CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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September 20, 2024

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: September 25, 2024 Budget and Finance Committee Meeting

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EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the Sixth Amendment to the grant agreement between the Department of Public Works (DPW) and Hunters Point Family for the Pit Stop program, extending the term of the grant by nine months through June 2025, and increasing the not-to-exceed amount of the grant by $6,972,048, for a total not to exceed $16,238,479.

Key Points

- The City's Pit Stop program, which began in July 2014 and is administered by DPW, provides public restroom and handwashing facilities, as well as needle and dog waste receptacles, at 30 locations across the City. In 2023, after a competitive solicitation, DPW awarded a grant to Hunters Point Family to staff 22 Pit Stop sites, with eight others staffed by Mission Hiring Hall. The grant agreement has since been amended five times and expires September 30, 2024.
- Hunters Point Family hires San Francisco residents who are eligible to work but face barriers to employment and may come from low-income neighborhoods. Hunters Point Family provides training to employees and then connects them to other employment and apprenticeship programs within 12 months in the program. Pit Stop locations must be kept clean and free of safety hazards, and Hunters Point Family is required to troubleshoot basic restroom malfunctions before contacting DPW maintenance staff. The grant funds approximately 83 full-time equivalent (FTE) employees. In FY 2023-24, approximately 67 program participants were placed into full-time employment after leaving the program.
- DPW monitors the condition of the Pit Stops through site visits. Actual spending to date has been $1.5 million or 17 percent less than the FY 2023-24 grant budget because of reduced staffing due to broken restroom units that were closed for extended periods and difficulty getting replacement parts for the units. Hunters Point Family is close to meeting its workforce performance goal of placing 35 percent of workers into new jobs. In FY 2023-24, 32.5 percent of HPF workers exited into new jobs.

Fiscal Impact

- The proposed Sixth Amendment would increase the not-to-exceed amount of the grant agreement by $6,972,048, for a total not to exceed $16,238,479. Of the $16,238,479 not-to-exceed amount, approximately $15,688,479 (97 percent) is funded by the City's General Fund, and approximately $550,000 (three percent) is funded by grants from Bay Area Rapid Transit (BART).

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 City's Pit Stop program, which began in July 2014 and is administered by the Department of Public Works (DPW), provides public restroom and handwashing facilities, as well as needle and dog waste receptacles, at 30 locations across the City. The restrooms are a mix of semi-permanent JCDecaux public toilet facilities and portable toilets owned by DPW.

In March 2023, DPW issued a Request for Proposals (RFP) to award a Pit Stop program operator as a workforce development program. DPW received three proposals, and an evaluation panel scored them, as shown in Exhibit 1 below.[1] Proposals were evaluated on project approach, organizational capacity, and fiscal capacity.

Exhibit 1: Proposals and Scores from RFP

Proposer	Score (out of 300 Points)
Hunters Point Family	288
Mission Hiring Hall	286
Lanval Family Foundation	283

Source: DPW

Hunters Point Family, which previously operated the Pit Stop program, was deemed the highest-scoring proposer and awarded a contract. Mission Hiring Hall was also awarded a contract. As of August 2024, Hunters Point Family operates 22 Pit Stop locations, and Mission Hiring Hall operates eight locations.

In June 2023, DPW executed a grant agreement with Hunters Point Family for a one-year term from July 2023 through June 2024 and an amount not to exceed $8,425,706. The grant has since been amended five times, as shown in Exhibit 2 below.

[1] The evaluation panel consisted of a DPW Apprenticeship Operations Supervisor, a DPW Healthy Streets Operational Manager, and an Office of Economic and Workforce Development (OEWD) Workforce Solutions Manager.

Exhibit 2: Overview of Grant Amendments

Amendment	Date	Description
Original Grant Agreement	6/28/2023	Term of 1 year from July 2023 – June 2024, amount not to exceed $8,425,706
1	7/31/2023	Increased amount to $8,728,690 and increased payrates per updated Minimum Compensation Ordinance (MCO)
2	9/12/2023	Revised schedules and sites
3	1/11/2024	Increased amount to $8,766,431, amended eligible expenses, budget details, and invoice instructions
4	6/28/2024	Extended term through July 2024, increased amount to $9,266,431
5	7/31/2024	Extended term through September 2024, amended budget details

Source: Past Grant Amendments

DPW and Hunters Point Family have agreed to extend the contract through June 2025.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the Sixth Amendment to the grant agreement between DPW and Hunters Point Family for the Pit Stop program, extending the term by nine months through June 2025, and increasing the not-to-exceed amount of the grant by $6,972,048, for a total not to exceed $16,238,479.[2] The resolution also authorizes the Director of Public Works to make further immaterial amendments to the grant agreement.

