CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: February 14, 2024 Budget and Finance Committee Meeting

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EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would de-appropriate $3.5 million from the General City Responsibility APEC reserve and re-appropriate $3 million to the Office of Economic & Workforce Development (OEWD) and $500,000 to the Municipal Transportation Agency (MTA).

Key Points

- In January 2024, the Budget & Finance Committee approved the release of $6.5 million from the APEC reserve to reimburse expenditures incurred by the Police, Sheriff, and Emergency Management Departments during APEC. There remains $3.5 million of General Fund monies in the APEC reserve.
- According to the proposed ordinance, $2 million will be provided to OEWD to provide support to SOMA area businesses and organizations impacted by APEC. An additional $1 million will be provided to OEWD to fund a transit impact relief fund for small businesses.
- The proposed ordinance also appropriates $500,000 for MTA. The appropriation is intended to offset foregone revenue from waiving parking and transit fees during Lunar New Year, including: (a) two hours of free parking in the Portsmouth Square garage for all of February 2024 and (b) one day of free transit (excluding cable cars) during a Lunar New Year parade on February 24, 2024. The appropriation also includes $205,000 for community ambassadors funded by MTA.

Fiscal Impact

- If the proposed ordinance is approved, the APEC reserve will be reduced zero.

Recommendations

- Request OEWD and the Office of Small Business report back by December 31, 2024 on: (a) the final rules for any new grant program funded by the proposed appropriation, (b) the number of businesses provided grants, and (c) the amount of money disbursed.
- Approval of the proposed ordinance is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

City Charter Section 9.105 states that amendments to the Annual Appropriations Ordinance, after the Controller certifies the availability of funds, are subject to Board of Supervisors approval by ordinance.

BACKGROUND

The FY 2023-24 – FY 2024-25 Annual Appropriation Ordinance included a $10 million General Fund set-aside in the General City Responsibility cost center to cover expenses related to the Asian Pacific Economic Conference (APEC), which took place in San Francisco in November 2023. The account was placed on Budget & Finance Committee reserve during the Board phase of the June budget process. In January 2024, the Budget & Finance Committee approved the release of $6.5 million from the APEC reserve to reimburse expenditures incurred by the Police, Sheriff, and Emergency Management Departments during APEC.[1] There remains $3.5 million in the APEC reserve.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would de-appropriate $3.5 million from the General City Responsibility APEC reserve and re-appropriate $3 million to the Office of Economic & Workforce Development (OEWD) and $500,000 to the Municipal Transportation Agency (MTA).

Relief Funds

According to the proposed ordinance, $2 million will be provided to OEWD to provide support to SOMA area businesses and organizations impacted by APEC. An additional $1 million will be provided to OEWD to fund a transit impact relief fund for small businesses.

According OEWD, no rules have been developed for either the APEC or transit impact relief programs. The Board of Supervisors should request OEWD and the Office of Small Business report back by December 31, 2024 on: (a) the final rules for any new grant program funded by the proposed appropriation, (b) the number of businesses provided grants, and (c) the amount of money disbursed.

Parking and Transit for Lunar New Year Celebrations

The proposed ordinance includes $115,000 to MTA to offset revenue losses one day of free transit (excluding cable cars) during a Lunar New Year parade on February 24, 2024 and $180,000 to MTA to offset revenue losses from two hours of free parking in the Portsmouth Square garage for all of February 2024. The values are based on parking activity at Portsmouth Square garage in

[1] Our report on the requested release of reserves noted that MTA incurred costs of $2.2 million and revenues losses of $2.0 million related to APEC.

February 2022, when the Board of Supervisors funded free parking for Lunar New Year (File 22-0129), and on transit revenues in February 2023. Actual foregone revenues in February 2024 may differ.

Community Ambassadors

The proposed ordinance also included $205,000 for MTA to fund community ambassador services.

