning from FY 2014-15 because it was difficult to access data prior to this year as a result of data limitations.

Fiscal Impact

As mentioned above, the appropriations limit does not apply to tax proceeds appropriated for: (a) debt service, (b) federal mandates for Social Security and Medicare, and (c) qualified capital outlays. Consequently, the Controller excluded $658,913,427 from the City's total FY 2018-19 tax proceeds of $4,843,619,161, as shown in Table 2 below, resulting in net tax proceeds subject to the appropriations limit of $4,184,705,735.

[1] These amounts do not include voter-approved overrides.

Table 2: Estimated Tax Proceeds Subject to the Proposed Appropriations Limit

FY 2018-19 Estimated Total Tax Proceeds*	**$4,843,619,161**
Exclusions	
(a) Debt Service	(313,939,630)
(b) Federal Mandate for Social Security/Medicare	(106,252,273)
(c) Qualified Capital Outlays	(238,721,524)
Subtotal Exclusions	(658,913,427)
FY 2018-19 Net Tax Proceeds Subject to Appropriations Limit	**$4,184,705,735**

*Includes property taxes, business taxes, other local taxes, interest, and state grants.

Section 4 of Article XIIIB provides that the appropriations limit may be changed by the voters for up to four years. In November 2016, the voters approved two measures, the Soda and Sugary Sweetened Beverages Tax (Proposition V) and the Real Estate Transfer Tax (Proposition W) that increased the appropriations limit by the aggregate sum collected from these taxes. The Controller found that the adjustment was equal to $99,984,425. The temporary increase in the appropriations limit will be in effect through FY 2019-20, after which the limit will return to what it would have been absent the temporary increase.

In June 2018, voters approved the Commercial Rent tax for Childcare and Early Education (Proposition C) and a City parcel tax for the benefit of the San Francisco Unified School District (Proposition G). Both measures included temporary overrides to raise the appropriations limit. However, both measures are currently in litigation and consequently, the City is not recognizing any revenue[2].

As shown on Table 3 below, the City's FY 2018-19 appropriation limit, as calculated by the Controller, is $4,443,944,710. The FY 2018-19 net tax proceeds of $4,184,705,735 are $259,238,975 less than the FY 2018-19 appropriation limit of $4,443,944,710.

[2] The cannabis business tax increase (Proposition D) passed in November 2018 will be included as a voter override beginning in FY 2019-20. The Our City, Our Home tax for homelessness services (Proposition C) also passed in November 2018 and is currently in litigation.

Table 3: Proposed FY 2018-19 Appropriations Limit

FY 2017-18 Appropriations Limit [a]	**$3,781,327,469**
Adjustment Factors [b]	
Increase in Population	1.14%
Roll Growth Due to New Nonresidential Construction	13.58%
Subtotal	$4,343,960,284
Voter approved limit changes	99,984,425
FY 2018-19 Appropriations Limit [a]	**$4,443,944,710**

Source: Controller's Office

[a] This is the readjusted appropriations limit based on a recalculation of the base year FY 1986-87 to include health and dental benefits.

[b] The annual appropriations limit is a formula set by the California Constitution. The Controller calculated the FY 2018-19 appropriations limit based on the increase in the City's population and the increase in the local assessment roll from the preceding year for the jurisdiction due to the addition of local nonresidential new construction as follows: $3,781,327,469 x 1.0114 x 1.1358. This added to the voter approved limit changes of $99,984,425 equals $4,443,944,710. (Note that calculations are estimates because of rounding numbers).

POLICY CONSIDERATION

As noted above, the Controller has discretion to calculate the cost of living adjustment factor using one of two following definitions:

> **Definition 1:** The percentage change in California per-capita personal income from the preceding year, estimated to be 3.67 percent in FY 2017-18, or
>
> **Definition 2:** The percentage change for the local jurisdiction in the assessment roll from the preceding year due to local non-residential new construction, estimated to be 13.58 percent in FY 2017-18.

Table 4 below shows the FY 2018-19 appropriations limit using both definitions.

Table 4: FY 2018-19 Appropriations Limit by Definition

	Definition 1 Per-Capita Personal Income	Definition 2 Local Assessment Roll from Non-Residential New Construction
FY 2017-18 Appropriations Limit	**$3,781,327,469**	**$3,781,327,469**
Adjustment Factors		
Increase in Population	1.14%	1.14%
Increase in Per-Capita Personal Income	3.67%	-
Increase in Local Assessment Roll	-	13.58%
Subtotal	$3,964,791,352	$4,343,960,284
Voter Approved	99,984,425	99,984,425
FY 2018-19 Appropriations Limit	**$4,064,775,777**	**$4,443,944,710**

For the FY 2018-19 appropriations limit, the Controller elected to use the percentage change in the local assessment roll from the preceding year for the jurisdiction due to the addition of local nonresidential new construction to calculate the cost of living adjustment, consequently calculating the appropriations limit at $4,443,944,710, as shown in Table 4 above. Had the Controller elected to use the percentage change in per-capita personal income from the preceding year, the appropriations limit, as shown in Table 4 above, would have been calculated at $4,064,775,777, which is (a) $379,168,933 less than the proposed appropriations limit of $4,443,944,710 and (b) $119,929,958 more than the Controller’s estimate of net tax proceeds subject to the appropriations limit of $4,184,705,735, as shown in Table 2 above.

RECOMMENDATION

Approve the proposed resolution.

Item 4 **File 19-0243**	**Department:** Department of Elections (DOE)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would retroactively authorize the Department of Elections to apply for, accept, and expend grant funds allocated by the California Secretary of State in an amount not to exceed $3,011,500 to fund voting system replacement activities, for the period of July 2018 through June 2021.