Under the grant agreement, Hunters Point Family operates 22 Pit Stop locations as a workforce development program. As of August 2024, all locations are open seven days a week, with daily hours varying by location from eight to 24 hours per day. Hunters Point Family hires San Francisco residents who are eligible to work but face barriers to employment and may come from low-income neighborhoods. Hunters Point Family provides training to employees and then connects them to other employment and apprenticeship programs within 12 months in the program. Pit Stop locations must be kept clean and free of safety hazards, and Hunters Point Family is required to troubleshoot basic restroom malfunctions before contacting DPW maintenance staff. The grant funds approximately 83 full-time equivalent (FTE) employees.

Performance and Fiscal Monitoring

Under the grant agreement, Hunters Point Family is required to submit weekly, monthly and quarterly reports which include Pit Stop usage levels and demographics, training hours, and work hours provided. According to Alexander Burns, DPW Contract Administration Manager, DPW conducts regular site inspections and provide a sample report for our review. In addition, DPW reviews Hunter Point Family's reports regarding participant training and job placement upon exiting the program. The agreement states that Hunters Point Family should place at least 35 participants in full-time positions within six months of exiting the program. DPW reports that of

[2] The resolution states that the proposed amendment would extend the term of the grant by 11 months. However, DPW has already executed the Fifth Amendment, which extended the term by two months through September 2024. Therefore, the proposed Sixth Amendment extends the term of the grant agreement by nine months.

206 participants in FY 2023-24, 67 were placed for a placement rate of 32.5 percent. However, the 206 number includes participants who voluntarily quit the program after a short period and therefore would not receive assistance with placements.

Staff from the Department of Children, Youth, and their Families reviewed Hunters Point Family's financial documents as part of the FY 2023-24 Citywide Fiscal and Compliance Monitoring program and identified six findings related to invoices, cost allocation procedures, financial reports, fiscal policies and procedures, and audited financial statements. Hunters Point Family responded with actions planned or taken for each finding, and DCYF staff determined that the actions are satisfactory and that Hunters Point Family is in conformance with City financial and governance standards.

FISCAL IMPACT

The proposed Sixth Amendment would increase the not-to-exceed amount of the grant agreement by $6,972,048, for a total not to exceed $16,238,479. The estimated budget for the proposed nine-month extension is shown in Exhibit 3 below.

Exhibit 3: Estimated Grant Budget, October 2024 – June 2025

Expenditures	Amount
Salaries	$4,264,771
Fringe Benefits	1,690,129
Non-Personnel Costs	107,750
Subtotal, Direct Costs	*$6,062,650*
Indirect Costs (15%)	909,398
Total Projected Expenditures	**$6,972,048**

Source: Proposed Sixth Amendment

Non-personnel costs include materials and supplies, uniforms, and facilities and occupancy.

Indirect costs include administrative and overhead costs, such as management salaries, payroll, and accounting costs

Actual contract allocation during the FY 2023-24 grant period totaled $7,238,050, or $1,528,381 less than the $8,766,431 grant budget. That spending authority was applied to the grant budget for FY 2024-25 and the Department administratively added $500,000 (a portion of which was from the prior year's underspending) to the grant budget for FY 2024-25. The proposed Sixth Amendment would add $6,972,048 in grant spending, for a total FY 2024-25 grant budget of $8,739,693, similar to the prior year's grant budget. Actual contract expenditures to date total approximately $6,803,851. According to Contract Administration Manager Burns, actual spending has been less than the contract amount because of reduced staffing due to broken restroom units that were closed for extended periods of time and difficulty getting replacement parts for the units.

Of the $16,238,479 not-to-exceed amount, approximately $15,688,479 (97 percent) is funded by the City's General Fund, and approximately $550,000 (three percent) is funded by grants from Bay Area Rapid Transit (BART).

RECOMMENDATION

Approve the proposed resolution.

Item 7 File 24-0882	Department: Homelessness and Supportive Housing

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a ground lease with Five Keys Schools and Programs (Five Keys) for City-owned property located at 42 Otis Street for the purpose of operating the property as permanent supportive housing for Transitional Age Youth (TAY). The lease has a total rent of $1 and an initial term of five years with 10 five-year automatic extensions of the lease, for a maximum term of 55 years.

Key Points

- In September 2023, the Board of Supervisors approved the purchase of property located at 42 Otis Street for use as permanent supportive housing for TAY for a total amount of $14,240,000. In May 2024, the City acquired the 24-unit building with a combination of a Homekey grant and Proposition C funds. Five Keys will be responsible for property management and supportive services under separate grant agreements.
- Ownership rights to the building are transferred to Five Keys during the lease term, and the City regains ownership upon expiration of the lease. This limits the City's liability and risk for the site and reduces the administrative burden for the Department of Homelessness and Supportive Housing (HSH) to monitor operations at the site. If Five Keys underperformed on the related grant agreements and the grants were terminated, HSH could terminate the proposed ground lease.

Fiscal Impact

- The total rent for the lease is set at $1, with Five Keys assuming responsibility for all operational, maintenance, and tax-related costs. The annual cost for property management and supportive services is estimated at $1.32 million, or approximately $55,401 per unit.