Changes from Original Ordinance

The proposed ordinance incorporates amendments approved at the February 7, 2024 Budget & Finance meeting. The amendments include: increasing the appropriation to OEWD from $2 million to $1 million, to fund the transit impact relief fund, and increasing the appropriation to MTA from $250,000 to $500,000 to provide $45,000 in additional funding for transit and parking revenue offsets and $205,000 for community ambassadors. The amended ordinance also removes language regarding free parking at St. Mary's Square garage.

FISCAL IMPACT

The proposed appropriation will reduce the APEC reserve account to zero.

RECOMMENDATIONS

1. Request OEWD and the Office of Small Business report back by December 31, 2024 on: (a) the final rules for any new grant program funded by the proposed appropriation, (b) the number of businesses provided grants, and (c) the amount of money disbursed.
2. Approval of the proposed ordinance is a policy matter for the Board of Supervisors.

Item 3 File 24-0092	Department: Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves a first amendment to an amended and restated loan agreement between MOHCD and Octavia RSU Associates L.P., to increase the loan amount by $8,559,766, for a total amount not to exceed $35,306,233, to finance additional costs for developing affordable housing at 78 Haight Street.

Key Points

- The proposed project at 78 Haight is a 63-unit new affordable housing development that would restrict maximum rents to households earning up to 65 percent of Area Median Income and would also allocate up to 30 percent of the project's units to serve homeless Transitional Age Youth and Transitional Age Youth with children.
- The initial RFP for developing 78 Haight was issued by MOHCD in 2017 and was subsequently awarded to the Tenderloin Neighborhood Development Corporation (TNDC). In 2022, construction was delayed due to unforeseen structural deficits at the neighboring Mt. Trinity Baptist Church (MTBC). TNDC was not able to develop a collaborative relationship with MTBC, a historic Black church in the community, until April 2023. In August 2023, TNDC and MTBC entered into an agreement to restore TNDC access to the building, perform necessary repairs, and share costs.
- Due to delays in construction and additional repair work for the neighboring church, project costs have increased by $10.5 million.

Fiscal Impact

- Under the proposed resolution, total City funding for 78 Haight will increase from $26,746,467 to $35,306,233. The additional City funding will be sourced from the Housing Trust fund and 2019 general obligation bond proceeds.
- Non-City Sources total $29,694,694 or 46 percent of the $65 million project and include tax credit equity, accrued interest, and private developer equity.

Policy Consideration

- TNDC is contributing $1.1 million from their at-risk fee to help fund the additional work so that construction of the 78 Haight Street project can proceed. However, the proposed amended loan gives MOHCD discretion to restore the at-risk fee to TNDC if it obtains additional capital or operating funds. According to MOCHD staff, having the option to restore the developer fee ensures TNDC is properly incentivized to seek out additional funding.

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

Original Procurement

In 2017, the Mayor's Office of Housing and Community Development (MOHCD) issued a Request for Proposals (RFP) to develop new affordable housing on the vacant Octavia Boulevard Parcels R, S, and U. The RFP required successful candidates to develop a project that would proceed under a long-term ground lease with the City and would restrict maximum rents to households earning up to 65 percent of Area Median Income (AMI). Furthermore, up to 30 of the project's units would serve homeless Transition Age Youth (TAY) and TAY with children. In response to the RFP, the selection panel appointed by MOHCD selected Tenderloin Neighborhood Development Corporation (TNDC) out of the two eligible respondents to the RFP.[1]

In February 2022, the Board of Supervisors approved a resolution for MOHCD to enter into a ground lease at the 78 Haight Street parcels for a term of 75 years in order to construct a 100 percent affordable, 63-unit housing development including 32 dedicated units for Transitional Age Youth (File 22-0092). The resolution also approved a loan agreement between MOHCD and TNDC in an amount not to exceed $26,746,467 to finance the development and construction of the project. Construction was anticipated to begin in April 2022 and finish in August 2023.