Key Points

- The California Budget Act of 2018 provides a statewide pool of $134 million in grant funding to reimburse counties for the cost of voting system replacement activities. The amount allocated to the City and County of San Francisco is $3,011,500.
- On March 12, 2019, the Board of Supervisors retroactively approved a contract between the Department of Elections and Dominion Voting Systems, Inc., for a term of four years and three months, from January 2019 through March 2023, and an amount not to exceed $8,460,000, and two one-year options to extend the contract through March 2025, for a total not to exceed $12,660,000. Under the contract, Dominion provides the lease of a new voting system, a software license, maintenance, and support services.
- The grant authorized by the proposed resolution would be used as partial reimbursement for Dominion contract expenses. A Board of Supervisors resolution approving the grant application is required by the Secretary of State's office before the grant can be issued.

Fiscal Impact

- The grant authorized by the proposed resolution would provide $3,011,500 in grant funding for voter system replacement activities. The grant would reimburse approximately 36 percent of the cost of the $8,460,000 of the initial four-year and three-month term of the Dominion contract. The remaining cost of the contract would be funded by the General Fund.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Administrative Code Section 10.170-1 states that accepting Federal, State, or third-party grant funds in the amount of $100,000 or more, including any City matching funds required by the grant, is subject to Board of Supervisors approval.

BACKGROUND

The California Budget Act of 2018 allocates funding for the Secretary of State to reimburse counties for the cost of voting system replacement activities. Eligible activities include replacement of voting systems, electronic poll books, ballot on demand systems, vote by mail drop boxes, remote accessible vote by mail systems, telecommunication technologies to facilitate voter registration, vote by mail sorting and processing equipment, and research and development of nonproprietary voting systems. Counties are required to certify by resolution the approval of applications for funding before submission to the Secretary of State. Under the terms of the grant, a county can only be reimbursed for the costs of developing a new voting system if that system is then certified by the California Secretary of State by July 1, 2023.

On March 12, 2019, the Board of Supervisors retroactively approved a voting system contract between the Department of Elections and Dominion Voting Systems, Inc. for a term of four years and three months, from January 2019 through March 2023, and an amount not to exceed $8,460,000, with two one-year options to extend through March 2025, for a total not to exceed $12,660,000 (File 19-0192). Under the contract, Dominion provides the lease of a new voting system, a license to use the voting system software, maintenance, and support services. Dominion is one of three firms that offer complete voting systems that meet the California Secretary of State's voting system requirements.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would retroactively authorize the Department of Elections to apply for, accept, and expend grant funds allocated by the Secretary of State in an amount not to exceed $3,011,500 to fund voting system replacement activities, for the period from July 2018 through June 2021. According to Ms. Marisa Pereira Tully, Mayor's Office Deputy Budget Director, the funding will be used for reimbursement of the Dominion contract expenses.

A statewide pool of $134 million is available for voter system modernization. Funds are allocated to counties based on several factors, including county size, number of precincts, and voting equipment needs. The amount allocated to the City and County of San Francisco (City) is $3,011,500.

According to Mr. John Arntz, Department of Elections Director, the department is seeking retroactive approval because the grant funding cycle officially began on July 1, 2018. A Board of Supervisors resolution approving the grant application is required by the Secretary of State's office before the grant can be issued. The City has not yet received any grant funding.

FISCAL IMPACT

The grant authorized by the proposed resolution would provide up to $3,011,500 in grant funding for voting system replacement activities, which would partially fund the contract between the City and Dominion to lease the voting system through March 2023. The grant requires an equal match of $3,011,500 by the City, which the City meets through its allocation of General Fund monies of $5,448,500 to fully fund the contract with Dominion, as shown in Table 1 below). The grant would reimburse approximately 36 percent of the $8,460,000 cost of the initial four-year and three-month term of the Dominion contract. The remaining cost would be funded by the General Fund, as shown in Table 1 below.

Table 1: Sources of Dominion Contract Cost, Initial Term

Source	Percent of Total Contract	Amount
State Grant	36%	$3,011,500
General Fund	64%	5,448,500
Total		**$8,460,000**

As the initial term expires in March 2023, the Department of Elections may extend the contract for two additional years, at a cost of $2,100,000 per year.

According to Mr. Arntz, the Department of Elections would pursue future grants if they are available after the current funding cycle ends in 2021.

RECOMMENDATION

Approve the proposed resolution.

Item 5 File 19-0283	Department: Human Services Agency (HSA)

EXECUTIVE SUMMARY

Legislative Objectives

The proposed resolution (1) retroactively approves a grant agreement, between the Human Services Agency ("HSA"), and the non-profit Meals on Wheels of San Francisco for the provision of nutrition programs services to older adults and adults with disabilities for the period of July 1, 2017 through June 30, 2020, in an amount not to exceed $21,600,737; (2) retroactively approves Amendment No. 1 to increase the agreement to a total not to exceed amount of $22,310,425; (3) retroactively approves Amendment No. 2 to increase the agreement to a total not to exceed amount of $23,136,818; and (4) retroactively approves Amendment No. 3 to increase the agreement to a total not to exceed amount of $26,227,568.

Key Points

- The Human Services Agency (HSA) administers nutrition services programs to eligible residents in underserved areas within the City and County of San Francisco. In January 2017, HSA issued a request for proposals for seven separate services within nutrition services. Meals on Wheels San Francisco submitted proposals for three service categories: Home-Delivered Meals and Nutrition Compliance, Home-Delivered Meals, and Emergency Home-Delivered Meals.
- In June 2017, the Aging and Adult Services Commission approved the original agreement with Meals and Wheels San Francisco for a three year period of July 1, 2017 through June 30, 2020, in an amount not to exceed $21,600,737. The agreement was subsequently amended three times, increasing the total not to exceed amount to $26,227,568.

