

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

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292
FAX (415) 252-0461

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst



SUBJECT: November 13, 2019 Budget and Finance Committee Meeting

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Item 1 File 19-0996 <i>(Continued from November 6, 2019)</i>	Department: Administrative Services
EXECUTIVE SUMMARY	
Legislative Objectives - The proposed resolution would approve the First Amendment to the City's Memorandum of Understanding (MOU) with Sunset Scavenger Company (Recology Sunset Scavenger), Golden Gate Disposal & Recycling Company (Recology Golden Gate), and Recology San Francisco. The proposed resolution would increase the Agreement's total not to exceed amount from \$40 million to \$48 million. Key Points - The City's current MOU with Recology has a term from December 2014 through November 2020 and a not to exceed spending authority of \$40 million. The current MOU with Recology, like those before it, received a sole source waiver from the Office of Contract Administration because Recology has been the only entity permitted to collect refuse in San Francisco since 1932 (Section 290 of the Health Code). - Rates for refuse collection are set during rate processes conducted by SF Public Works and subject to appeal to the Refuse Rate Board, which consists of the City Administrator, the Controller, and the SF Public Utilities Commission Manager. The City's refuse collection costs increased at least 12 percent annually. - Based on data provided by the Office of Contract Administration, the City has spent or encumbered \$39,990,731 of the \$40,000,000 not to exceed amount of the MOU. Fiscal Impact - The proposed resolution would authorize an additional \$8 million in spending authority. According to Mr. Daniel Sanchez, Purchaser at the Office of Contract Administration, the additional \$8 million is required for City departments to pay their refuse collection bills for the remaining portion of FY 2019-20. 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

Current Memorandum of Understanding with Recology

In December 2014, the Board of Supervisors approved a Memorandum of Understanding (MOU) between the City and Recology San Francisco and its subsidiaries, Recology Golden Gate and Recology Sunset Scavenger, for refuse collection for City facilities. The MOU has a term from December 2014 through November 2020 and a not to exceed spending authority of \$40 million. The current MOU with Recology, like those before it, received a sole source waiver from the Office of Contract Administration because Recology has been the only entity permitted to collect refuse in San Francisco since 1932 (Section 290 of the Health Code).

Rates for refuse collection are set during rate processes conducted by SF Public Works and subject to appeal to the Refuse Rate Board, which consists of the City Administrator, the Controller, and the SF Public Utilities Commission General Manager. Table 1 below shows the City's annual spending 2015 – 2018. As shown below, refuse collection costs increased at least 12 percent annually.

Table 1: Actual Spending on Recology MOU, 2015 – 2018

Calendar Year	Average Monthly Spending	Annual Change
2015	\$487,559	n/a
2016	\$546,164	12%
2017	\$618,765	13%
2018	\$704,964	14%
2019 (through August)	\$788,317	12%

Source: Office of Contract Administration

Based on data provided by the Office of Contract Administration, the City has spent or encumbered \$39,990,731 of the \$40,000,000 not to exceed amount of the MOU.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the First Amendment to the City's Memorandum of Understanding with Sunset Scavenger Company (Recology Sunset Scavenger), Golden Gate Disposal & Recycling Company (Recology Golden Gate), and Recology San Francisco. The proposed resolution would increase the Agreement's total not to exceed amount by \$8 million from \$40 million to \$48 million. Refuse collection includes all recyclables, compostable and landfill-bound trash.

FISCAL IMPACT

The proposed resolution would authorize an additional \$8 million in spending authority. According to Mr. Daniel Sanchez, Purchaser at the Office of Contract Administration, the additional \$8 million is required for City departments to pay their refuse collection bills for the remaining portion of FY 2019-20. According to Mr. Sanchez, refuse collection rates have increased due to increases in the rate cap included in the MOU; increase in City departments' service needs; and additional rate adjustments for distance, access and elevation charges, and for recycling incentives.

According to Mr. Sanchez, the Office of Contract Administration is planning to prepare a new Memorandum of Understanding with Recology that begins in FY 2020-21.

RECOMMENDATION

Approve the proposed resolution.

Item 3 File 19-1081	Department: Public Utilities Commission (PUC)
EXECUTIVE SUMMARY	
Legislative Objectives - The proposed resolution would authorize the San Francisco Public Utilities Commission (SFPUC) General Manager to accept and expend a Federal Emergency Management Agency (FEMA) Hazard Mitigation Grant, passed through the California Governor’s Office of Emergency Services, in an amount not to exceed \$488,259 for Phase Two of the Early Intake Switchyard Slope Stabilization Project, for the grant period of August 6, 2018 through April 30, 2020. Key Points - The Early Intake Switchyard, located along the Tuolumne River in Groveland, transmits power generated at the Holm and Kirkwood Powerhouses to the Moccasin Powerhouse. The 2013 Rim Fire severely burned the slope adjacent to the Early Intake Switchyard, increasing the risk of slope hazards such as rock falls, landslides, debris/mud flows, and uncontrolled runoff, which could damage the switchyard and impact power transmission from two of the three powerhouses to San Francisco. - In 2017, the Board of Supervisors approved the acceptance and expenditure of a FEMA grant of \$404,208 (with SFPUC providing \$190,133 in matching funds) for Phase One of the Early Intake Switchyard Slope Stabilization Project to reduce the risk of hazards threatening the Early Intake Switchyard. Phase One, which consisted of environmental studies, California Environmental Quality Act (CEQA) review, and engineering design, is now complete. - In August 2018, FEMA awarded SFPUC \$488,259 in additional grant funding for Phase Two of the project. Phase Two, the project construction, began in September 2019 and is expected to be completed by February 2020. Fiscal Impact - The grant authorized by the proposed resolution would provide SFPUC with \$488,259 in FEMA grant funding for Phase Two of the Early Intake Switchyard Slope Stabilization Project. Including a 10 percent contingency, the total project budget is \$1,755,596. SFPUC would contribute up to \$1,267,337 in matching funds, which is available in the Hetch Hetchy Power Enterprise capital budget. 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 San Francisco Public Utilities Commission (SFPUC) owns and operates the Hetch Hetchy Power System, which delivers energy generated by three hydroelectric powerhouses in Tuolumne County to San Francisco along City-owned transmission lines. The Early Intake Switchyard, located along the Tuolumne River in Groveland, transmits power generated at the Holm and Kirkwood Powerhouses to the Moccasin Powerhouse.

The 2013 Rim Fire severely burned the slope adjacent to the Early Intake Switchyard, increasing the risk of slope hazards such as rock falls, landslides, debris/mud flows, and uncontrolled runoff, which could damage the switchyard and impact power transmission from two of the three powerhouses to San Francisco. In June 2014, SFPUC applied for a Hazard Mitigation Grant from the Federal Emergency Management Agency (FEMA) to help fund the Early Intake Slope Stabilization Project to reduce the risk of slope hazards threatening the Early Intake Switchyard.

The Early Intake Slope Stabilization Project is divided into two phases: (1) Pre-Award and Phase One for environmental studies, California Environmental Quality Act (CEQA) review, and engineering design; and (2) Phase Two for construction. Pre-Award and Phase One activities, funded by the initial FEMA grant and matching funds, are now complete.

FEMA awarded a grant of \$404,208, and in February 2017, the Board of Supervisors approved the acceptance and expenditure of the grant, with \$190,133 in SFPUC Hetch Hetchy Power Capital matching funds (File 17-0033, Resolution 055-17).

In August 2018, FEMA awarded SFPUC additional grant funding of \$488,259 for Phase Two of the project (subject of this report). In July 2019, the SFPUC Commission approved the acceptance and expenditure of the grant. According to Ms. Janet Ng, SFPUC Project Manager, approval did not come before the SFPUC Commission for approximately 11 months because of staffing changes and pending confirmation that construction would occur by receipt of proposals (bids) in June 2019.