Development Delays

In May 2022, TNDC paused all activities on the project due to dangerous and unresolved conditions at the neighboring Mt. Trinity Baptist Church (MTBC), a historic black church, according to the MOHCD loan evaluation report for the proposed amended loan. Both MTBC and the proposed footprint of the project at 78 Haight extend to the property line of their respective parcels, and as such, temporary shoring is necessary to maintain the structural integrity of both buildings. After the project's construction loan closed in April 2022, TNDC's structural engineer met with representatives from MTBC to evaluate the portion of the church's basement abutting the property line shared with 78 Haight. The inspection report found that MTBC was at risk of collapse and that temporary shoring and bracing would be needed to ensure that the new building did not harm the structural integrity of the MTBC building and to avoid collapse onto the 78 Haight building. TNDC offered to pay for the temporary structural mitigation measures in addition to reconstructing the church's western basement wall, but MTBC never countersigned

[1] The RFP response submitted by TNDC received 92 out of a possible 100 points, outscoring Mission Housing — Build Inc. who earned a total of 75 points from the selection panel.

the agreement to proceed. TNDC was not permitted access to MTBC after this time and could no longer perform due diligence. Subsequently, TNDC's structural engineer, as required by their professional licensed engineering "standard of care," reported the dangerous conditions to the Department of Building Inspection, which issued a notice of violation, resulting in the church being required to vacate the building.

According to MOHCD, TNDC was not able to establish a collaborative relationship with MTBC until April 2023, at which point MTBC agreed to hire their own structural engineer to design repairs to the church's basement wall. In August 2023, TNDC and MTBC entered into an agreement that allows TNDC to access the MTBC property, install temporary shoring, perform repairs to the basement wall, and make other structural repairs to improve the building's structure. The work of shoring and repairing the church's foundation began in late December 2023.

Placed-in-Service Deadline to Retain Tax Credit Equity

The project had an original placed-in-service (PIS) deadline of December 31, 2023, in order to retain use from its 9 percent LIHTC tax credits. TNDC requested and was granted a one-year extension due to the COVID-19 pandemic. A second year-long extension was granted due to the collapse of Silicon Valley Bank, which funded the project's construction loan. The current PIS deadline to retain LIHTC equity is December 31, 2025, requiring construction to resume in February or March 2024 to meet the PIS date with a buffer.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves a first amendment to an amended and restated loan agreement between MOHCD and Octavia RSU Associates L.P.[2] to increase the loan amount by $8,559,766, for a total amount not to exceed $35,306,233, to finance additional costs for developing affordable housing at 78 Haight Street.

Project at 78 Haight

As shown below in Exhibit 1, the proposed project at 78 Haight will provide 63 units of affordable housing, including 32 units for Transition Age Youth (TAY). Of these 32 units for TAY, 15 will be targeted to residents who qualify as a "Homeless Household" under No Place Like Home criteria.[3]

[2] Under Internal Revenue Service (IRS) regulations and for the purpose of eligibility for low-income housing tax credits, the non-profit (tax exempt) partner in the limited partnership serves as the general manager and retains a nominal percentage interest, and the investors (which are not tax exempt) serve as limited partners, obtaining the majority financial interest, including profits, losses, deductions, and credits. Octavia RSU Associates, L.P. is composed of Taylor Family Housing Inc., the initial limited partner that will be replaced by a tax-credit investor, and Octavia RSU GP LLC, a general partnership managed by TNDC.

[3] No Place Like Home funds the development of permanent supportive housing for persons who are in need of mental health services and are experiencing homelessness, chronic homelessness, or are at risk of chronic homelessness.