Fiscal Impact

- HSA paid Meals on Wheels San Francisco the full contract amount of $7,492,051 in FY 2017-18, and as of February 1, 2019, HSA has paid Meals on Wheels San Francisco $4,564,545, or approximately 55.3 percent of the FY 2018-19 contract amount of $8,258,684. Approximately 68 percent of the funding comes from General Funds, and approximately 32 percent comes from federal funding.

Policy Consideration

- The Human Services Agency did not obtain Board of Supervisors approval for the original agreement in June 2017. Subsequent to Board of Supervisors retroactive approval of the grant agreement with Tenderloin Housing Clinic in January 2019 (File 18-1224), the HSA Executive Director directed staff to undertake a review of approvals on all of HSA's existing contracts and grants. As part of this effort, staff found that the subject grant between HSA and Meals on Wheels had not been submitted in 2017 as required by the City Charter.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

BACKGROUND

The Human Services Agency (HSA) administers nutrition services programs to increase availability and accessibility of meal services to eligible residents in underserved areas within the City and County of San Francisco. In January 2017, HSA issued a request for proposals for seven separate services within nutrition services:

1. Congregate Meals- Elderly Nutrition Program
2. Congregate Meals- Choosing Healthy Appetizing Meal Plan Solutions for Seniors
3. Congregate Meals- Adults with Disabilities
4. Home-Delivered Meals- Elderly Nutrition Program
5. Home-Delivered Meals- Adults with Disabilities
6. Emergency Home-Delivered Meals
7. Home-Delivered Groceries

Respondents were able to propose programs within one or more of the seven service areas. In February 2017, HSA received proposals from 18 unique agencies. Meals on Wheels San Francisco submitted proposals for three service categories: Home-Delivered Meals and Nutrition Compliance (Elderly Nutrition), Home-Delivered Meals (Adults with Disabilities), and Emergency Home-Delivered Meals. A panel of seven experience professionals within the nutrition field, including five nutritionists, an intake supervisor from HSA, and a child nutrition coordinator from the Department of Children, Youth and their Families. The proposals were scored based on organizational capacity, service design and program approach, and fiscal capacity, with the maximum score being 100, as shown in Table 1 below.

Table 1: Proposals and Scores

Rank	Proposer	Score
Home-Delivered Meals- Elderly Nutrition program		
Rank	Proposer	Score
1	Meals on Wheels	91.5
2	On Lok Day Services	91.3
3	Self Help for the Elderly	88.3
4	Jewish Family and Children's Services	87.3
5	Centro Latino de San Francisco	84.3
6	Kimochi, Inc.	82.1
7	Candice Tang	82.0
8	Russian American Community Services	74.6
Home-Delivered Meals- Adults with Disabilities		
Rank	Proposer	Score
1	Institute on Aging	90.6
2	Meals on Wheels	90.0
3	Self Help for the Elderly	89.6
4	Candice Tang	83.3
5	Project Open Hand	81.8
Emergency Home Delivered Meals		
Rank	Proposer	Score
1	Meals on Wheels	91.0

According to Ms. Elizabeth Leone, Senior Contracts Manager for the HSA, all vendors were awarded contracts, but not necessarily in every service area of their submitted proposal. Applicants to the request for proposals were required to demonstrate three years of experience providing nutrition services to a low-income population and serving the senior or adults with disabilities population. Any proposal that scored less than 60 points was disqualified automatically.

On June 7, 2017, the Aging and Adult Services Commission ("Commission") approved the original agreement with Meals and Wheels San Francisco for a three year period of July 1, 2017 through June 30, 2020, in an amount not to exceed $21,600,737. The contract awarded grants to Meals on Wheels San Francisco for three service categories.

On October 4, 2017, the Commission approved Amendment No. 1 to increase the grant agreement by $709,688 for a total not to exceed amount of $22,310,425, just three months after the initial contract commenced. According to Ms. Leone, the San Francisco Food Security Task Force presented an updated needs assessment report to the Board of Supervisors in June 2017, around the time that the contract with Meals on Wheels was approved by the Commission and had been routed for final signature. As a result of the Task Force's recommendations, the Board of Supervisors provided HSA with additional ongoing and one-time-only funding for the period of July 1, 2017 through June 30, 2018. The nutrition agreements were amended to reflect this additional funding and Board priorities.

On November 1, 2017, the Commission approved Amendment No. 2, which provided for a cost of doing business adjustment and additional one-time only addback funds appropriated by the Board of Supervisors, increasing the total not to exceed amount by $826,393 for a new total amount of $23,136,818.

On December 5, 2018, the Commission approved Amendment No. 3 to increase the agreement amount by $3,090,750 for a total not to exceed amount of $26,227,568. According to Ms. Leone, the grant was amended a third time because the finalized addback and one-time-funding in 2017 exceeded the available contingency for the two Home-Delivered Meals programs over their not to exceed amounts.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution (1) retroactively approves a grant agreement, between the Human Services Agency ("HSA"), and the non-profit Meals on Wheels of San Francisco for the provision of nutrition programs services to older adults and adults with disabilities for the period of July 1, 2017 through June 30, 2020, in an amount not to exceed $21,600,737; (2) retroactively approves Amendment No. 1 to increase the grant agreement amount by $709,688 for a total not to exceed amount of $22,310,425; (3) retroactively approves Amendment No. 2 to increase the grant agreement amount by $826,393 for a total not to exceed amount of $23,136,818; and (4) retroactively approves Amendment No. 3 to increase the grant agreement amount by $3,090,750 for a total not to exceed amount of $26,227,568. The contract end date of June 30, 2020 would not change.