In June 2019, SFPUC conducted a competitive bid to select a contractor for the Early Intake Slope Stabilization Project. SFPUC received two proposals, as shown in Table 1 below:

Table 1: Proposals from RFP Phase 2 of Early Intake Slope Stabilization Project

Proposer	Amount
Sierra Mountain Construction, Inc.	\$1,091,240
K.W. Emerson, Inc.	\$1,102,407

Source: SF Public Utilities Commission

Sierra Mountain Construction, Inc. was selected as the construction contractor and was awarded a contract.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the SFPUC General Manager to accept and expend a FEMA Hazard Mitigation Grant in an amount not to exceed \$488,259, for the grant period of August 6, 2018 through April 30, 2020. The total project budget, including a 10 percent contingency, is \$1,755,596. Grant funds would be disbursed through the California Governor's Office of Emergency Services, as a pass-through from FEMA.

According to Ms. Ng, SFPUC issued Notice to Proceed (NTP) for construction on September 9, 2019. Substantial Completion is anticipated by January 6, 2020, and Final Completion is anticipated by February 5, 2020.

FISCAL IMPACT

The proposed resolution would provide \$488,259 in FEMA grant funding for the Early Intake Slope Stabilization Project, with SFPUC contributing matching funds of up to \$1,267,337. Including a 10 percent contingency, the total project budget is \$1,755,596. According to Ms. Ng, there have been no contract change orders to date that would necessitate use of the contingency.

At the time when the grant was awarded, the total Phase 2 project budget was estimated at \$717,928, and SFPUC's contribution was \$229,669. According to Ms. Ng, the project budget has increased by \$1,037,668, or approximately 145 percent, to reflect the actual construction contract amount and actual budgets provided by support staff for services during construction and closeout. A more refined engineer's estimate from June 2019 estimated the construction bids to be approximately \$1,100,000 to \$1,250,000, which was consistent with the actual construction bids received. Since the project budget now exceeds the original estimate, SFPUC is responsible for covering all costs in excess of the FEMA grant.

The project budget is shown in Table 2 below:

Table 2: FEMA Hazard Mitigation Grant Budget

Sources		Amount	
FEMA Grant		\$488,259	
SFPUC Hetch Hetchy Power Enterprise Capital Funds		1,267,337	
Total Sources		\$1,755,596	

Uses	Contractor/ Consultant Costs	SFPUC Direct Labor Costs	Total Costs
Construction Contract	\$1,091,240	\$0	\$1,091,240
Project Management	8,332	59,282	67,614
Construction Management	57,520	218,883	276,403
Engineering Services During Construction	81,002	79,737	160,739
<i>Subtotal</i>	<i>\$1,238,094</i>	<i>\$357,902</i>	<i>\$1,595,996</i>
Contingency (10%)			159,600
Total Uses			\$1,755,596

Sufficient funding is available in the Hetch Hetchy Power Enterprise capital budget for SFPUC's share of the project.

RECOMMENDATION

Approve the proposed resolution.

Item 4 File 19-1080	Department: Port Commission (Port)
EXECUTIVE SUMMARY	
Legislative Objectives - The proposed resolution would approve Amendment No. 1 to the contract between the Port of San Francisco (Port) and CH2M HILL Engineers, Inc. (CH2M), expanding the contract scope to include the Waterfront Resilience Program and increasing the not-to-exceed amount by \$19,992,357, for a total not to exceed \$59,977,071, with no change to the contract term. Key Points - The Board of Supervisors approved the original contract between the Port and CH2M in 2017 to provide planning, engineering, and environmental services to the Embarcadero Seawall Program. At that time, the Program was to reconstruct approximately 3 miles of seawall along the northern waterfront. Subsequently the U.S. Army Corps of Engineers implemented a study of the flood risks along the Port's 7½ mile waterfront. The Port incorporated the Embarcadero Seawall Program into the new Waterfront Resiliency Program. Fiscal Impact - The proposed amendment to the contract between the Port and CH2M increases the not-to-exceed amount by 50 percent, from \$39,984,714 to \$59,977,071. The 50 percent increase in the contract accounts for the expansion of seawall reconstruction and mitigation of flood risks from the approximately 3 mile northern waterfront to the entire 7 ½ mile waterfront. The increase in the contract amount under the proposed amendment is for CH2M to provide planning, engineering, and environmental services to the 7 ½ mile waterfront program. - The amended contract amount of \$59,977,071 equals 12 percent of the total Phase I Waterfront Resiliency Program budget from FY 2016-17 through FY 2026-27 of approximately \$500 million. According to the Port, industry standard costs for planning/engineering/design of major infrastructure projects typically range between 15 percent and 30 percent of total project costs depending on project complexity. - Contract funding sources include \$48,812,749 from Seawall Bond proceeds, \$5,000,000 California Natural Resources Agency grant funds, and \$6,164,323 from other Port or City funds, subject to Board of Supervisors appropriation approval. To date, the Port has spent \$13,121,560 on the CH2M contract. 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 April 2017, the Port of San Francisco (Port) issued a Request for Proposals (RFP) to select a multi-disciplinary architecture and engineering firm to provide planning, engineering, and environmental services for the Embarcadero Seawall Program.¹ The Port received five proposals, and an evaluation panel found CH2M HILL Engineers, Inc. (CH2M) to be the highest scoring responsive and responsible proposer. In September 2017, the Board of Supervisors approved a contract with CH2M, for a term of 10 years, from approximately October 2, 2017 through October 1, 2027, and an amount not to exceed \$39,984,714 (File 17-0874, Resolution 351-17).

In June 2018, the United States Army Corps of Engineers (USACE) awarded the Port a “fresh start” study appropriation to study flood risk along the full 7 ½ mile waterfront. After the study is complete, USACE may recommend Congress to fund a project for implementation, which would be funded 65 percent by the federal government and 35 percent by the Port. The Port has incorporated the Embarcadero Seawall Program into the new Waterfront Resiliency Program. The Port and CH2M have agreed to expand the scope of the contract to include the full waterfront in its planning, engineering, and environmental services work. According to Mr. Carlos Colón, Port Resilience Program Administrator, the Port decided to utilize CH2M rather than issue a new RFP because it would be inefficient to change engineering firms in the middle of the project.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Amendment No. 1 to the contract between the Port and CH2M, increasing the scope to include the Waterfront Resiliency Program, and increasing the not-to-exceed amount by \$19,992,357, for a total not to exceed \$59,977,071, with no change to the contract term.

¹ Initiated in 2015, the Port’s Embarcadero Seawall Program is a major City and Port effort to improve the earthquake safety and performance of the City’s century-old seawall, provide near-term flood protection and plan for long-term resilience and adaptation of the northern waterfront. The northern waterfront extends from Fisherman’s Wharf to Mission Creek/AT&T Park. The Port Commission has approved two major phases to this Project: (a) Phase I focuses on master planning, program development, designing and constructing the most critical seismic and flood protection improvements by 2026, which is anticipated to cost approximately \$500 million; and (b) Phase II would complete improvements and/or replacement of the remainder of the seawall, including all seismic and sea level rise adaptation measures addressing infrastructure, wharves, buildings, open space, utilities, and multi-modal transportation, estimated to take more than 20 years to complete and cost \$2 billion to \$5 billion.

FISCAL IMPACT

The proposed Amendment No. 1 would increase the not-to-exceed amount of the contract by \$19,992,357 or 50 percent, for a total not to exceed \$59,977,071. Table 1 below shows the updated total budget of \$55,684,130 for the CH2M contract, divided into three phases of work. In addition, the Port is requesting a contingency of \$4,292,941, or approximately 7.7 percent, which is greater than the original contingency of \$3,634,974, but less than the original contingency percentage of 10 percent. The attachment to this report provides the detailed tasks for each phase of the contract work, in comparison to the original contract.