Exhibit 1: Income and Rent Restrictions

Unit Size	Count	Maximum Income Restrictions
Studio	12	30% of AMI (LOSP)
Studio	27	65% of AMI
Studio	15	30% of AMI (NPLH LOSP)
Studio	4	50% of AMI
One Bed	5	30% of AMI (LOSP)
Total	**63**	

Source: Declaration of Restrictions

The overall unit mix and key project elements at 78 Haight are consistent with the original plans and loan agreement, with the exception of the childcare facility that was going to occupy the ground floor of the building. According to MOHCD, the childcare operator's original plans are not compatible with state regulations, which require childcare to be within a certain walking distance of open space (if open space is not provided on-site). As such, the childcare provider was not able to secure licensing to operate at this site. TNDC is currently re-designing the use for the ground floor and will either repurpose the space for another community-serving commercial space use of around 1,800 square feet or the project will add up to three additional residential units.

The proposed loan agreement adds a new clause to the Declaration of Restrictions that allows the maximum income level to be increased for all units up to 75 percent of AMI at loan maturity if additional project income is needed to repay the loan. TNDC must make such a request in writing to the City at least one year prior to the loan maturity date. According to MOHCD staff, this clause is being added to meet debt requirements associated with the LIHTC financing.

Gap Loan Terms

Per the amended loan agreement, the sources for the project at 78 Haight will be updated to include an additional $8,559,766 in financing for a total amount not to exceed $35,306,233. The agreement obliges TNDC to repay the City on the later of (a) the 57th anniversary of the date the Deed of Trust is recorded or (b) the 55th anniversary of the Conversion Date. Interest will accrue on the principal balance at a rate of three percent per year through the date of full repayment.

Specific Loan Conditions

The original 2022 loan agreement outlines certain conditions and reporting requirements that TNDC must meet for compliance purposes. Specifically, TNDC must provide MOHCD with monthly status reports pertaining to racial equity goals and negotiations with project neighbors. TNDC must also produce a draft marketing plan, an updated first-year operating budget, and 20-year cash flow. The amended loan agreement includes the following additional conditions:

(1) TNDC will provide monthly updates to MOHCD regarding updates on reprogramming the ground floor and impacts on the overall project budget. MOHCD must approve any revised ground floor plan.

(2) TNDC will reapply for Continuum of Care (CoC) funding, which will reduce the MOHCD gap and cannot be contributed toward restoring the at-risk developer fee.

(3) TNDC will apply for additional capital funds and rental subsidies in addition to CoC funding that will potentially leverage permanent debt against the property. TNDC will also seek an allocation of project-based vouchers from the Housing Authority and Veterans Affairs Supportive Housing (VASH) for the non-Permanent Supportive Housing units, which could allow TNDC to leverage additional debt for the Project and offset the additional gap financing request. Excess proceeds may be used to fund a portion of the at-risk developer fee upon approval by MOHCD.

FISCAL IMPACT

Total Development Costs

The City will provide $35,306,233 to Octavia RSU Associates, L.P. for the construction and development of 78 Haight Street. As shown below, the proposed $35,306,233 MOHCD loan comprises 54 percent of the total development cost of $65,000,927. City sources will be combined with state and federal tax credit financing, accrued interest, and TNDC equity to fund the project. TNDC is contributing $1.1 million, as discussed previously, to address increased costs.

Exhibit 2 below summarizes the proposed changes in sources and uses of funding for the project.

Exhibit 2: Sources & Uses for Original Loan and Amended Loan Agreements

	Original	Proposed Amended	Proposed Change
Sources	**Amount**	**Amount**	**Amount**
MOHCD	$26,746,467	$35,306,233	$8,559,766
State LIHTC Equity	2,423,019	2,423,019	0
Federal LIHTC Equity	24,624,975	24,624,975	0
Developer Equity	0	1,100,000	1,100,000
Accrued Interest	653,942	1,546,700	892,758
Total Sources	**$54,448,403**	**$65,000,927**	**$10,552,524**
Uses	**Amount**	**Amount**	**Amount**
Acquisition	$37,438	$37,438	$0
Construction	35,861,808	42,615,277	6,753,469
Soft Costs	11,104,603	13,952,686	2,848,038
Reserves	5,244,555	6,195,526	950,971
Developer Fee	2,200,000	2,200,000	0
Total Uses	**$54,448,403**	**$65,000,927**	**$10,552,524**

Source: MOHCD

Changes in Development Costs

As shown in Exhibit 2 above, total development costs for the project at 78 have increased by $10,552,524.