Retroactive Approval of the Agreement

The Human Services Agency did not obtain Board of Supervisors approval for the original agreement in June 2017. In January 2019, the Board of Supervisors retroactively approved another grant agreement between the Tenderloin Housing Clinic and the Department of Homelessness and Supportive Housing, which had been implemented by HSA in 2014 without obtaining Board of Supervisors approval and transferred to the Department of Homeless and Supportive Housing in 2016 (File 18-1224). Subsequent to Board of Supervisors retroactive approval of the grant agreement with Tenderloin Housing Clinic, the HSA Executive Director directed staff to undertake a review of approvals on all of HSA's existing contracts and grants. As part of this effort, staff found that the subject grant between HSA and Meals on Wheels had not been submitted in 2017 as required by the City Charter.

According to Ms. Leone, HSA has taken steps to ensure that agreements over $10 million are submitted for Board of Supervisors approval in accordance with City Charter requirements. Some of these steps include (a) requiring the Director of Contracts to approve any contract, grant or modification; (b) ensuring concurrent approval process of the Board of Supervisors and Commission; and (c) noting the need for Board approval in the HSA Contract Division's automated workflow system.

According to Ms. Leone, the Tenderloin Housing Clinic and Meals on Wheels are the only two grant agreements that needed retroactive approval.

FISCAL IMPACT

The proposed resolution would retroactively approve the grant between HSA and the non-profit Meals on Wheels San Francisco, and all three grant amendments, for a total grant amount of $26,277,568 for the period of July 1, 2017 through June 30, 2020. The $26,277,568 will fund three programs administered by Meals on Wheels San Francisco: Home-Delivered Meals and Nutrition Compliance (Elderly Nutrition), Home-Delivered Meals (Adults with Disabilities), and Emergency Home-Delivered Meals. The budget for each of these programs by fiscal year is shown in Table 1 below.

Table 1: Proposed Spending Budget for Nutrition Services Grant

	FY 17 – 18	FY 18 – 19	FY 19 – 20	Contingency*	Program Total
Home-Delivered Meals and Nutrition Compliance (Elderly Nutrition)	$6,237,755	$6,794,463	$6,671,895	$1,970,411	$21,674,524
Home-Delivered Meals (Adults with Disabilities)	1,096,796	1,303,133	1,303,133	370,306	4,073,368
Emergency Home-Delivered Meals	157,500	161,088	161,088	$0	479,676
Term Total	**$7,492,051**	**$8,258,684**	**$8,136,116**	**$2,340,717**	**$26,227,568**

*The contingency must be approved by the Human Services Commission, which normally approves a ten percent contingency. The Commission did not approve contingency for the Emergency Home-Delivered Meals program.

HSA paid Meals on Wheels San Francisco the full contract amount of $7,492,051 in FY 2017-18, and as of February 1, 2019, HSA has paid Meals on Wheels San Francisco $4,564,545, or approximately 55.3 percent of the FY 2018-19 contract amount of $8,258,684. According to Ms. Leone, approximately 68 percent of the funding comes from General Funds, and approximately 32 percent comes from federal funding.

POLICY CONSIDERATION

As noted above, HSA did not submit the original grant agreement with Meals on Wheels San Francisco to the Board of Supervisors for approval, as required by Charter 9.118(b). According to Ms. Leone and as noted above, HSA has made changes to the contract tracking systems, internal approval forms and review processes to address the issue.

HSA monitors its nonprofit providers both programmatically and for fiscal and contract compliance. The Contracts staff visits each vendor once a year. The results of FY 2018-19 monitoring are not yet available at this time. Meals on Wheels has either met or exceeded their outcome objectives in all programs for FY 2017-18.

RECOMMENDATION

Approve the proposed resolution

Item 6 File 19-0242	Department: Department of Public Health (DPH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve Amendment No. 2 to the contract between the Department of Public Health (DPH) and San Francisco AIDS Foundation for HIV prevention services, increasing the contract amount by $25,768,672, for a total not to exceed amount of $35,608,159, and extending the term of the contract by seven years, for a total term of ten years from July 2016 through June 2026.

Key Points

- In March 2016, DPH issued a Request for Proposals (RFP) for an HIV prevention program for citywide syringe access and disposal services. San Francisco AIDS Foundation was the sole vendor that submitted a Letter of Intent to submit a proposal. DPH awarded San Francisco AIDS Foundation a contract with an initial term of two years, from July 2016 through June 2018, and an amount not to exceed $4,976,830. In October 2017, DPH and San Francisco AIDS Foundation executed Amendment No. 1 to the contract, extending the contract through June 2019, and increasing the not-to-exceed amount to $9,839,487.
- Under the contract, San Francisco AIDS Foundation provides syringe access and disposal services. Syringe access services are provided to reduce syringe sharing and the risk of transmission of HIV and other communicable diseases through the provision of sterile injection equipment, health education, HIV and hepatitis C testing, and collection of disposed needles. Syringe disposal services include 24-hour disposal kiosks at various locations across the City, including Walgreens pharmacies and pit stop restrooms, and a Rapid Response Clean Team that provides syringe collection and disposal services.
- The proposed resolution would authorize Amendment No. 2 to the contract, extending the contract by seven years, through June 2026, and increasing the not-to-exceed amount to $35,608,159. The scope of services under the contract would not change.