Table 1: Original and Amended CH2M Contract Budget

Phases	Original Contract Budget	Amended Contract Budget	Increase
Phase 1: Planning	\$10,239,424	\$34,903,305	\$24,663,881
Phase 2: Preliminary Design & Engineering, Initial Projects	18,505,144	13,175,663	(5,329,481)
Phase 3: Final Design & Construction, Initial Projects	7,605,162	7,605,162	0
<i>Subtotal</i>	<i>\$36,349,740</i>	<i>\$55,684,130</i>	<i>\$19,334,390</i>
Contingency	3,634,974	4,292,941	657,967
Total Not-to-Exceed Amount	\$39,984,714	\$59,977,071	\$19,992,357

As noted above, the 50 percent increase in the contract amount is to provide planning, engineering, and environmental services work for the 7 ½ mile waterfront. The contract was originally to provide these services for the Embarcadero Seawall Program, which covered just over three miles on the northern waterfront. According to Mr. Colón, Port staff developed the revised scope of services and associated costs by:

- Developing a Portwide communications and stakeholder engagement outreach strategy for the Port's entire 7½ mile waterfront based on the Port's new Strengthen, Adapt and Envision, and developing hour estimates based on detailed scope;
- Developing a detailed Project Management Plan, including scope and budget, with the U.S. Army Corps of Engineers for the Flood Resiliency Study, subject to 50-50% cost share;
- Developing a workforce development and Local Business Enterprise support services, including detailed scopes of services based on similar work conducted by the San Francisco Public Utilities Commission;
- Working with the Department of Emergency Management to scope disaster response tabletop exercises on how expected earthquake damages to the waterfront will impact response operations;
- Negotiating a scope of public education services with the Exploratorium; and
- Developing a detailed scope of services for advanced three-dimensional soil-structure interaction analysis for the Ferry Building area.

The amended contract amount of \$59,977,071 equals 12 percent of the total Phase I Waterfront Resiliency Program budget from FY 2016-17 through FY 2026-27 of approximately \$500 million (see below). According to Mr. Colón, industry standard costs for planning/engineering/design of major infrastructure projects typically range between 15 percent and 30 percent of total project costs depending on project complexity.

Project Funding

In November 2018, San Francisco voters approved Proposition A, authorizing \$425 million in general obligation bonds for the Embarcadero Seawall Program. In April 2019, plaintiffs filed legal action against the City alleging that San Francisco officials violated state and local election laws in connection with the voter approval of the Seawall Bond. Although the City Attorney advises that the lawsuit is without merit, the City has chosen to delay the first bond issuance until the lawsuit is resolved. In September 2019, the Board of Supervisors approved a supplemental appropriation of \$11,500,000 from Port Harbor Funds to the Embarcadero Seawall Program (File 19-0836, Ordinance 216-19). The funds would be reimbursed through future Seawall Bond sales, when they occur. According to Mr. Colón, the supplemental appropriation has allowed CH2M to continue its work through June 2020.

According to Mr. Colón, approximately \$48,812,749 of the contract funding is anticipated from the Seawall Bonds, pending resolution of the lawsuit. The Port also received a \$5,000,000 grant from the California Natural Resources Agency for the contract. This leaves an unfunded balance of approximately \$6,164,323, which may be paid from Port or other City funds, subject to Board of Supervisors appropriation approval. To date, the Port has spent \$13,121,560 on the CH2M contract.

As noted above, the Phase I Waterfront Resiliency Program budget from FY 2016-17 through FY 2026-27 is approximately \$500 million. The program budget is shown in Table 2 below.

Table 2: Waterfront Resiliency Program Funding Plan (\$ in Millions)

Sources	Fiscal Year Ending June 30								Total
	2017	2018	2019	2020	2021	2022	2023	2024 to 2027	
Port Capital	\$2.9	-	\$1.1	-	-	-	-	\$10.0	\$14.0
Port Harbor Funds	-	-	-	11.5	(11.5)	-	-	-	\$0.0
City Revolving Fund	1.0	3.0	5.0	-	(6.0)	(3.0)	-	-	\$0.0
SFMTA Contribution	0.5	0.5	-	-	-	-	-	-	\$1.0
Planning Department	0.5	0.25	0.25	-	-	-	-	-	\$1.0
State Sources	-	-	5.0	-	-	-	-	-	\$5.0
2018 General Obligation Bond	-	-	-	-	50.0	250.0	-	125.0	\$425.0
Unidentified	-	-	-	-	-	-	-	54.0	\$54.0
Total	\$4.9	\$3.8	\$11.4	\$11.5	\$32.5	\$247.0	\$0.0	\$189.0	\$500.0

Source: Port

The program budget includes \$54 million of unidentified funding sources in the period from FY 2023-24 through FY 2026-27. According to Mr. Colón, potential funding sources include formation of a Community Facilities District, state and federal grants, direct appropriations from the State of California, California Cap and Trade program funding, and, through legislation, changes to USACE processes that would facilitate additional federal funding for the program.

RECOMMENDATION

Approve the proposed resolution

Attachment: CH2M Amended Contract Budget

Task		Original Contract Amount	New Contract Amount
Phase I: Planning			
1.01.00	Management and Coordination of Services, Phase I	\$2,307,635	\$5,041,286
1.02.00	Community Planning and Stakeholder Engagement, Phase I	548,308	2,093,732
1.03.00	Data Collection, Review, and Existing Conditions	744,896	3,937,858
1.04.00	Multi-Hazard Risk Assessment	3,957,708	7,471,595
1.05.00	Alternatives Formulation, Analysis and Program Development	2,381,399	6,580,713
1.06.00	City Staff Training, Phase I	35,460	35,460
1.07.00	Seismic Peer Review Panel, Phase I	264,017	864,135
1.08.00	Alignment Workshop	-	60,225
1.09.00	USACE – General Investigation	-	7,589,800
1.10.00	LBE Support and Workforce Development	-	1,228,500
Total Phase I		\$10,239,424	\$34,903,305
Phase II: Preliminary Design & Engineering, Initial Projects			
2.01.00	Management and Coordination of Services, Phase II	\$3,429,455	\$3,429,455
2.02.00	Stakeholder Engagement, Phase II	700,414	845,387
2.03.00	Initial Projects, Preliminary Design	4,098,308	3,020,758
2.04.00	Pilot Projects	604,939	604,939
2.05.00	Emergency Projects	4,396,914	-
2.06.00	Environmental Review and Permitting	5,186,989	5,186,989
2.07.00	City Staff Training, Phase II	53,190	53,190
2.08.00	Seismic Peer Review Panel, Phase II	34,944	34,944
Total Phase II		\$18,505,154	\$13,175,663
Phase III: Final Design & Construction, Initial Projects			
3.01.00	Management and Coordination of Services, Phase III	\$7,072,754	\$7,072,754
3.02.00	Stakeholder Management, Phase III	161,440	161,440
3.03.00	Value Engineering	215,049	215,049
3.04.00	Independent Design Review	155,920	155,920
Total Phase III		\$7,605,162	\$7,605,162
Total All Phases		\$36,349,740	\$55,684,130
<i>Contingency</i>		<i>3,634,974</i>	<i>4,292,941</i>
Total Contract Authority		\$39,984,714	\$59,977,071