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.

Administrative Code Section 23.1 authorizes the Director of Property to enter into leases of City-owned property for a term of one year or less. Longer term leases require Board of Supervisors approval.

Administrative Code Section 23.30 allows for leasing of City-owned property at less than market rate if doing so will serve a public purpose, subject to approval of the Board of Supervisors.

BACKGROUND

In November 2018, the voters of the City approved Proposition C, which created an additional tax on individuals and businesses that receive more than $50 million in gross income in San Francisco to fund homeless services. This Homelessness Gross Receipt Tax revenue is deposited into the Our City, Our Home Fund (OCOH) to finance homelessness services and housing.

In April 2023, the San Francisco Department of Homelessness and Supportive Housing (HSH) released its citywide five-year strategic plan, *Home by the Bay*, in partnership with multiple departments. The plan establishes goals for the City and County of San Francisco including supporting at least 30,000 people to move from homelessness into permanent housing and to add 3,250 new units of housing, including site-based and scattered-site permanent supportive housing, rapid rehousing, and other subsidies, to the homelessness response system, by 2029.

42 Otis Street

On September 26th, 2023, the Board of Supervisors approved the purchase of property located at 42 Otis Street for use as permanent supportive housing for Transitional Age Youth for $14,240,000 (File 23-0928). On May 29th, 2024, the City acquired the 24-unit building.

The Board of Supervisors had previously authorized HSH to apply for a Homekey grant in an amount not-to-exceed $9,409,600 from the California Department of Housing and Community Development (HCD) to help fund the acquisition (File 23-0741). According to HSH staff, the City was approved in August 2024 for a conditional Round 3 Homekey grant award for the property for a total of $8,225,095, including $7,142,325 for acquisition and $1,082,770 for operations. HSH will seek approval to accept and expend the grant from the Board of Supervisors later this year. The acquisition and operating cost of the property will be funded through a combination of the Homekey grant, Proposition C revenues, HUD rental subsidies.

Selection of Provider: Five Keys Schools and Programs

In January 2024, HSH began the procurement process by issuing a Request for Qualifications (RFQ #144) for master lease and property management services and supportive services at the permanent supportive housing site for Transitional Age Youth (TAY), ages 18 to 24. A scoring panel[1] provided an average score of 61.75 out of 80 for Five Keys, the only respondent, based on their relevant experience, program approach, organizational capacity and staffing, collaborations and partnerships, prior performance, and budget. In April 2024, HSH selected Five Keys Schools and Programs (Five Keys), a California nonprofit public benefit corporation, for master lease and property management services.

Additionally, HSH also selected Five Keys to provide supportive services. However, since the property management grant agreement and the supportive services grant agreements' total contract amounts are each less than $10 million, the contracts do not require Board of Supervisors' approval and will be heard by the Homelessness Oversight Commission in October 2024.

Ground Lease Model Transition

The proposed long-term ground lease model represents a shift in how HSH administers City-owned permanent supportive housing to align with affordable housing ownership and operating structures used by the Mayor's Office of Housing and Community Development (MOHCD). For the City's initial PSH building acquisitions, HSH entered into a combined master lease and property management agreement with a maximum term of ten years. According to HSH staff, this short-term lease model is administratively burdensome for the City to serve as owner and landlord of residential property overseeing day-to-day operations, rather than HSH's defined role to fund and monitor performance at PSH sites. The proposed long-term (55 year) ground lease allows for automatic renewals every five years if the provider is not in default. The ground lease clarifies ownership rights for the nonprofit provider during the lease term, while the City regains ownership upon expiration of the lease. During the lease term, the nonprofit entity will own the building and improvements. This limits the City's liability and risk for the site but also enables the nonprofit entity to own an asset that, with the City's permission, could be used to finance future rehabilitation costs over the long-term. As a result, maintenance and repair work completed by the nonprofit provider are not considered a public work and are not subject to Administrative Code Chapter 6 requirements.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a ground lease with Five Keys for the City-owned property located at 42 Otis Street for the purpose of operating the property as permanent supportive housing for TAY. The lease has a total rent of $1 and an initial term of five years with

[1] The panel consisted of an HSH Program Manager, HSH Project Manager, two Senior Community Development Specialists from the Department of Children Youth and Their Families, and the Director of Asset Management from the Mayor's Office of Housing and Community Development.

10 five-year automatic extensions of the lease, for a maximum term of 55 years. The resolution also:

- determines that the below market rent will serve a public purpose by providing permanent supportive housing for low-income and formerly homeless households in accordance with Administrative Code Section 23.33;
- adopts findings declaring that the property is "exempt surplus land" under the California Surplus Land Act;
- adopts the Planning Department's determination under the California Environmental Quality Act and findings that the transaction is consistent with the General Plan and policy priorities of the Planning Code Section 101.1; and
- authorizes the Director of Property and the HSH Executive Director to make certain changes to the ground lease and take related actions.