Fiscal Impact

- The Department has spent or projects to spend $9,052,127 on services under the contract with the AIDS Foundation in FY 2016-17 through FY 2018-19. The Department projects new expenditures in FY 2019-20 through FY 2025-26 of $26,556,032, including a 12 percent contingency, for total contract not to Exceed amount over ten years of $35,608,159. Nearly all of the funding for the contract comes from the General Fund, including the Children's Fund (General Fund set-aside).

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

BACKGROUND

In March 2016, the Department of Public Health (DPH) issued a Request for Proposals (RFP) for an HIV prevention program for citywide syringe access and disposal services. San Francisco AIDS Foundation was the sole vendor that submitted a Letter of Intent to submit a proposal.[1] According to Mr. Mario Moreno, DPH Director of Contract Management and Compliance, DPH began direct negotiations with San Francisco AIDS Foundation in lieu of submission of a formal proposal, as was consistent with language in the RFP.

DPH awarded the AIDS Foundation a contract for an initial term of two years, from July 2016 through June 2018, and an amount not to exceed $4,976,830. In October 2017, DPH and San Francisco AIDS Foundation executed Amendment No. 1 to the contract, increasing the original budget for FY17-18, extending the contract one year through June 2019, and increasing the not-to-exceed amount to $9,839,487.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Amendment No. 2 to the contract between DPH and San Francisco AIDS Foundation, extending the contract by seven years through June 2026, and increasing the amount by $25,768,672, for a total not to exceed $35,608,159. Amendment No. 2 would extend the contract term to 10 years, which is consistent with the maximum term authorized in the RFP.

Under the contract, San Francisco AIDS Foundation provides syringe access and disposal services. Syringe access services are provided to reduce syringe sharing and the risk of transmission of HIV and other communicable diseases through the provision of sterile injection equipment, health education, HIV and hepatitis C testing, and collection of disposed needles. Syringe disposal services include 24-hour disposal kiosks at various locations across the City, including Walgreens pharmacies and pit stop restrooms, and a Rapid Response Clean Team that provides syringe collection and disposal services.[2] Amendment No. 2 does not change the scope of services provided under the contract.

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[1] According to Mr. Moreno, DPH conducted outreach by contacting the 412 vendors in its solicitation notification database, sending emails to all current service providers, and posting the RFP on the Office of Contract Administration's solicitation site.

[2] There are four partners in the San Francisco AIDS Foundation's contract that assist in disposal services: (1) Homeless Youth Alliance, (2) San Francisco Drug Users Union, (3) Glide Church, and (4) St. James Infirmary.

FISCAL IMPACT

The Department has spent or projects to spend $9,052,127 on services under the contract with the AIDS Foundation in FY 2016-17 through FY 2018-19. The Department projects new expenditures in FY 2019-20 through FY 2025-26 of $26,556,032, including a 12 percent contingency, for total not to exceed amount contract expenditures over ten years of $35,608,159.

A majority of funding for the contract comes from the General Fund, including the Children's Fund (General Fund set-aside). The sources and uses of funds are shown in Table 1 below.

Table 1: Sources and Uses of Funds in San Francisco AIDS Foundation Contract

Sources	Federal CDC Funds	Children's Fund	General Fund	Contingency (12%)	Total
FY 2016-17	$5,000	$196,713	$2,364,086	-	**$2,565,799**
FY 2017-18	1,964	201,631	2,954,588	-	**3,158,183**
FY 2018-19	-	206,672	3,121,473	-	**3,328,145**
FY 2019-20	-	211,838	3,175,411	406,470	**3,793,719**
FY 2020-21	-	211,838	3,175,411	406,470	**3,793,719**
FY 2021-22	-	211,838	3,175,411	406,470	**3,793,719**
FY 2022-23	-	211,838	3,175,411	406,470	**3,793,719**
FY 2023-24	-	211,838	3,175,411	406,470	**3,793,719**
FY 2024-25	-	211,838	3,175,411	406,470	**3,793,719**
FY 2025-26	-	211,838	3,175,411	406,470	**3,793,719**
Total	$6,964	$2,087,882	$30,668,024	$2,845,290	**$35,608,160**

Uses	Syringe Access & Disposal Services	Syringe Access & Disposal Services – HYA Wrap Around[3]	Harm Reduction Center	Contingency (12%)	Uses Subtotal
FY 2016-17	$2,064,945	$156,854	$344,000	-	**$2,565,799**
FY 2017-18	2,113,408	160,775	884,000	-	**3,158,183**
FY 2018-19	2,163,351	164,794	1,000,000	-	**3,328,145**
FY 2019-20	2,218,335	168,914	1,000,000	406,470	**3,793,719**
FY 2020-21	2,218,335	168,914	1,000,000	406,470	**3,793,719**
FY 2021-22	2,218,335	168,914	1,000,000	406,470	**3,793,719**
FY 2022-23	2,218,335	168,914	1,000,000	406,470	**3,793,719**
FY 2023-24	2,218,335	168,914	1,000,000	406,470	**3,793,719**
FY 2024-25	2,218,335	168,914	1,000,000	406,470	**3,793,719**
FY 2025-26	2,218,335	168,914	1,000,000	406,470	**3,793,719**
Total	$21,870,049	$1,664,821	$9,228,000	$2,845,290	**$35,608,160**

Source: DPH

RECOMMENDATION

Approve the proposed resolution.

[3] According to Mr. Moreno, the Homeless Youth Alliance (HYA) funding is used for personnel, operating expenses, and syringe disposal services. Tides Foundation serves as the fiscal agent for HYA. The target population is teens and young adults (aged 13-29) living on the streets in the Haight and female injecting drug users in the Mission.