Items 5 and 6 Files 19-1047 and 19-1048	Department: San Francisco International Airport (Airport)
EXECUTIVE SUMMARY	
Legislative Objectives - The proposed resolutions would: (1) approve Modification No. 1 to the 2011 Lease and Use Agreement (2011 Lease) with Alaska Airlines, Inc. (Alaska), to incorporate approximately 12,696 square feet of Exclusive Use Space in Terminal 2 formerly occupied by Virgin America, Inc. (Virgin) into the Alaska 2011 Lease (File 19-1047); and (2) approve Modification No. 1 to the 2011 Lease with Virgin, to provide for early termination, effective the first day of the month following full City approval (File 19-1048). Key Points - In 2011, the Airport negotiated a new Lease and Use Agreement (2011 Lease) with its domestic and international airlines. The 2011 Lease allows airlines to provide flight operations and rent terminal space at the Airport with a common set of provisions, including rent and landing fees, permitted uses, and use of common facilities. The 2011 Lease will expire June 30, 2021. Alaska and Virgin are both signatory airlines to the 2011 Lease. - In March 2018, Alaska notified the Airport of its plan to acquire and merge with Virgin. In January 2018, the Federal Aviation Administration (FAA) issued a single operating permit for Alaska and Virgin. In April 2018, Alaska and Virgin consolidated their check-in functions in Terminal 2 and ceased all flights nationwide under the Virgin brand. In July 2018, the merger was finalized, with Alaska being the successor company. - The proposed resolutions would incorporate approximately 12,696 square feet of Exclusive Use Space in Terminal 2, formerly occupied by Virgin, into the Alaska 2011 Lease, as well as terminate Virgin's lease. After approval, Alaska would occupy approximately 19,352 square feet of Exclusive Use Space and 91,963 square feet of Joint Use Space in Terminal 2, as well as approximately 3,771 square feet of Exclusive Use Space and 205,711 square feet of Joint Use Space in the International Terminal. Fiscal Impact - For the period of December 2019 through June 2020, Alaska would pay approximately \$20,857,171 in rent. This includes approximately \$6,633,370 in Exclusive Use Space rent and approximately \$14,223,801 in Joint Use Space rent. - The Joint Use Space formula is adjusted frequently as different airlines commence and cease operations throughout the year; therefore, Joint Use Space rent projections are estimates rather than precise amounts. Recommendation - Approve the proposed resolutions.	

MANDATE STATEMENT

City Charter Section 9.118(c) states that any 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

In 2011, the San Francisco International Airport (Airport) negotiated a new Lease and Use Agreement (2011 Lease) with its domestic and international airlines. The 2011 Lease allows airlines to provide flight operations and rent terminal space at the Airport and provides a common set of lease provisions that are used for these airlines. Such provisions include rent and landing fees paid by the airlines to the Airport, permitted uses of the premises, use of common facilities, and numerous other provisions. The 2011 Lease will expire June 30, 2021.

Alaska Airlines, Inc. (Alaska) and Virgin America, Inc. (Virgin) are both signatory airlines to the 2011 Lease. Alaska currently occupies approximately 3,771 square feet of Exclusive Use Space and 205,771 square feet of Joint Use Space in the International Terminal, as well as approximately 6,656 square feet of Exclusive Use Space and 91,963 square feet of Joint Use Space in Terminal 2. Virgin had occupied 12,696 square feet of Exclusive Use Space in Terminal 2,¹ as well as the 91,963 square feet of Joint Use Space now occupied by Alaska.

In March 2018, Alaska notified the Airport of its plan to acquire and merge with Virgin. In January 2018, the Federal Aviation Administration (FAA) issued a single operating permit for Alaska and Virgin. In April 2018, Alaska and Virgin consolidated their check-in functions in Terminal 2 and ceased all flights nationwide under the Virgin brand. In July 2018, the merger was finalized, with Alaska being the successor company.

DETAILS OF PROPOSED LEGISLATION

The proposed resolutions would:

1. Approve Modification No. 1 to the 2011 Lease with Alaska, to incorporate approximately 12,696 square feet of Exclusive Use Space in Terminal 2 formerly occupied by Virgin into the Alaska lease, effective the first day of the month following full City approval (File 19-1047); and
2. Approve Modification No. 1 to the 2011 Lease with Virgin, to provide for early termination, effective the first day of the month following full City approval (File 19-1048).

Alaska's rented space before and after the proposed lease modifications is shown in Table 1 below.

¹ Of the 12,696 square feet of Exclusive Use Space occupied by Virgin, 9,232 square feet had been specified in its Lease, while the remaining 3,464 square feet had been rented through a permit.

Table 1: Alaska Airlines Rented Space

Terminal	Exclusive Use Space Before Modification 1	Exclusive Use Space Added from Virgin	Exclusive Use Space After Modification
Terminal 2	6,656	12,696	19,352
International Terminal	3,771	0	3,771
Terminal	Joint Use Space Before Modification 1	Joint Use Space Added from Virgin	Joint Use Space After Modification
Terminal 2	91,963	0	91,963
International Terminal	205,711	0	205,711

According to Ms. Diane Artz, Airport Senior Property Manager, Alaska has been fully co-located with Virgin since the July 2018 merger.

FISCAL IMPACT

Under the proposed modifications, Alaska would continue to pay Exclusive Space and Joint Use Space rent at the same rates. Exclusive Space rent is determined annually by the Airport Rates and Charges. Joint Use Space Rent is determined annually by formula, with 20 percent of the total rent assessed by the Airport equally to all airlines, and 80 percent assessed proportionally based on the number of inbound and outbound passengers traveling on each airline each year. The Airport expects Alaska to pay approximately \$20,857,171 in total rent from December 2019 through June 2021. Rent projections are shown in Table 2 below.

Table 2: Alaska Rent Projections, December 2019 – June 2021

Exclusive Use Space	FY 2019-20				FY 2020-21		
	Sq. Ft.	Annual Rent Per Sq. Ft.	Annual Rental Rate	Total Rent, Dec. 2019 – June 2020	Annual Rent Per Sq. Ft. ²	Total Rent, July 2020 – June 2021	Total Dec. 2019 – June 2021
Terminal 2							
Category I ³	2,080	\$331.66	\$689,853	\$402,414	\$357.36	\$743,309	
Category II	1,775	248.75	441,531	257,560	268.02	475,736	
Category III	14,297	165.83	2,370,872	1,383,008	178.68	2,554,588	
Category V	1,200	33.17	39,804	23,219	35.74	42,888	
Subtotal	19,352			\$2,066,201		\$3,816,520	
International Terminal							
Category III	1,938	\$165.83	\$321,379	\$187,471	\$178.68	\$346,282	
Category IV	1,403	82.92	116,337	67,863	89.34	125,344	
Category V	430	33.17	14,263	8,320	35.74	15,368	
Subtotal	3,771			\$263,654		\$486,994	
Exclusive Use Space Total	23,123			\$2,329,855		\$4,303,514	\$6,633,370
Joint Use Space							
Terminal 2, Category II	13,006		\$3,235,242	\$1,887,225		\$3,510,238	
Terminal 2, Category IV	78,957		4,223,350	2,463,621		4,582,334	
International Terminal, Category II	205,711		1,067,163	622,512		1,157,872	
Joint Use Space Total	297,674			\$4,973,357		\$9,250,444	\$14,223,801
Total Exclusive and Joint Use Space Rent				\$7,303,213		\$13,553,959	\$20,857,171

**Totals may not add due to rounding*

According to Ms. Artz, the Joint Use Space formula is adjusted frequently as different airlines commence and cease operations throughout the year. As such, the Joint Use Space rent projections are estimates rather than precise amounts.

RECOMMENDATION

Approve the proposed resolutions.

² According to Ms. Artz, the Airport projects rental rates to increase by 8.5 percent in FY 2020-21.

³ Category I space includes ticket counters, holdrooms, and service counters and kiosks. Category II space includes VIP clubs and lounges, baggage claim lobbies, baggage service offices, curbside check-in, and other enclosed space departure level and above. Category III space includes non-public offices and other enclosed space arrivals level and below. Category IV space includes inbound and outbound baggage and equipment rooms. Category V space includes other unenclosed space and covered areas at ramp level.