Ownership Structure

Under the proposed ground lease, ownership of the building will be transferred to Five Keys for the term of the agreement. When the agreement expires, ownership of the building will return to the City. The City maintains ownership of the land and leases the land to Five Keys during the term of the agreement.

Ground Lease Extensions and Prevailing Wage Requirements

As mentioned above, the proposed ground lease provides for ten automatic five-year lease extensions. Five Keys may decline an extension by providing written notice to HSH no later than 180 days before the lease expiration date. If Five Keys does not decline the extension and is not in default under the terms of the lease, the lease will automatically continue for the extension term. Breach of material provisions of other agreements related to the property (including the operations funding and supportive services grants) is considered an event of default in addition to breach of terms under the proposed ground lease. If Five Keys underperformed on the related grant agreements and the grants were terminated, HSH could terminate the proposed ground lease.

The property and any future maintenance or repair work performed by Five Keys will not be classified as a public work or improvement. Therefore, contracts entered into by Five Keys to complete maintenance and repair work will not be subject to Administrative Code Chapter 6 requirements. The proposed ground lease requires Five Keys to comply with Administrative Code Chapter 23.6 requirements, including prevailing wage and apprenticeship and local hiring requirements.

As noted above, Five Keys will also be responsible for property management, including building maintenance, and supportive services for 42 Otis under separate grant agreements.

HSH Good Neighbor Policy

The agreement also requires that Five Keys maintain a good relationship with the neighborhood in accordance with HSH's Good Neighbor Policy. Five Keys must collaborate with neighbors and

City agencies to ensure that neighborhood concerns, such as security and street cleaning, are heard and addressed.

Performance Monitoring

Section 5.8 of the proposed ground lease requires Five Keys to submit annual reports to HSH on vacancy levels, income levels, and rental rates to demonstrate compliance with restrictions on the use of the site as permanent supportive housing. In addition, Section 5.7 of the proposed ground lease requires Five Keys to provide a capital needs assessment for HSH review every five years. Additionally, Five Keys must implement any HSH-approved capital improvement plans for the premises, develop a preventative maintenance plan, and respond promptly to any property financial performance or compliance reports requested by the City under applicable agreements.

The grant agreement for property management includes service and outcome objectives related to the management of the property.

Fiscal and Compliance Monitoring

HSH completed fiscal and compliance monitoring of Five Keys for FY 2022-23 and identified no findings. Five Keys received a waiver of fiscal and compliance monitoring for FY 2023-24 due to good performance.

FISCAL IMPACT

Total rent under the proposed ground lease will be $1. Five Keys will be responsible for all costs, charges, taxes, and other obligations related to the property.

Annual Operating and Supportive Services Costs

The total annual cost for property management and supportive services, which are under two separate grant agreements with Five Keys, is $1,329,636 or approximately $55,401 per unit in FY 2025-26, excluding reserves and contingencies. This is approximately 37 percent greater than the $40,413 per unit per year estimated by HSH at the time of the acquisition in September 2023. This is due to the fact that the prior HSH estimates only included property management costs but not support services costs.

Funding Source

Since acquiring the site, HSH obtained a HUD Continuum of Care annual rental subsidy totaling $653,972, reducing the City's local funding for operations at 42 Otis. These funds, combined with Homelessness Gross Receipts Tax Revenue, will fund the project once the Homekey operating grant has been spent.

RECOMMENDATION

Approve the proposed resolution.

Item 9 **File 24-0884**	**Department:** Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve: (a) the acquisition of 3300, 3306, and 3308 Mission Street, the site of a proposed affordable housing project, from 3300 Mission Partners, L.P. for $4,151,000; (b) a ground lease for a term of 75 years, with a 24-year option to extend and an annual base rent of $1; (c) a not-to-exceed $12,440,242 amended and restated loan agreement for a minimum loan term of 57 years; and (d) a limited payment guaranty in an amount not to exceed $1,000,000 for approximately 3 years.

Key Points

- The proposed 3300 Mission project will include a six-story building with 35 studio units of affordable housing, residential community space, and up to 776 square feet of commercial space on the ground floor. Rent will range from 30 to 80 percent of the Mayor's Office of Housing and Community Development (MOHCD) Area Median Income.
- In December 2023, the City awarded 3300 Mission L.P. a $6,500,000 loan, which included $4,151,000 to acquire the property and a $2,349,000 loan for predevelopment activities. MOHCD proposes to amend the loan agreement to increase the loan amount by up to $10,091,242 to complete development and construction, including permanent financing.

Fiscal Impact

- Total development costs are $41 million or $1.2 million per unit, including acquisition costs. The City's total subsidy for the housing development costs, including acquisition costs, is $16,591,242, or $474,035 per unit, which exceeds the $350,000 maximum in the NOFA.
- Sources of funds for the proposed amended loan of up to $12,440,242 include $11,246,205 in Housing Trust Funds and $1,194,037 in 2023 Certificates of Participation (COP) funds. The source of the City's acquisition loan, which will be forgiven as part of the property purchase, was 2023 COP funds. The source of the limited payment guaranty is the Housing Trust Fund.