Per the loan evaluation, the increase in funding is primarily due to the following factors:

(1) Hard Costs: The $6.8 million increase is due in part to structural work needed to repair the MTBC building, currently estimated to be $1.74 million, of which TNDC's developer equity contribution will cover approximately $1.1 million. Furthermore, given the delay in construction activities, construction costs have escalated by a total of $3.26 million. Finally, increased costs include $1.7 million to replenish the hard cost contingency as the original contingency is nearly depleted from change orders resulting from changes in the SFMTA site logistics plan, PG&E changes, and changes to address comments from plan checks.

(2) Construction Loan Interest: The project's construction loan rate is currently fixed at 3.63 percent until July 2024, at which point it becomes variable on a monthly basis with an upper limit of 7.5 percent. The change is expected to result in an additional $1.04 million in soft costs.

(3) Increase in Reserves: The revised operating budget includes escalated salaries for staff and insurance pricing, resulting in an approximate $1.0 million increase in operating reserves.

(4) Other Soft Costs: The project's extended timeline requires additional architect's fees, design fees, and loan extension fees by approximately $900,000. This increase also covers expenditures for structural engineering and design related to the work at MTBC.

City Funding Sources

The original $35,306,233 City loan is funded through the following sources:

- $5,466,228 from the Inclusionary Fund;
- $10,500,000 from the Inclusionary Market and Octavia Fund;
- $9,000,000 from 2019 General Obligation Bond funds;
- $4,780,239 from No Place Like Home funding;
- $2,000,000 from the Education Revenue Augmentation Housing Fund; and
- $3,559,766 from the Housing Trust Fund.

The proposed additional $8,559,766 in gap financing will be sourced with $3,559,766 from the Housing Trust Fund and $5 million in 2019 General Obligation Bond funding.

Per Unit Costs

With the additional $8.6 million in gap financing, the total City subsidy for the project at 78 Haight increased from $424,547 to $560,416 per unit, which includes the City-administered, State-sourced No Place Like Home financing. Total development costs per unit would increase from $864,260 to $1,031,761.

POLICY CONSIDERATION

Restoration of At-Risk Developer Fee

Per the terms of MOHCD's developer fee policy, TNDC's $2.2 million developer fee includes a $1.1 million project management fee and a $1.1 million at-risk fee. Developer fees are paid out in installments according to project milestones as provided in the loan agreement. As of January 2024, TNDC had already received $605,000 of their project management fee, with $495,000 remaining to be paid as construction completes. As noted above, TNDC is contributing $1.1 million from their at-risk fee to help fund the additional work so that construction of the 78 Haight Street project can proceed. However, the proposed amended loan gives MOHCD discretion to restore the at-risk fee to TNDC if it obtains additional capital or operating funds (in addition to Continuum of Care funding, which may not be used to restore the developer fee). According to MOCHD staff, having the option to restore the developer fee ensures TNDC is properly incentivized to seek out additional funding.

RECOMMENDATION

Approve the proposed resolution.

Item 4 **File 24-0093**	**Department:** Port Commission (Port)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve an amended and restated lease between the Port and the Young Men's Christian Association of San Francisco (YMCA SF) for Building 49 to: (a) eliminate the obligation to complete voluntary seismic improvements under the existing lease and eliminate rent credits for seismic improvements; (b) delay the rent commencement date by three months to no later than October 1, 2024; and (c) require the YMCA SF to open the public restrooms by July 1, 2024.