Item 8 File 19-1050	Department: Real Estate Division (RED) Human Services Agency (HSA)
EXECUTIVE SUMMARY	
Legislative Objectives - The proposed resolution authorizes the Director of Property, on behalf of the Human Services Agency (HSA), to exercise a five-year extension to extend the existing lease between Bayview Plaza, LLC, as landlord, and the City, as tenant, for 15,083 square feet within Suites 200, 205, 210, 220, 230, 235, and 240 at 3801 Third Street, to commence on December 1, 2019, for a total term of December 1, 2014, through November 30, 2024. The initial monthly base rent at 3891 Third Street will be \$45,325.13 for a total annual base rent of \$543,901.56. Key Points - In November 2014, the Board of Supervisors approved the lease of 15,083 square feet at 3801 Third Street for the HSA with Bayview Plaza, LLC, merging Suites 200, 205, 210, 230, 235, 240, and adding Suite 220 at the initial monthly rent of \$39,215.80 during improvements and alterations, and then \$41,478.25 per month for five years after substantial completion of the tenant improvements, for a base year's rent total of \$373,304; and construction of tenant improvements in an estimated cost to the City of \$865,098 (File 14-1033). The 2014 lease provided for one five year option to extend to 2024. - According to HSA, the Family and Children Services (FCS) Program utilizes 3801 3rd Street as general office space for protective service workers and support staff, while also providing services related to resource family (foster parents) training, child and family visitation, and family team meetings. Fiscal Impact - HSA's existing annual rent for 3801 Third Street from December 1, 2018 through November 30, 2019 is \$543,902 equal to approximately \$36.06 per square foot per year for approximately 15,083 square feet. The existing lease sets the new base monthly rental rate equal to 95 percent of fair market rental value when the option to extend is exercised but no less than the current base monthly rental rate. Under the proposed lease extension, the first year rent from December 1, 2019 through November 30, 2020 will remain at \$543,902. Under the proposed lease extension, the rent will be adjusted according to the Consumer Price Index (CPI) annually beginning on December 1, 2020 of no less than three percent and no more than five percent. - Over the five-year term of the lease extension from December 1, 2019, through November 30, 2024, total rent to be paid by the HSA is \$3,005,399. This assumes the base rent increases at the maximum allowable CPI of five percent per year. Recommendation - Approve the proposed resolution.	

MANDATE STATEMENT

City Charter Section 9.118(c) states that any 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

In 2009, the Board of Supervisors approved six leases between the City, as Tenant, on behalf of the Human Services Agency (HSA), and Bayview Plaza, as Landlord, to lease 3801 Third Street for Suites 200, 205, 210, 230, 235 and 240 to be used for HSA programming, including Family and Children's Services and Child Welfare Services. The original term of the lease was for one year from September 1, 2009 until August 31, 2010 with annual options to extend on a year-to-year basis with a final ending date of August 31, 2014, for total lease terms of five years.

In November 2014, the Board of Supervisors approved the lease of 15,083 square feet at 3801 Third Street for the HSA with Bayview Plaza, LLC, merging Suites 200, 205, 210, 230, 235, 240, and adding Suite 220 at the initial monthly rent of \$39,215.80 during improvements and alterations, and then \$41,478.25 per month for five years after substantial completion of the tenant improvements, for a base year's rent total of \$373,304; and construction of tenant improvements in an estimated cost to the City of \$865,098 (File 14-1033). The 2014 lease provided for one five year option to extend to 2024.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution authorizes the Director of Property, on behalf of the Human Services Agency (HSA), to exercise a five-year extension to extend the existing lease between Bayview Plaza, LLC, as landlord, and the City, as tenant, for 15,083 square feet within Suites 200, 205, 210, 220, 230, 235, and 240 at 3801 Third Street, to commence on December 1, 2019, for a total term of December 1, 2014, through November 30, 2024. The initial monthly base rent at 3891 Third Street will be \$45,325.13 for a total annual base rent of \$543,901.56. Table 1 below summarizes the terms and conditions of the lease provisions.

Table 1. Summary of Proposed Lease Extension Details

	Proposed Lease Extension
Premises	15,083 square feet
Base Rent (monthly)	\$45,325.13 (\$3.01 per square feet)
Service and Utilities	Paid by landlord
Base Rent Increase Amount	Rent to be adjusted according to the Consumer Price Index (CPI). Increase shall be not less than 3 percent and more than 5 percent. The first rent adjustment will occur on December 1, 2020.
Tenant Improvements	None

According to Mr. Robert Walsh, HSA's Director of Operations, the Family and Children Services (FCS) Program utilizes 3801 3rd Street as general office space for protective service workers and support staff, while also providing services related to resource family (foster parents) training, child and family visitation, and family team meetings. Mr. Walsh states that the facility is located in an ideal location due to its proximity to the 3rd street transportation corridor, which makes it easy to access by both clients and staff. The facility is also located in the same plaza as HSA's partners at DPH, who provide mental health services to clients in conjunction with FCS. The leased facility has 85 work stations, which includes offices, cubicles, and hoteling¹ stations. Of the 85 work stations, HSA's FCS Program uses 76 and DPH uses 9². According to Mr. Walsh, the proposed lease extension supports the current need for 85 work stations, which is not expected to change during the extension term.

Tenant Improvements

As noted above, the original lease approved in November 2014 provided for tenant improvements to merge existing suites, add new programmatic space and ensure that any improvements must comply with LEED Gold Certification³. According to the Real Estate Division, all tenant improvements are complete, and the premises was certified LEED Gold in 2018.

FISCAL IMPACT

HSA's existing annual rent for 3801 Third Street from December 1, 2018 through November 30, 2019 is \$543,902 equal to approximately \$36.06 per square foot per year for approximately 15,083 square feet. The existing lease sets the new base monthly rental rate equal to 95 percent of fair market rental value when the option to extend is exercised but no less than the current base monthly rental rate. Under the proposed lease extension, the first year rent from December 1, 2019 through November 30, 2020 will remain at \$543,902.

According to the Real Estate Division the current fair market rent for Class B office space in southeast San Francisco according to the market index is approximately \$53.63 per square foot per year⁴. The negotiated base rent of \$36.06 per square foot per year of the proposed lease extension is at or below the fair market rental value estimate. Consequently, the proposed

¹ Hoteling is reservation-based unassigned seating; employees reserve a workspace before they come to work in an office.

² HSA also uses the nine DPH stations for interns and "drop-in" staff.

³ LEED (Leadership in Energy and Environmental Design) is a program of the U.S. Green Building Council that certifies buildings constructed for energy and environmental efficiency. LEED has four certification levels: certified, silver, gold and platinum.

⁴ The Real Estate Division also reviewed the following comparable properties which also average above the proposed base rent: 2095 Jerrold Ave (\$50 per square foot per year), 2555 San Bruno Ave (\$45 per square foot per year), 78 29th Street (\$58 per square foot per year), 1425 Egbert Ave (\$54 per square foot per year), and 3450 Third Street (\$36 per square foot per year). The average of all comparable properties is \$48.60 per square foot per year, of which 95 percent is \$46.17.

lease extension does not meet the independent appraisal requirement threshold of \$45 per square foot per year as stipulated under Section 23.27 of the Administrative Code⁵.

Under the proposed lease extension, the rent will be adjusted according to the Consumer Price Index (CPI) annually beginning on December 1, 2020 of no less than three percent and no more than five percent.

As shown in Table 2 below, over the five-year term of the lease extension from December 1, 2019, through November 30, 2024, total rent to be paid by the HSA is \$3,005,399. This assumes the base rent increases at the maximum allowable CPI of five percent per year. The total cost would be paid from the City's General Fund, subject to Board of Supervisors appropriation approval in the HSA's annual budget.

Table 2: Total Costs by Year under Proposed Lease Extension

Lease Year	Monthly Rent	Annual Rent	Total Cost
Year 1	\$45,325	\$543,901	\$543,902
Year 2	\$47,591	\$571,097	\$571,097
Year 3	\$49,971	\$599,651	\$599,651
Year 4	\$52,470	\$629,634	\$629,634
Year 5	\$55,093	\$661,116	\$661,116
Total		\$3,005,399	\$3,005,399

RECOMMENDATION

Approve the proposed resolution.

⁵ Per City Charter Section 23.27, the Director of Property shall determine the Market Rent of such lease based on a review of available and relevant data. If the Market Rent of the lease is more than \$45 per square foot per year as base rent, the Director of Property shall obtain an appraisal for such Lease.