Policy Consideration

- MOHCD is providing certain exceptions for the project because the project is sponsored by an Emerging Developer, in support of MOHCD goals to encourage participation by smaller community-oriented developers. Due to the small size of the project and increased projected costs, the proposed project does not include any units for homeless households and exceeds the maximum subsidy under the NOFA. The site is also not located in a priority area under the NOFA.

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) any such contract that requires a modification of more than $500,000 is subject to Board of Supervisors approval.

Administrative Code Section 23.30 states that the Board of Supervisors shall approve all leases on behalf of the City as landlord by resolution for which the term is longer than a year and costs over $15,000 per month. Leases of City property that require Board of Supervisors approval may be less than market rate if the Board of Supervisors finds that doing so would serve a public purpose.

BACKGROUND

Project Selection for Acquisition and Predevelopment Financing

In January 2023, the Mayor's Office of Housing and Community Development (MOHCD) issued a Notice of Funding Availability (NOFA) for $40 million in designated City funding for site acquisition and predevelopment financing of affordable housing. The NOFA stated that MOHCD intended to provide 25 to 50 percent of total funding to sites located in California Debt Limit Allocation Committee (CDLAC)-defined "High/Highest-resource" areas[1] and provide remaining funding to sites in Priority Equity Geographies[2] as defined in the Housing Element. Additionally, the following goals were established in conjunction with the NOFA:

- Competitiveness for CDLAC funding, including sites that: (a) qualify as High/Highest Resource family development; (b) include at least 45 percent of units for homeless households; and (c) will be developed by a team that qualifies for the BIPOC funding pool
- Construction to start in December 2026
- Interim Use of the site through construction start in December 2026
- Maximized density
- City subsidy of no more than $350,000 per unit including acquisition costs

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[1] CDLAC incorporates the California Tax Credit Allocation Committee (CTCAC) and California Department of Housing and Community Development's (HCD) Opportunity Map designations into their application process. High Resource Areas are those that have been shown by research to be associated with positive socioeconomic outcomes for low-income households.

[2] The Department of Public Health (DPH) defines Priority Equity Geographies as areas with a higher density of vulnerable populations, including but not limited to seniors, people of color, youth linguistically isolated households, people with disabilities, and people who are unemployed or living in poverty.

- At least 25 percent of units for households experiencing homelessness, subsidized by the City's Local Operating Subsidy Program (LOSP)
- At least 30 percent of units for extremely low-income households, which may include homeless households
- Alignment with MOHCD racial equity goals

Proposals were due April 7, 2023, and were evaluated by four MOHCD staff and one staff person from the Department of Homelessness and Supportive housing (HSH) on experience (40 points) and various project attributes (60 points).

On May 30, 2023, the NOFA was amended to add $26.5 million in other, unspecified, MOHCD funds, for a total amount of $66.6 million in funding availability.[3] Proposals were due a week later on June 7, 2023, and were evaluated by the same panel using the same criteria as the original NOFA. In response to the NOFA, MOHCD awarded financing to five projects[4] including the 3300 Mission project, sponsored by Bernal Heights Housing. Exhibit 1 below summarizes the results of the developer procurement.

[3] The MOHCD Memo for 2023 Acquisition NOFA Recommendations indicates that the scoring panel requested $2,500,000 in additional funds to satisfy the full acquisition and predevelopment costs for the 249 Pennsylvania project. Neither the $24,000,000 funding request amount nor explanation of when 1234 Great Highway was added to applicant pool was discussed in MOHCD's memo. According to MOHCD, additional funding was identified before the NOFA process was complete and the evaluation panel had already been assembled, so it was more efficient to solicit new proposals under the open solicitation rather than devise a new one.

[4] Three other proposals were submitted but disqualified because they did not meet minimum qualifications.

Exhibit 1: Sites Awarded Funds and Scoring Under 2023 Acquisition and Predevelopment NOFA

Project	Developer	NOFA Score (out of 100)	Estimated Number of Units	Funding Award
250 Laguna Honda	Mission Housing Development Corporation	83.2	115	$6,500,000
3300 Mission	Bernal Heights Housing	82.4	40	$6,500,000
650 Divisadero	Jonathan Rose Co & Young Community Developers	80.0	95	$15,000,000
249 Pennsylvania	Tenderloin Neighborhood Development Corporation & Young Community Developers	79.0	120	$13,000,000
1234 Great Highway	Tenderloin Neighborhood Development Corporation	75.0	216	$24,000,000
Total			**586**	**$65,000,000**

Source: MOHCD Memo for 2023 Acquisition NOFA Recommendations
Note: The Board of Supervisors approved resolutions authorizing the loans for 1234 Great Highway (File 23-1198) and 650 Divisadero (File 23-1199) in December 2023 and 249 Pennsylvania (File 24-0234) in April 2024. The initial acquisition and predevelopment loans for 250 Laguna Honda and 3300 Mission did not require Board of Supervisors' approval since the loan amounts were below $10 million.