Key Points

- In June 2023, the Board of Supervisors approved a lease between the Port and YMCA SF for Building 49 at Pier 70 to develop a community wellness facility, a retail aquatics center and food and beverage space for a term of ten years with options to extend, for a total possible lease term of 34 years and 11 months.
- After execution of the lease, the YMCA SF determined that the voluntary seismic improvements were not feasible due to higher than anticipated costs. The proposed lease preserves YMCA's obligation to complete required tenant improvements and to contribute at least $5.0 million towards the improvements but removes YMCA SF's obligation to complete additional seismic work to partially retrofit the building. The tenant improvements now include less comprehensive seismic resilience work to bring the building into compliance with the Port's building guidelines.
- The proposed lease would also delay rent commencement by three months from July 1, 2024 to October 1, 2024 due to delays in construction of tenant improvements from changes in the scope of seismic work and reduce the term of the final option to extend from two years to one year. As a result, the total possible lease term is 34 years and two months, which is nine months shorter compared to the existing lease.
- Base rent of $13.61 per square foot per year is unchanged under the proposed lease and is lower than fair market rent due to the contribution required by the Tenant to occupy. The Port will provide monthly rent credits to offset the costs of operating and maintaining the public restrooms, as well as up to 14 months of rent abatement.

Fiscal Impact

- Over the initial 10-year lease term, the Port expects to receive $788,827 in rent from the YMCA SF, which is $500,000 greater than anticipated revenues under the existing lease ($288,827) due to the elimination of the seismic rent credit. However, YMCA SF will not be completing seismic improvements estimated to cost $1.36 million at lease approval.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

BACKGROUND

Development of Building 49

The Port of San Francisco (Port) selected the Young Men's Christian Association of San Francisco (YMCA SF) to develop and operate Building 49 located within Crane Cove Park at 701 Illinois Street through a competitive process. There were two respondents to the competitive request for proposals, and YMCA SF was the higher scoring respondent. In June 2023, the Board of Supervisors approved a lease between the Port and YMCA SF for Building 49 at Pier 70 to develop a community wellness facility, a retail aquatics center and food and beverage space for a term of ten years with options to extend, for a total possible lease term of 34 years and 11 months (File 23-0541).

Building 49 includes a rentable building area of 6,817 square feet. Use of the adjacent outdoor space within Crane Park is covered through a separate license agreement. YMCA SF is the primary tenant of the lease, with two subtenants. Dogpatch Paddle, a human-powered boating (such as stand-up paddle boards and kayaks) business and club, will occupy approximately 2,289 square feet of the water-facing east side of the facility and offer lessons, rentals, classes, youth programs, and a retail store. Daily Driver, female-owned bagel business is the second subtenant and will occupy 455 square feet of the space providing grab-and-go food and beverage service.

Tenant Improvements and Seismic Improvements

Under the existing lease, the YMCA SF is responsible for tenant improvements and must contribute at least $5.0 million to the improvements. Required tenant improvements include: (1) improvements to operate fitness and exercise areas, (2) infrastructure improvements to support the food and beverage retail, as well as the water sports retail shop, (3) electrical, HVAC, water and sewer facilities, and (4) improvements to the building's exterior. The lease provides for up to 11 months of rent abatement during construction of the tenant improvements. According to Port staff, construction is expected to begin as soon as the building permit is issued and will take place over six months. As of February 2024, total development costs are estimated to be $6.7 million.[1]

The lease also required that YMCA SF to perform seismic improvements and structural upgrades estimated to cost $1.36 million although not required by Port building regulations. The lease

[1] When the original lease was approved in June 2023, hard costs for tenant improvements were estimated at $5.2 million. According to the YMCA, hard costs for the tenant improvements are now estimated to costs $5.4 million, plus an additional $1.3 million for soft costs, which totals to $6.7 million in total development costs.

provides for rent credits equal to the lesser of: (a) 50 percent of the actual costs of the seismic strengthening and structural improvement work, or (b) $500,000.