Item 9 **File 19-0315**	**Department:** [Select Board, Commission, or Department]

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves an amended and restated loan agreement between the Mayor's Office of Housing and Community Development (MOHCD) and Sunnydale Infrastructure Co., LLC for a loan of $23,478,891 to fund infrastructure development for the first two phases of eleven total phases of Sunnydale HOPE SF development.

Key Points

- Sunnydale HOPE SF is a 50-acre site that includes infrastructure improvements, replacement of San Francisco Housing Authority housing, and development of new affordable and market rate housing. MOHCD selected Mercy Housing California, a nonprofit developer, and the Related Companies of California, a for profit developer (Mercy and Related) through a competitive process to develop Sunnydale HOPE SF.
- The first two project phases, Phase 1A-1 and 1A-2, will construct infrastructure improvements on five and a half acres of the Sunnydale HOPE SF site that are slated for affordable housing development on Block 6 and market rate housing development on Block 5. Mercy and Related formed Sunnydale Infrastructure Co., LLC (Sunnydale Infrastructure) to construct the infrastructure improvements.
- In June 2017, the Citywide Affordable Housing Loan Committee recommended a loan to Sunnydale Infrastructure for $4,433,153 for predevelopment planning work. In September 2018, the Citywide Affordable Housing Loan Committee recommended a modification of the original loan to Sunnydale Infrastructure for the project to increase the loan amount by $24,045,738 for a total amount not to exceed $28,478,891. The modified loan included $3,566,847 to cover the demolition of 120 vacant units on site for security purposes.

Fiscal Impact

- Sources of funds for the loan include general obligation bonds, Housing Trust Fund, the California Pacific Medical Center Fund, and Low Moderate Income Housing Asset Funds.
- Total Sunnydale HOPE SF project costs are expected to increase from the original estimate in 2017 due to citywide increases in housing development costs. MOHCD evaluates the project budget and public financing costs annually. MOHCD will provide further information to the Board of Supervisors on MOHCD project financing when legislation is submitted to approve loans for construction of affordable housing on Block 6**.**

Policy Consideration

- The infrastructure development funded by the $28.5 million loan supports both affordable housing and market rate development. MOHCD determined that the use of these funds was appropriate because proceeds from the sale of Block 5 – the parcel slated for market rate housing – will be returned to MOHCD.

Recommendation

- Because the proposed loan of $28.5 million to fund initial infrastructure development for the Sunnydale HOPE SF project is consistent with prior Board of Supervisors actions, the Budget and Legislative Analyst recommends approval of the proposed resolution**.**

MANDATE STATEMENT

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

BACKGROUND

In 2005, the San Francisco Housing Authority began the HOPE SF project to repair and renovate four public housing sites: Hunters View, Potrero Terrace and Potrero Annex, Sunnydale, and Alice Griffith. The largest of these sites, Sunnydale, is in the Visitacion Valley Neighborhood, and is a 50-acre, 775-unit site home to more than 1,700 people.

In 2006, the Board of Supervisors amended the San Francisco Administrative Code to establish the HOPE SF fund to provide financial assistant to the San Francisco Housing Authority and housing developers for HOPE SF projects (File 07-0849).

In 2007, the San Francisco Housing Authority and HOPE SF released a request for qualifications to develop the four large-scale target sites. The San Francisco Housing Authority received proposals from two project teams for the Sunnydale development and selected Mercy Housing California and the Related Companies of California (Mercy and Related), as co-developers. According to Ms. Sara Amaral, Senior Project Manager at the Mayor's Office of Housing and Community Development (MOHCD), the San Francisco Housing Authority advertised the request for qualifications through multiple websites, and emailed the request to potential respondents. The small number of respondents to the request for qualifications is reflective of the number of firms in the City that could handle a 50-acre development project.

A panel of eight professional and technical staff from the San Francisco Housing Authority, the Mayor's Office of Housing and Community Development (MOHCD) and the San Francisco Redevelopment Agency, along with residents from the target sites and community services representatives from the surrounding neighborhoods evaluated and ranked the submissions. Panelists reviewed each development firm's experience, team's qualifications, development concept, and community building. The panelists deemed Mercy Housing California and the Related Companies of California (Mercy and Related) the highest scoring respondents and selected them as co-developers for the Sunnydale HOPE SF development. Mercy and Related formed Sunnydale Development Co., LLC which is the master developer entity for master planning and community building work. This entity also executed an Exclusive Negotiating Rights Agreement with the San Francisco Housing Authority on September 11, 2008.

In 2010, Mercy and Related completed and submitted the Sunnydale HOPE SF Master Plan to the City with the plan that the environmental review process would take 12 months. Mercy and Related, with approval from MOHCD, engaged the civil engineer, master landscape architect and other consultants to work on the schematic design of the Phase 1 infrastructure.

In 2012, the United States Department of Housing and Urban Development awarded a $300,000 CHOICE Neighborhoods Planning Grant[1] to Sunnydale Development Co., LLC as the lead applicant and the City and County of San Francisco and San Francisco Housing Authority as co-applicants. The grant paid for City and developer staff to work with Sunnydale residents and the wider community to obtain their input into a Transformation Plan that included strategies to improve neighborhood safety, health and wellness, economic mobility and educational status of the residents, as well as the development of a mixed income neighborhood. The Transformation Plan was accepted by the United States Department of Housing and Urban Development in October 2014.

In summer 2015, Mercy and Related and the City began working on the development agreement and other master site level land use entitlements, including the master infrastructure plan. In 2016, the Board of Supervisors (1) approved a development agreement between the City and County of San Francisco, the San Francisco Housing Authority, and Sunnydale Development Co., LLC, for the Sunnydale HOPE SF Project; (2) confirmed the agreement's compliance with, or waived certain provisions of, Administrative Code; (3) approved the use of impact fees and exactions for improvements and other community benefits; and (4) authorized further actions taken consistent with the Ordinance (File 16-1309).