3300 Mission Street

The proposed 3300 Mission project will include a six-story building with 35 studio units (including one manager's unit), residential community space, and up to 776 square feet of commercial space on the ground floor. Rent for the residential units will range from 30 to 80 percent of MOHCD Area Median Income. Given the Project's small size, the loan committee waived MOHCD's requirement to reserve at least 25 percent of units for homeless households.

This development is a new construction and adaptive reuse project in the Bernal Heights neighborhood. The site, formerly occupied by the Graywood Hotel and the 3300 Club, was destroyed in a fire in 2016. The redevelopment will preserve the existing façade, which will be major drivers of project costs due to its small, narrow triangular shape, and will add three additional stories. The remainder of the building is unsalvageable and will be demolished. The building is not designated as historic nor is it contributing to a historic district. The façade must be maintained to allow the project to qualify for entitlements streamlining under California Senate Bill 35 (SB35). SB35 prohibits demolition of buildings that have been occupied by tenants in the past 10 years, and there is no exception for buildings destroyed by fire according to the MOHCD Loan evaluation on the proposed gap loan.

Construction is anticipated to begin in November 2024 and is expected to be completed by June 2026. Construction is set to begin earlier than the December 2026 date mentioned in the NOFA due to the project's small size, which made it less competitive for state Housing and Community Development (HCD) funding based on its size and location.

Project Sponsor

The project is being developed by three Black-led organizations: Bernal Heights Housing Corporation (BHHC), Tabernacle Community Development Corporation (TCDC) and Mitchelville Real Estate Group (MREG). These developers formed 3300 Mission L.P., a California limited partnership. This is the only all Black-led development team currently in MOHCD's pipeline and underscores MOHCD's commitment to expanding opportunities to smaller and Black-led developers. MOHCD is providing certain exemptions to underwriting guidelines (discussed below) because the project is sponsored by an "Emerging Developer," defined as a developer that has developed, rehabilitated, owned, or operated between one and three affordable housing developments comparable to the proposed project.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would:

1) Approve the acquisition of 3300, 3306, and 3308 Mission Street, from 3300 Mission Partners, L.P. (a California limited partnership) for $4,151,000;
2) Place the property under MOHCD jurisdiction for affordable housing construction;
3) Approve a ground lease with from 3300 Mission Partners, L.P. for a term of 75 years, with a 24-year option to extend and an annual base rent of $1;
4) Approve a not-to-exceed $12,440,242 amended and restated loan agreement for a minimum loan term of 57 years between the City and 3300 Mission Partners, L.P.;
5) Find that the 3300, 3306, and 3308 Mission Street property is exempt from the California Surplus Land Act;
6) Determine that the below market rate rent of the ground lease serves a public purpose by providing affordable housing for low-income households in need;
7) Find that the project and related transactions are consistent with the City's General Plan and the priority policies of the Planning Code;
8) Approve a limited payment guaranty in an amount not to exceed $1,000,000 until the Project converts to permanent financing.
9) Authorize the Director of Property and the Director of MOHCD to amend the Purchase Agreement, Ground Lease, Loan Agreement, and Limited Payment Guaranty provided amendments do not increase the obligations or liabilities to the City.

Purchase and Sale Agreement

The project Sponsor acquired the site in June 2023 with a loan from the Housing Accelerator Fund (HAF) totaling $3,850,000, which was less than the appraised value of the land ($5,200,000) as of August 2022. MOHCD subsequently provided 3300 Mission L.P. with a $6,500,000 loan, which included $4,151,000 to acquire the property (including closing costs and accrued interest on the HAF loan) and a $2,349,000 loan for predevelopment activities.

The proposed Purchase and Sale Agreement will transfer ownership of the property from the project sponsor to the City. Upon land transfer to the City, the original MOHCD acquisition loan of $4,151,000 with zero percent interest will be considered paid in full. The loan amount to be forgiven ($4,151,000) is greater than the September 2024 appraised value of the land ($2,940,000) but less than the August 2022 appraised value of the land ($5,200,000), due to a decline in property values since the purchase.[5]

Ground Lease & Affordability Restrictions

The proposed ground lease has a term of 75 years and gives 3300 Mission Partners, L.P. one 24-year extension option, for a maximum term of 99 years. During the initial lease term, the proposed base rent is $1 per year plus residual rent payable from residual receipts after full repayment of the MOHCD loan, up to a total rent of 10 percent of appraised fair market value. (Consistent with MOHCD's Residual Receipts policy, the term "residual receipts" refers to up to two-thirds of net income after operating costs, ground lease base rent, and replenishing operating reserves.) As allowed under MOHCD Underwriting Guidelines, base rent is lower than the standard of $15,000 per year because the project is sponsored by an Emerging Developer. Base rent during the extension period would be negotiated between 3300 Mission Partners, L.P. and the City and would have to be at least the annual rent of the initial lease term.