However, after execution of the lease the YMCA SF determined that the planned seismic improvements were not feasible due to higher than anticipated costs, which have increased from $1.36 million originally estimated to as much as $1.7 million. Costs exceeded prior estimates because of overall escalation of construction costs and unanticipated costs associated with potential disturbance of hazardous materials during seismic work. YMCA SF has proposed amendments to the existing lease, including elimination of the obligation to complete seismic improvements.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve an amended and restated lease between the Port and the YMCA SF for Building 49 to: (a) eliminate the obligation to complete seismic improvements under the existing lease and eliminate rent credits for seismic improvements; (b) delay the rent commencement date to no later than October 1, 2024; and (c) require the YMCA SF to open the public restrooms by July 1, 2024.

Proposed Changes to Existing Lease

The proposed amended and restated lease preserves YMCA's obligation to complete required tenant improvements and to contribute at least $5.0 million towards the improvements but removes YMCA SF's obligation to complete additional seismic improvements to partially retrofit the building. Tenant improvements now include construction of a shear wall along the interior perimeter of the building to increase the seismic resilience of the building and bring the building into compliance with the Port's building regulations, according to Port staff. The shear wall will consist of "plywood sheathing supported by metal stud walls" according to the proposed amended lease. The original seismic improvements were more comprehensive and included steel lateral bracing, vertical bracing, and roof truss steel bracing.

The proposed amended and restated lease would also delay rent commencement by three months from July 1, 2024 to October 1, 2024 due to delays in construction of tenant improvements largely due to changes in the scope of seismic work. The lease also reduces the term of the final option to extend from two years to one year. Due to the changes in the rent commencement date, which increases the initial term by three months, and the reduction in the final option to extend, the total possible lease term is 34 years and two months, which is nine months shorter compared to the existing lease.

Finally, to facilitate early occupancy by one of the subtenants, Dogpatch Paddle, the proposed amended and restated lease would require the YMCA SF to open the public restrooms by July 1, 2024 or within five days following issuance of a partial temporary certificate of occupancy, whichever is earlier.

Base Rent

Base rent of $13.61 per square foot per year is unchanged under the proposed lease, which was based on the proposal and subsequent negotiations with YMCA. Under Section 23.30 of the Administrative Code, an appraisal of fair market rent is not required if rent is less than $45 per square foot per year. The base rent is lower than fair market rent due to the sizable contribution required by the Tenant to occupy (not less than $5.0 million) according to Port staff. The Port will provide monthly rent credits to offset the costs of operating and maintaining the public restrooms, as well as up to 14 months of rent abatement during the construction of tenant improvements, as the building is unusable until the improvements are complete. If the for-profit subtenants generate sufficient revenues, the Port will also receive a share of gross revenues (percentage rent). Key terms of the proposed amended and restated lease are provided in Exhibit 1 below.