Items 10, 11, & 12 Files 19-1012, 19-1019, 19-1115	Department: Mayor's Office of Housing & Community Development
EXECUTIVE SUMMARY	
Legislative Objectives • Files 19-1019 and 19-1012: The proposed resolution and ordinance would approve the issuance of certificates of participation in an amount not to exceed \$7,250,000 and appropriate those funds to finance a portion of the development costs of the Homeless Service Center at 1064-68 Mission Street. • File 19-1115: The proposed resolution would approve an amended and restated grant agreement between the Mayor's Office of Housing and Community Development (MOHCD) and 1064 Mission Homeless Services Center LLC for \$13,450,689 to finance the construction of the of Homeless Service Center at 1064-68 Mission Street. The amended grant includes the certificates of participation in Files 19-1019 and 19-1012. Key Points • The City is funding the development of a Homeless Service Center at 1064-68 Mission Street, which will be co-located with 258 units of supportive housing (File 19-1114 of this report). The site will be jointly developed by Mercy Housing California and Episcopal Community Services and the Homeless Services Center will be co-owned by the Departments of Public Health and Homelessness & Supportive Housing. Construction is expected to occur January 2020 to August 2021. • The Departments of Public Health and Homelessness & Supportive Housing will relocate existing programs to this new Homeless Service Center, including the Tom Waddell Urgent Care and Dental Clinic, the Street Medicine team, behavioral health services, and the San Francisco Homeless Outreach Team (SF HOT). 147 staff are expected to be relocated. Fiscal Impact • The cost to develop the Homeless Service Center is \$16,147,863, of which \$13,450,689 is subject of the proposed amended grant agreement (File 19-1115). Sources of funds for the \$13,450,689 grant agreement include proceeds from the certificates of participation (Files 19-1019 and 19-1012), \$3.45 million General Fund contributions from the Department of Public Health, and \$5 million from the 2016 Public Health & Safety General Obligation Bond. • The anticipated incremental debt service associated with the certificates of participation complies with the City's policy of limiting General Fund debt service payments at or below 3.25 percent of General Fund Discretionary Revenue. Recommendation • Approve the proposed resolutions and ordinance.	

MANDATE STATEMENT

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

City Charter Section 9.113(e) states that the Board of Supervisors has the authority to borrow money on an interim basis through the issuance of its commercial paper notes and other short term debt.

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.

City Administrative Code Section 10.62(b) states that the Board of Supervisors may authorize the issuance of Certificates of Participation (COPs) and other lease financing debt to fund capital projects provided the annual debt service cost of such outstanding indebtedness does not exceed 3.25% of discretionary revenue as determined by the Controller and Director of Public Finance.

City Administrative Code Section 10.62(c) states that the Director of Public Finance may issue tax-exempt and taxable commercial paper notes to provide interim funds to finance the acquisition, construction and rehabilitation of capital improvements and capital equipment, subject to the project's and financing plan's approval by the Board of Supervisors and Mayor.

BACKGROUND**Homeless Service Center at 1064-68 Mission Street**

The City is funding the development of a Homeless Service Center at 1064-68 Mission Street, which will be co-located with 258 units of supportive housing (File 19-1114 of this report). The site will be jointly developed by Mercy Housing California and Episcopal Community Services and the Homeless Services Center will be owned by City and jointly operated by the Departments of Public Health and Homelessness & Supportive Housing. Episcopal Community Services, one of the developers, will relocate a training program for formerly homeless persons, the Conquering Homelessness through Employment in Food Services (CHEFS) program, to the new Homeless Service Center. The property will be managed by Caritas Management Corporation. Construction is expected to occur January 2020 to August 2021.

The Departments of Public Health and Homelessness & Supportive Housing will relocate other existing programs to this new Homeless Service Center, including the Tom Waddell Urgent Care and Dental Clinic, the Street Medicine team, behavioral health services, and the San Francisco Homeless Outreach Team (SF HOT). These programs will serve homeless persons within the City. One Deputy Sheriff will be stationed on-site during program hours, 8am – 7pm.

DETAILS OF PROPOSED LEGISLATION

File 19-1019: The proposed resolution would approve the issuance of certificates of participation (COPS) in an amount not to exceed \$7,250,000 to finance a portion of the costs of the Homeless Service Center at 1064-68 Mission Street. The resolution would also authorize issuance of commercial paper on an interim basis in advance of the execution and delivery of the COPS and to be repaid with proceeds from the COPS.

File 19-1012: The proposed ordinance would appropriate \$7,250,000 of proceeds of certificates of participation to the Department of Public Health to fund construction costs for the Homeless Services Center in FY2019-2020 and related issuance costs; and placing these funds on Controller's Reserve pending the sale of the certificates of participation.

File 19-1115: The proposed resolution would approve an amended and restated grant agreement between the Mayor's Office of Housing and Community Development (MOHCD) and 1064 Mission Homeless Services Center LLC for \$13,450,689 to finance the construction of the of Homeless Service Center at 1064 Mission Street.

Legislation Approving the Development of the Homeless Service Center

The cost to develop the Homeless Service Center is \$16,147,863, shown in Table 1 below. Of the \$16,147,863 development cost, \$13,450,689 is a grant agreement between MOHCD and 1064 Mission Homeless Services Center LLC to finance the construction (File 19-1115). File 19-1115 increases the total grant agreement from the previous grant amount of \$775,439 to the new grant amount of \$13,450,689. Sources of funds for the \$13,450,689 grant agreement include COPS proceeds (Files 19-1019 and 19-1012).

Table 1: Homeless Service Center Development

Sources	City Sources	Non-City Sources	Total
<u><i>Grant Agreement</i></u>			
2016 Public Health & Safety Bond GO Bonds	\$5,000,000	\$0	\$5,000,000
Certificates of Participation (Files 19-1012 and 19-1019)	5,000,000	0	5,000,000
General Fund	<u>3,450,689</u>	<u>0</u>	<u>3,450,689</u>
Subtotal, Grant Agreement (File 19-1115)	\$13,450,689	\$0	\$13,450,689
General Fund - Reimbursement to MOHCD	1,618,304	0	1,618,304
Tax Credit Equity	0	1,078,870	1,078,870
Total Sources	\$15,068,993	\$1,078,870	\$16,147,863
<u><i>Uses</i></u>			
<u><i>Soft Costs</i></u>			
Architecture & Design	\$656,880	\$0	\$656,880
Engineering & Environmental Studies	118,061	0	118,061
Construction Financing Costs	0	0	0
Permanent Financing Costs	0	0	0
Legal Costs	0	0	0
Other Development Costs	457,981	0	457,981
Contingency (13%)	<u>160,000</u>	<u>0</u>	<u>160,000</u>
Subtotal Soft Costs	\$1,392,922	\$0	\$1,392,922
Acquisition	5,000	0	5,000
Construction	9,433,794	1,078,870	\$10,512,664
Construction Contingency (22%)	2,318,974	0	\$2,318,974
Operating Reserves	\$0	0	\$0
Developer Fees	300,000	0	300,000
Reimbursement to MOHCD	1,618,304	0	1,618,304
Total Uses	\$15,068,993	\$1,078,870	\$16,147,863

Source: MOHCD

According to Ms. Anne Romero, MOHCD project manager, the contingencies of 13 percent for soft costs and 22 percent for construction costs for the Homeless Service Center are higher than those in the supportive housing budget (7 percent and 16 percent respectively, shown in Table 1 of File 19-1114 of this report) because at the time of the financing request, the design of the Homeless Services Center was less advanced than the design of the supportive housing which could lead to higher design and construction costs.

Costs of Homeless Service Center Programs

The FY 2019-20 costs of \$17 million for the following programs that will be relocated to the Homeless Service Center are shown below in Table 2 below. These are existing programs that will service residents at the proposed supportive housing development at 1064-68 Mission Street and as well as continue to service clients Citywide through the Homeless Service Center. According to Ms. Jenny Louie, Budget Manager at the Department of Public Health, and Gigi Whitley, Deputy Director of Administration & Finance at the Department of Homelessness & Supportive Housing, none of the existing programs that are being relocated are expected to expand.