Affordability restrictions to preserve the affordability of the housing units in the proposed development are included in the loan agreement between the City and the affordable housing operator and recorded against the property as a Declaration of Restrictions. The unit mix by maximum income level is shown in Exhibit 2 below.

Exhibit 2: Income and Rent Restrictions

Maximum Income Level	Studio
30% of AMI	11
60% of AMI	10
80% of AMI	13
Unrestricted (Manager's Unit)	1
Total	**35**

Source: Draft Declaration of Restrictions

Loan Agreement

The original loan agreement provided by MOHCD in 2023 included $2,349,000 for predevelopment costs. MOHCD proposes to amend the loan agreement to increase the loan amount by up to $10,091,242 to complete development and construction, including permanent

[5] The August 2022 appraisal valued the property at $5,680,000, including the land value of $5,200,000 and $480,000 in shell improvements due to the condition of the building. The September 2024 appraisal did not value the shell improvements, so we use the land value for both estimates for consistency.

financing. Under the proposed amended loan agreement, the total loan amount would increase up to $12,440,242.

The project sponsor must repay the loan by the later of: (a) the 57th anniversary date of the deed of trust or (b) the 55th anniversary of the date on which construction financing is converted into permanent financing. The interest rate is three percent per year.

Bridge Loan

Under the proposed loan agreement, $2,100,000 of the funding provided by the City is a bridge loan, pending receipt of expected loan funds from the Federal Home Loan Bank Affordable Housing Loan Program (AHP). The sponsors will apply for an AHP loan in 2025 and if not successful, again in 2026 according to the proposed Amended and Restated Loan Agreement.

Loan Documents

The proposed resolution also approves the following associated loan documents:

- Declaration of Restrictions, which requires the Project Sponsor to maintain the housing affordability levels defined in the loan agreement for the life of the project, even after the loan is paid in full or otherwise satisfied;
- The Amended and Restated Secured Promissory Note for the loan; and
- The Deed of Trust between 3300 Mission Partners L.P. and Chicago Title Insurance Company, on behalf of the City as lender.

Limited Payment Guaranty

In addition to the loan, the Project is requesting support in meeting their liquidity guarantee, which lenders and investors require to ensure sponsors have enough cash to address additional development costs. According to MOHCD's Loan Evaluation memo on the proposed loan, as a small developer, the project sponsor does not have significant cash resources to use for reserves. As a result, they are requesting a limited payment guaranty in an amount not to exceed $1 million until the Project converts to permanent financing.

The proposed resolution approves the following associated documents:

- The Funding Agreement between the City and the project Sponsor for the benefit of Wincopin Circle LLLP (the Limited Partner) stipulating that MOHCD agrees to lend the Project Sponsor $1 million pursuant to the terms of the Demand Note if needed to fulfill obligations of the project, provided that the Project Sponsor is unable to meet the obligations with its own funds. The agreement expires in three years or the date when the Project converts to permanent financing, whichever is earlier.
- The Demand Note between the borrower (BHHC, TCDC, and MREG) and the City, stipulating that the borrower will repay the City for the loan amount, which does not accrue interest, upon demand.

- The Pledge Agreement between BHHC, TCDC, and MREG and 3300 Mission Partners L.P., under which BHHC, TCDC, and MREG pledge and assign rights and obligations under the Demand Note to 3300 Mission Partners L.P.

Sponsor Performance

According to the MOHCD loan evaluation, there are no outstanding performance issues with any of the Sponsors.

FISCAL IMPACT

Total Development Costs

Total development costs are $41 million or $1.2 million per unit, including acquisition costs, as shown in Exhibit 3 below. Of the approximately $41 million, $16.6 million (40%) are City funds, and $24.4 million (60%) are private funds (which benefit from tax credits awarded to the project).

Exhibit 3: Total Development Costs

Sources and Uses	Amount
Sources	
MOHCD Acquisition Loan	4,151,000
MOHCD Gap Loan (proposed)	12,440,242
Limited Partner Equity	24,400,800
Total Sources	**$40,992,042**
Uses	
Acquisition (incl. holding costs)	4,151,000
Hard Costs (incl. 14.6% contingency)	23,802,873
Soft Costs (incl. 5.2% contingency)	10,201,119
Reserves	212,050
Developer Fee	2,625,000
Total Uses	**$40,992,042**

Source: MOHCD
Note: The proposed $12,440,242 loan does not include the $1,000,000 liquidity guarantee from MOHCD.

Funding Sources for City Loan

Sources of funds for the proposed amended and restated loan of up to $12,440,242 include:

- $11,246,205 in Housing Trust Fund funds, and
- $1,194,037 in 2023 Certificates of Participation (COPs) funds.