In January 2017, the Board of Supervisors approved a development agreement and a master development agreement between the City and Mercy and Related, and the City approved the Sunnydale HOPE SF Special Use District to facilitate the development of the Project (File 16-1164). The development agreement included the phasing plan and master infrastructure plan for the master development. The development agreement also includes language that allows the master developer to form tax credit partnerships for its affordable housing developments and other legally affiliated entities to facilitate the build out of the master plan. These entities would be governed by the land use entitlements and agreements. In November 2017, the developer formed Sunnydale Infrastructure, LLC to develop the Sunnydale HOPE SF street and utility infrastructure.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve and authorize the Director of the Mayor's Office of Housing and Community Development (MOHCD) to execute an amended and restated loan agreement with Sunnydale Infrastructure Co., LLC, to finance the first and second phase (Phase 1A-1 and 1A-2) of eleven total phases of infrastructure improvements and housing development related to the Sunnydale HOPE SF Development.

[1] The Choice Neighborhoods Planning Grants Program provided funding to create and/or implement a plan to revitalize distressed public housing; improve outcomes of households living in the target housing related to employment, income, health, and education; and encourage public and private reinvestment in distressed neighborhoods to improve safety, schools, and commercial activity.

Phase 1A-1 and 1A-2

Phase 1A-1 and 1A-2 will construct infrastructure improvements on five and a half acres of the Sunnydale HOPE SF site that are slated for affordable housing development on Block 6 and market rate housing development on Block 5. These infrastructure improvements include constructing three new streets including the connection of an existing street, Sunrise Way into the Sunnydale HOPE SF development. The scope of work includes utility design, streetscape design, infrastructure construction management, relocation of residents onsite or into new replacement units, security management during construction, infrastructure permitting and fees, and costs related the mapping and street vacation.

Sunnydale Infrastructure LLC

Sunnydale Infrastructure LLC is a limited liability company formed by Mercy and Related to develop the infrastructure for Sunnydale HOPE SF Development. According to Ms. Amaral, Mercy and Related formed the new LLC to address indemnity and tax issues specific to infrastructure development.

Gap Loan

In June 2017, the Citywide Affordable Housing Loan Committee[2] recommended approval to the Mayor of a loan to Sunnydale Infrastructure Co., LLC for $4,433,153 for predevelopment planning work to be done by Sunnydale Infrastructure.

On September 21, 2018, the Citywide Affordable Housing Loan Committee recommended approval to the Mayor of a modification of the original loan to Sunnydale Infrastructure to increase the total loan amount by $24,045,738 for a total amount not to exceed $28,478,891. The modified loan also provided a $3,566,847 partial disbursement to cover the demolition of 120 vacant units on site for security purposes.

The loan agreement allows for the predevelopment and construction of infrastructure on Phase 1A-1 and 1A-2 of the master development, including the design, engineering, permitting and construction of new street and utility infrastructure according to the master infrastructure plan and City standards, the abatement and demolition of the 16 existing buildings and infrastructure, grading and excavation, and the costs associated with meeting City requirements, such as maintenance of the new infrastructure before the City formally accepts the new streets and utilities for ownership and maintenance through legislation. The scope of this phase also includes the construction of a new SFPUC electrical switchgear to provide SFPUC electrical service for the new Sunnydale HOPE SF development. The phased infrastructure improvements are to facilitate the construction of Block 6, which is 167 units of affordable housing that consist of 125 units of replacement units for existing Sunnydale households and 41

[2] The Citywide Affordable Housing Loan Committee is an internal credit committee that reviews loan applications for affordable housing projects that are recommended for funding by MOHCD staff. The committee is made up of senior staff of MOHCD, the San Francisco Housing Authority, Office of Community Investment and Infrastructure, and the Department of Homelessness and Supportive housing, and meets bimonthly. Projects apply to this committee for predevelopment and gap funding as needed. MOHCD works with projects to apply for and leverage other non-City sources of funding.

affordable units for the general public. The infrastructure development will also facilitate the creation of Block 5, which is planned as a .29 acre site for approximately 15-20 market rate units.

Environmental Compliance

The proposed resolution would also reaffirm findings that the project is consistent with the adopted Mitigation Monitoring and Reporting Program under the California Environmental Quality Act, the General Plan, and the eight priority policies of Planning Code, Section 101.1. The Board of Supervisors affirmed these findings previously in early 2017 (File 16-1309).

FISCAL IMPACT

$28,478,891 in Gap Financing

The proposed resolution would approve a gap loan to be made by MOHCD to Sunnydale Infrastructure Co., LLC up to $28,478,891 for a term of 57 years with no interest. The total not to exceed loan of $28,478,891 will be used to finance three projects within the first two phases: (1) pre-development work, (2) demolition and abatement of existing buildings, and (3) new infrastructure improvements, as shown in Table 2 below.

Table 2: Uses of Loan

Pre-Development Work	4,433,153
Demolition and Abatement	3,566,847
Subtotal	$8,000,000
New Infrastructure Improvements	20,478,891
Total	**$28,478,891**

The new Phase 1A-1 and 1A-2 infrastructure improvements will include new streets and sidewalks, stormwater management improvements, and new water, sewer, electric, gas, telecommunication, streetlight utilities.

According to Ms. Amaral, the predevelopment work, as well as the demolition and abatement of existing buildings will be completed in late May 2019, and the infrastructure improvements will be substantially completed in late September 2019.