Table 2: Costs of Homeless Service Center Programs

Program/Service	Estimated FY 2020-21 Costs
One-time moving and equipment costs for relocating DPH clinical services	\$2,062,536
One-time costs	\$2,062,536
Tom Waddell Urgent Care, Street Medicine, & Shelter Health	\$8,200,000
Homeless Outreach Team (HOT)	12,836,884
Deputy Sheriff	485,222
Ongoing costs	\$21,522,106

Sources: Departments of Public Health, Homeless & Supportive Housing, and Sheriff

Notes: Program costs reflect FY 2019-20 values and will be higher in FY 2020-21 when the Homeless Service Center becoming operational. Moving and equipment (furniture, fixtures, & equipment) costs for relocating the Department of Public Health's clinical programs to 1064-68 Mission are included in the FY 2019-20 budget. Moving and equipment costs to relocate the HOT team will be requested in the FY 2020-21 budget.

As shown above, one-time moving and equipment costs to relocate Department of Public Health clinical programs that provide services to homeless persons are estimated to be \$2 million and are included in the FY 2019-20 budget. Moving and equipment costs to relocate the Homeless Outreach Team will be requested in the FY 2020-21 budget. An additional new and ongoing cost of \$485,222 will be the cost of stationing a Deputy Sheriff during clinic hours, Monday – Saturday 8 am – 7pm.

Acquisition of 1064-68 Mission Street

The property at 1064-68 Mission Street was leased to the City from the U. S. Department of Health and Human Services (HHS) in October 2018 at no cost. The land was made available at below market rate through a federal program known as McKinney-Vento Homeless Assistance Act, which makes surplus federal properties available to assist homeless persons. In May 2017, the Board of Supervisors approved a resolution authorizing MOHCD to submit an application to the HHS Federal Property Assistance Program to acquire the property located at 1064 and 1068 Mission Street for use in constructing permanent supportive housing for formerly homeless San Franciscans (File 17-0474).

The lease has a three year term with options to extend up to twenty years and requires the City to begin using the property to deliver services to homeless persons within the three year initial term. MOHCD plans to acquire the land at 1064-68 Mission Street upon approval of the gap financing for construction of supportive housing (File 19-1114) and grant agreement for the construction of the Homeless Service Center (19-1115). Although the land has an estimated market value of \$36 million, the City will be able to purchase it for \$1.00 through the Federal Property Assistance Program.

10 Year Capital Plan

The Homeless Service Center project at 1064-68 Mission Street is in the City's 10 Year FY 2020-2029 Capital Plan, which was approved by the Board of Supervisors. The Capital Plan includes

the \$5 million in COPS and \$5 million of general obligation bond funding allocated to the construction of the Homeless Service Center. The \$5 million of COPS is part of the \$108 million “Public Health 101 Grove Exit COP” identified in the Capital Plan for the planned relocation of staff out of the seismically unsafe 101 Grove Street.¹ The \$5 million in bond funding is from the 2016 General Obligation Public Health and Safety.

FISCAL IMPACT

Funding Sources for Homeless Service Center

Grant Agreement (File 19-1115)

As shown in Table 1 above, the total expected development cost for the Homeless Service Center is \$16,147,863, of which \$13,450,689 would be paid for by a grant from MOHCD. Sources of funds for the \$13,450,689 grant agreement include:

- \$5,000,000 in 2016 Public Health & Safety Bond General Obligation Bonds²
- \$5,000,000 in Certificates of Participation, shown in Table 3 below (Files 19-1019 and 19-1012)
- \$3,450,689 in General Fund monies, previously appropriated by the Board of Supervisors in the FY 2019-20 DPH budget.

Other Funding Sources

The other sources of funds to develop the Homeless Service Center, shown in Table 1 above, include:

- \$1,618,304 in reimbursement from the General Fund allocations to the Department of Public Health, to offset a portion of the shell construction that structurally supports offices for their programs as well as the residential units and is therefore eligible for tax credits.
- \$1,078,870 in tax credit equity, allocated to the developer by the California Tax Credit Allocation Committee for the shell construction.

Issuance and Appropriation of Certificates of Appropriation

Tables 3 below shows the sources and uses of the COPS funding (Files 19-1019 and 19-1012).

¹ The \$108 million includes the relocation of staff to Laguna Honda Hospital and San Francisco General Hospital.

² As of June 2019, the City had issued \$223,075,000 of the \$350,000,000 authorized by voters for this General Obligation bond in 2016, leaving approximately \$126,925,000 remaining in bond authority.

Table 3: Certifications of Participation Funding

Sources and Uses	Amount
Sources	
COP Par Amount	\$7,250,000
Uses	
Homeless Services Center	\$5,000,000
Audit Fee	10,000
Subtotal Estimated Project Costs	\$5,010,000
Debt Service Reserve Fund ^a	\$637,950
Capitalized Interest/Fees ^a	904,800
Issuance Costs	403,215
Underwriter's Discount Fee	49,035
Subtotal Costs of Issuance	\$1,995,000
Total Estimated Costs	\$7,005,000
Reserve for Market Uncertainty	245,000
Total Uses	\$7,250,000

Source: Office of Public Finance

^a The debt service reserve fund sets aside funds equal to one year of debt service to account for financial uncertainty in repayment of the debt. The capitalized interest fund is the source of funds to repay debt prior to completion of the project.

As shown in Table 3 above, of the \$7,250,000, \$5 million will be allocated to fund development of the Homeless Services Center (the \$5 million allocation is also shown in Table 1 above), \$10,000 for the City Services Auditor to review the project, and the remaining \$1,995,000 is the cost of the issuance, with an additional \$245,000 reserve for market uncertainty.

City's Debt Policies

As noted above, the current plan of finance anticipates utilizing the City's commercial paper program, which was approved by the Board of Supervisors in March 2009 (File 09-0197) and March 2010 (File 10-0269) to finance project costs pending issuance of the COPs. Of the City's total commercial paper program of \$250 million re-authorized by the Board of Supervisors in May 2016 (File 16-0427); \$205.4 million was unencumbered as of November 13, 2019.

The City's policy is to limit General Fund debt service at or below 3.25 percent of discretionary General Fund revenues. According to Ms. Anna Van Degna, Director of Public Finance, the anticipated incremental debt service associated with the delivery and execution of the COPs complies with the City's policy of limiting General Fund debt service payments at or below 3.25 percent of General Fund Discretionary Revenue.

According to Ms. Van Degna, the Office of Public Finance intends to sell the COPS through a competitive sale.

RECOMMENDATION

Approve the proposed resolutions and ordinance.

Items 13 Files 19-1114	Department: Mayor's Office of Housing & Community Development
EXECUTIVE SUMMARY	
Legislative Objectives - The proposed resolution would (1) approve an amended and restated loan agreement between the MOHCD and 1064 Mission LP for \$74,408,049, (2) approve a ground lease between MOHCD and 1064 Mission LP at 1064-68 Mission Street of \$1 per year with a 75 year term and one option to extend for 24 years, and (3) confirm that the loan agreement and ground lease are consistent with the City's General Plan. The purpose of this loan is to finance the construction of 258 supportive housing units. Key Points - The City is funding the development of supportive housing at 1064-68 Mission Street, which will be co-located with a Homeless Service Center (see Files 19-1012, 19-1019, and 19-1115 of this report). The site will be jointly developed by Mercy Housing California and Episcopal Community Services and the Homeless Services Center will be co-owned by the Departments of Public Health and Homelessness & Supportive Housing. Episcopal Community Services, one of the developers, will relocate a training program for formerly homeless persons, the Conquering Homelessness through Employment in Food Services (CHEFS) program to the site. - The Homeless Service Center and supportive housing project will be a mixed use six story building, with 256 units of supportive housing and two resident manager units. The property will be managed by Caritas Management Corporation. Construction is expected to occur January 2020 to August 2021. - In addition, File 19-1114 would approve a Ground Lease between the City and the owner of the supportive housing operation at 1064-68 Mission Street for \$1.00 per year for a term of 75 years and one option to extend for 24 years. The Ground Lease requires that the lessee operate the supportive housing project. Fiscal Impact - The total development costs for the 258 units of housing and commercial space for the CHEFS program are \$143.6 million, shown in Table 1 below. Of the \$143.6 million, \$74.4 million are City funds and \$69.2 million are non-City funds. - According to the amended and restated loan agreement, the loan repayment is due on the 57th year of the loan. Loan repayment obligations are limited to the availability of residual receipts, or annual cash flow after operating costs have been paid. 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**Homeless Service Center and Supportive Housing at 1064-68 Mission Street**