Exhibit 1: Key Terms of Proposed Amended and Restated Lease

Premises	Building 49 including 6,817 rentable square feet (4,073 for YMCA community facility, 2,289 SF for aquatics center, and 455 square feet for food and beverage space)
Initial Term	11 Years, 2 months; The initial term expires 10 years after the rent commencement date. The Port will provide a maximum of 14 months of rent abatement during the construction of tenant improvements
Options to Extend	Four 5-Year options, followed by one 2-Year option and one 1-Year option to extend. The total possible lease term is 34 years and 2 months, which is 9 months shorter compared to the existing lease.
Required Tenant Improvements	Tenant is required to contribute at least $5.0 million to the improvements of Building 49. Tenant is solely responsible for these improvements and costs and must complete the initial improvements within 24 months of final approval of the building permit for the initial improvements.
Seismic Improvements and Rent Credit	Eliminated from lease
Maintenance and Repair	Sole responsibility of the tenant
Initial Base Rent	$92,809.80 annual ($13.61/rentable square foot per year)
Base Rent Adjustments	3% annual increase during the initial term. Adjusted by average change in CPI during extension terms.
Percentage Rent	6% of gross revenues generated by each for-profit subtenant less the subtenant's share of the Base Rent, unless 6% of gross revenues falls below the subtenant's share of the Base Rent. The allocated share of initial base annual rent is $35,022 for Dogpatch Paddle and $16,244 for Daily Driver.
Construction Rent Abatement	Port will provide up to 14 months of rent abatement during the construction of the Tenant Improvements. If Dogpatch Paddle occupies a portion of the building prior to the rent commencement date, partial payment of rent will be due from the date of occupancy based on the subtenant's share of the Base Rent or a pro-rated amount if the subtenant can only occupy a portion of the sublease premises.
Public Restrooms Rent Credit	Tenant shall receive a $2,000 reduction in base rent each month ($24,000 annually) in exchange for operating and maintaining the public restrooms, subject to annual increases equal to the base rent adjustment. If the restrooms open before rent (including partial rent) is due, the rent credit will accumulate until rent is due and the credit has been applied in full. If the tenant does not open the restrooms by the required date, there will be no rent credit until the later of the rent commencement date or the date the restrooms open and the credit will be reduced by $175 per day for each day after the required opening date until the restrooms are open, up to a maximum of $6,000.

Source: Proposed Amended and Restated Lease

FISCAL IMPACT

Over the initial 10-year lease term, the Port expects to receive $788,827 in rent from the YMCA SF, as shown in Exhibit 2 below. This reflects an increase of $500,000 compared to anticipated revenues under the existing lease ($288,827) due to the elimination of the seismic rent credit. However, YMCA SF will not be completing seismic improvements estimated to cost $1.36 million when the existing lease was approved by the Board of Supervisors.

Exhibit 2: Proposed Change in Rent Due to Port

Lease Year	Annual Base Rent	Annual Restroom Credit	Rent Due to Port	Change Compared to Existing Lease from Elimination of Seismic Credit*
1	$92,810	($24,000)	$68,810	$68,810
2	95,594	(24,720)	70,874	70,874
3	98,462	(25,462)	73,000	73,000
4	101,416	(26,225)	75,190	75,190
5	104,458	(27,012)	77,446	77,446
6	107,592	(27,823)	79,769	79,769
7	110,820	(28,657)	82,162	54,910
8	114,144	(29,517)	84,627	
9	117,569	(30,402)	87,166	
10	121,096	(31,315)	89,781	
Total	**$1,063,960**	**($275,133)**	**$788,827**	**$500,000**

Source: Proposed Amended and Restated Lease

* Under the existing lease, the tenant was not expected to pay rent to the Port until Year 7 of the lease due to application of the seismic rent credit.

Estimated rent of $788,827 over the initial term does not include any percentage rent generated by gross revenues of for-profit subtenants, which would result in additional revenues to the Port if gross revenues sufficiently offset base rent allocated to each subtenant. According to Port staff, it is possible the Port could receive a percentage rent during the initial term, but it is difficult to estimate the amount at this time since the profits of the for-profit tenants are unknown.

Additional Rent and Credits Prior to Rent Commencement Date

If Dogpatch Paddle occupies the sublease premises prior to the rent commencement date, YMCA SF will pay the Port $2,918 per month (the subtenants allocated share of initial base rent) or a pro-rated amount if the subtenant can only occupy a portion of the sublease premises. If the public restrooms are open by the required date, the tenant will receive a rent credit equal to $2,000 per month. If Dogpatch Paddle occupies the sublease premises starting July 1, 2024 and the restrooms open to the public on the same date, the tenant will owe $8,755 in base rent for the three-month period prior to rent commencement, less $6,000 for the restroom rent credit, for a net amount of $2,755.

RECOMMENDATION

Approve the proposed resolution.