Sunnydale Block 6

$11,000,000 of the loan amount will be assigned specifically to Sunnydale Block 6 Housing Partners, LP, as infrastructure charges to facilitate the vertical affordable housing development at Block 6. Sunnydale Block 6 Housing Partners, LP, is an affiliate of the master developer, Mercy and Related. According to Ms. Amaral, this will allow Sunnydale Block 6 Housing Partners, LP to leverage the costs of infrastructure development required for the development of affordable Housing on Block 6 with tax credit equity, thereby decreasing the amount of MOHCD subsidy on the vertical development portion to occur after the completion of Phase 1A-1 and Phase 1A-2. Block 6 will provide 167 units of low-income housing.

Sources of Funds

The City is loaning Sunnydale Infrastructure Co., LLC the entire amount to complete Phase 1A-1 and Phase 1A-2 infrastructure of the project. According to Ms. Amaral, infrastructure work generally cannot be leveraged with private funding unless a housing component is involved. The sources of the loans are shown in Table 3 below.

Table 3: Sources of Funds for Phase 1A-1 and 1A-2

Source	Amount
Public Sources	
2015 General Obligation Bond (previously disbursed)[a]	$4,433,153
Housing Trust Fund (previously disbursed)[b]	3,566,847
CPMC[c]	3,103,629
Low Moderate Income Housing Asset Funds[d]	17,375,262
Subtotal Public Sources	**$28,478,891**

a. On November 3, 2015 the voters of the City of San Francisco approved Proposition A, which provided for the issuance of up to $310 million in general obligation bonds to finance the construction, acquisition, improvement, rehabilitation, preservation and repair of certain affordable housing improvements.

b. In November 2012, the voters of the City approved Proposition C, which established a housing trust fund to provide funds to support creating, acquiring and rehabilitating affordable housing and promoting affordable home ownership programs (the "Housing Trust Fund"). Under San Francisco City Charter Section 16.110, the City is authorized to provide Housing Trust Fund funds under this Agreement to Borrower for the development of affordable housing.

c. In July 2013, the Board of Supervisors approved an ordinance that required Sutter West Bay Hospital to deposit funds into the Citywide Affordable Housing Fund (CPMC Fund) (File 12-0366). The CPMC Fund funds are to be used for predevelopment and development expenses and administrative costs associated with acquisition, construction, or rehabilitation of permanently affordable housing units in San Francisco. MOHCD is authorized to administer the CPMC Fund and enforce agreements relating to them.

d. The San Francisco Board of Supervisors designated the MOHCD the Successor Housing Agency of the San Francisco Redevelopment Agency, effective February 1, 2012, upon dissolution of state redevelopment agencies. Pursuant to California Assembly Bill 1484, the Successor Housing Agency was required to create a fund called the Low and Moderate Income Housing Asset Fund ("LMIHAF") to collect proceeds from former redevelopment agency housing assets transferred to the City and County of San Francisco. Monies in the LMIHAF are derived from loan repayments and other housing asset program income and must be used in accordance with California Redevelopment Law.

According to the loan agreement, Sunnydale Infrastructure, LLC will hire a third party to review the budget to ensure costs are reasonable and minimize MOHCD contribution. Sunnydale Infrastructure, LLC will continue to look for other funding options to construct housing to reduce MOHCD contribution.

According to the agreement, work will also be done on infrastructure improvements to Block 5, which will then be sold as a market rate parcel.[3] The Sunnydale Development Co., LLC will work with the San Francisco Housing Authority and MOHCD to develop a marketing strategy for the sale of Block 5 before construction starts on infrastructure improvements. The San Francisco Housing Authority, which owns the land in the Sunnydale HOPE SF site, will transfer all proceeds to MOHCD, who will reinvest those funds to the development of Sunnydale HOPE SF infrastructure or affordable housing.

[3] Block 5 is currently a street that will be removed during Phase 1A-1 and Phase 1A-2.

Total Project Costs

In the 2017 Development Agreement, the City and Mercy/Related estimated the total cost of the project to be $965,191,517, of which approximately one third would come from public sources. According to Ms. Amaral, housing development costs increased citywide between 2017 and 2020. In order to contain the increase in costs to the project, MOHCD meets annually with the master developer to review the project budget and evaluate costs.

MOHCD financing of project costs will be reported to the Board of Supervisors when MOHCD submits legislation to approve gap financing for the project. MOHCD anticipates submitting legislation to the Board of Supervisors in summer 2019 to approve loans to the developer for the construction of affordable housing on Block 6.

POLICY CONSIDERATION

The $28.5 million of infrastructure work to be performed by Sunnydale Infrastructure LLC on the five and a half acre Phase 1A-1 and 1A-2 area will support affordable housing development on Block 6, as well as the market-rate development on Block 5, and support further infrastructure development for the 48-acre Sunnydale HOPE SF master development. Of the $28.5 million loan, $11 million will be assigned to the developer of Block 6 to generate tax credit equity, which should reduce the overall MOHCD funding to the project.

According to Ms. Amaral, although the proposed loan will pay for infrastructure construction that supports market rate housing development, MOHCD determined that the use of funds allocated to low-income housing was appropriate because proceeds from the sale of Block 5 – the parcel slated for market rate housing – will be returned to MOHCD. Block 5 is owned by the San Francisco Housing Authority, and under the Cashflow Memorandum of Understanding between the San Francisco Housing Authority and MOHCD, MOHCD will receive the proceeds from the sale of Sunnydale parcels owned by the Housing Authority.

Because the proposed loan of $28.5 million to fund initial infrastructure development for the Sunnydale HOPE SF project is consistent with prior Board of Supervisors actions, the Budget and Legislative Analyst recommends approval of the proposed resolution.

RECOMMENDATION

Approve the proposed resolution.