The source of the City's acquisition loan, which will be forgiven as part of the property purchase, is 2023 Certificates of Participation funds.

The source of the $1 million limited payment guaranty is the Housing Trust Fund.

City Subsidy per Housing Unit

The City's total subsidy for the housing development costs, including acquisition costs, is $16,591,242 million, or $474,035 per unit, which exceeds the maximum City subsidy of $350,000 per unit (including the cost of land) under the NOFA. According to MOHCD, the higher subsidy is attributed to lower projected costs at the time of the award, increased site-specific costs, and design limitations that reduced the number of units from the originally planned 40 to 35. Excluding acquisition costs, the city subsidy is $12,440,242, or $355,435 per unit. The City subsidy per unit is shown in Exhibit 4 below.

Exhibit 4: City Subsidy for Affordable Housing Units

Number of Units	35
Total residential area (sq. ft.)	19,460
Development Cost	$40,992,042
Total City subsidy	$16,591,242
Development cost per unit	$1,171,201
City Subsidy per unit	$474,035
City Subsidy per sq. ft.	$853

Source: MOHCD

According to the MOHCD loan evaluation memo for the proposed gap loan, the construction cost per square foot for the Project is 116 percent more than comparable projects, although it is similar on a per unit basis to comparable projects. Costs per square foot are greater than comparable projects due to: (a) small project size of 35 units compared to comparable projects' average of 76 units, reducing economies of scale; (b) a three-story historic façade being preserved; and (c) significant foundation work anticipated to add three additional floors. In addition, soft costs for the Project are 152 percent higher per square feet than comparable projects due to the relatively small size of the project limiting the ability to spread costs across a larger number of units. There are limited projects of this small size to compare to in recent years and few recent projects in MOHCD's portfolio have fewer than 50 units.

Operating Budget

Project revenue consists of tenant rents and laundry and vending charges. According to the 20-year cash flow analysis for the project, the project will have sufficient revenues to cover operating expenses, reserves, and management fees. However, cash flow is not sufficient to pay management fees and investor fees for ten years of the next twenty years. According to MOHCD's loan evaluation, the Sponsor will seek additional funding sources such as Project-Based Vouchers (PBVs) from the San Francisco Housing Authority to subsidize the 30 percent AMI units. If the vouchers are not secured, the Project would not fully fund management fees to the Sponsor. According to MOHCD staff, management fees are additional income to the Sponsor and not a required payment. A portion of net income after operating expenses (residual receipts) will be used to repay the MOHCD loan in years 16 through 19. However, the Project is not expected to generate sufficient net revenues to make residual rent payments under the proposed Ground Lease.

POLICY CONSIDERATION

Exceptions for Emerging Developer

MOHCD is providing certain exceptions for the project because the project is sponsored by an Emerging Developer, in support of MOHCD goals to encourage participation by smaller community-oriented developers. MOHCD is proposing to provide a liquidity guaranty of up to $1 million because the sponsor does not have significant cash resources to use as reserves during development. In addition, as allowed under MOHCD Underwriting Guidelines, MOHCD is providing the following exceptions because the project is sponsored by an Emerging Developer:

- Base rent under the proposed ground lease ($1 per year) is lower than the standard of $15,000 per year; and
- Waiver of annual repayments of MOHCD loan with residual receipts for the first five years under the proposed amended and restated loan agreement.
- The portion of residual receipts due to the City for loan repayment will be 50 percent instead of 66 percent under the proposed amended and restated loan agreement.

Exceptions from NOFA Requirements and Funding Goals

The proposed project does not meet some of the goals of the NOFA due to the small size of the project and increased projected costs compared to the time of funding award. Specifically:

- The project does not provide any units for homeless households (the NOFA had a goal of projects setting aside at least 25% of units for formerly homeless, which would amount to 9 units in this project)
- The City subsidy per unit ($474,035) exceeds the maximum of $350,000 per unit in the NOFA

In addition, the site is located in a "moderate" resource area rather than a High/Highest resource area and is not located in a Priority Equity Geography. Location in a High/Highest resource area or a Priority Equity Geography was not a requirement under the NOFA although the NOFA stated that it was MOHCD's intention to use funding for projects in these areas. However, the $40 million in Certificates of Participation funding that largely funded acquisition and predevelopment loans under the NOFA was allocated by the Board of Supervisors to support acquisitions in High resource areas.[6] As noted above, the project meets other criteria in the NOFA, including creating opportunities for emerging developers and serving low-income households.

[6] In 2022, the Board of Supervisors appropriated $112 million in Certificates of Participation proceeds for FY 2022-2023 intended to develop and repair the City's affordable housing stock in line with the General Plan's housing element. This funding, administered by MOHCD, allocates $40 million for acquisition of 100 percent affordable housing projects in CDLAC-designated high-resource areas

RECOMMENDATION

Approve the proposed resolution.