The City is funding the development of supportive housing at 1064-68 Mission Street, which will be co-located with a Homeless Service Center (see Files 19-1012, 19-1019, and 19-1115 of this report). The site will be jointly developed by Mercy Housing California and Episcopal Community Services and the Homeless Services Center will be owned by the City. The Homeless Service Center and supportive housing project will be a mixed use six story building, with 256 units of supportive housing and two resident manager units. The project will have one development for formerly homeless adults (153 units plus one resident manager unit) and one development for formerly homeless seniors (103 units for age 55 years + plus one resident manager unit). Of the 258 affordable units, 256 are studio units and 2 are one bedroom units. Episcopal Community Services, one of the developers, will relocate a training program for formerly homeless persons, the Conquering Homelessness through Employment in Food Services (CHEFS) program to the site. The property will be managed by Caritas Management Corporation. Construction is expected to occur January 2020 to August 2021.

The adult and senior populations will each have their own private open space in two courtyards as well as community rooms that overlook their respective courtyards. There will be no car parking but 28 covered bike parking spaces for use of residents and staff.

Acquisition of 1064-68 Mission Street

The property at 1064-68 Mission Street was leased to the City from the U. S. Department of Health and Human Services in October 2018 at no cost. The land was made available at below market rate through a federal program known as McKinney-Vento Homeless Assistance Act, which makes surplus federal properties to be made available to assist homeless persons. In May 2017, the Board of Supervisors approved a resolution authorizing the Mayor's Office of Housing and Community Development (MOHCD) to submit an application to the HHS Federal Property Assistance Program to acquire the property located at 1064 and 1068 Mission Street for use in constructing permanent supportive housing for formerly homeless San Franciscans (File 17-0474).

The lease between the City and U. S. Department of Health and Human Services has a three year term with options to extend up to twenty years and requires the City begin using the property to deliver services to homeless persons within the three year initial term. MOHCD plans to acquire the land at 1064-68 Mission Street upon approval of the gap financing for the supportive housing (File 19-1114) and grant agreement for the Homeless Service Center (19-

1115). Although the land has an estimated market value of \$36 million, the City will be able to purchase it for \$1.00 through the Federal Property Assistance Program.

Selection of Developers

In October 2017, the Mayor's Office of Housing and Community Development (MOHCD) released a Request for Qualifications to develop supportive housing at 1064-68 Mission Street. Bidders would be responsible for all phases of development, including outreach, planning, design, financing, construction, ownership, and operation of the Site. Three responses were evaluated by a selection panel,¹ with the proposal by Episcopal Community Services and Mercy Housing scoring the highest. The proposed supportive housing development at 1064-68 Mission Street is consistent with the 2017 Request for Qualifications.

DETAILS OF PROPOSED LEGISLATION

File 19-1114: The proposed resolution would (1) approve an amended and restated loan agreement between the MOHCD and 1064 Mission LP for \$74,408,049, (2) approve a ground lease between the City and 1064 Mission LP at 1064-68 Mission Street of \$1 per year with a 75 year term and one option to extend for 24 years, and (3) confirm that the loan agreement and ground lease are consistent with the City's General Plan. The purpose of this loan is to finance the construction of 258 supportive housing units.

FISCAL IMPACT

Supportive Housing Development of 1064-68 Mission Street

The total development costs for the 258 units of housing and commercial space for the CHEFS program are \$143.6 million, shown in Table 1 below. Of the \$143.6 million, \$74.4 million are City funds and \$69.2 million are non-City funds.

¹ The selection panel consisted of the MOHCD Director of Housing Development, the Housing Program Manager from the Office of Community Investment and Infrastructure, the Director of the SoMa Community Stabilization Fund, the Manager of Supportive Housing Programs, and a Commissioner from the San Francisco Arts Commission.

Table 1: 258 Units of Supportive Housing and CHEFS Program at 1064-68 Mission Street

Sources	MOHCD (File 19-1114)	Non-City Sources	Total
<i>Initial Loan</i>			
Hotel Tax	\$256,929	\$0	\$256,929
Residential Hotel Replacement	2,000,000	0	2,000,000
Inclusionary Housing Fees	<u>3,967,632</u>	<u>0</u>	<u>3,967,632</u>
<i>Subtotal Initial Loan</i>	<i>\$6,224,561</i>	<i>\$0</i>	<i>\$6,224,561</i>
<i>Amended Loan and Non-City Sources</i>			
Affordable Housing Production and Preservation Fund (ERAF)	40,413,843	\$0	40,413,843
No Place Like Home	27,769,645	0	27,769,645
Tax Credit Equity - Residences	0	51,055,510	51,055,510
Tax Credit Equity - Clinic	0	1,078,870	1,078,870
Affordable Housing Program	0	1,500,000	1,500,000
Developer Fundraising	0	2,632,535	2,632,535
Developer Equity	<u>0</u>	<u>12,939,303</u>	<u>12,939,303</u>
<i>Subtotal, Amended Loan and Non-City Sources</i>	<i>68,183,488</i>	<i>69,206,218</i>	<i>137,389,706</i>
Total Sources	\$74,408,049	\$69,206,218	\$143,614,267
Uses			
<i>Soft Costs</i>			
Architecture & Design	\$2,211,036	\$963,337	\$3,174,373
Engineering & Environmental Studies	446,945	14,011	460,956
Construction Financing Costs	663,661	5,178,471	5,842,132
Permanent Financing Costs	10,000	0	10,000
Legal Costs	230,000	60,000	290,000
Other Development Costs	3,842,746	3,430,421	7,273,167
Soft Cost Contingency (7%)	<u>629,429</u>	<u>538,463</u>	<u>1,167,892</u>
<i>Soft Cost Subtotal</i>	<i>\$8,033,817</i>	<i>\$10,184,703</i>	<i>\$18,218,520</i>
Acquisition	0	0	1
Construction	65,259,232	26,337,839	91,597,071
Construction Contingency (16%)	0	14,459,691	14,459,691
Operating Reserves	0	1,869,682	1,869,682
Developer Fees	<u>1,115,000</u>	<u>16,354,303</u>	<u>17,469,303</u>
<i>Amended Loan and Other Non-City Funds</i>	<i>\$66,374,233</i>	<i>\$59,021,515</i>	<i>\$125,395,748</i>
Total Uses	\$74,408,049	\$69,206,218	\$143,614,268

Source: MOHCD.

Funding Sources

MOHCD previously entered into a loan agreement with Episcopal Community Services and Mercy Housing for \$6,224,561 to pay for initial planning and development costs for 1064-68 Mission Street. That loan consisted of the Hotel Tax, Residential Hotel Replacement Fees², and

² Residential Hotel Replacement: Per Section 41.13 of the Administrative Code, the City receives fees related to the conversion of residential hotel units. The City may use the fees to finance the development of housing to replace the residential hotel units by making such housing affordable to extremely and very low-income qualifying households.

Inclusionary Housing Fees and was used to fund predevelopment costs of the residential project.

Sources of funds of \$68,183,488 provided by the City in the amended loan agreement include ERAF funds and State grant funds as follows:

- \$40,413,843 in Affordable Housing Production and Preservation Fund: In June 2019 the Board of Supervisors created this fund to receive excess Education Revenue Augmentation Funds (ERAF) to fund affordable housing development.
- \$27,769,645 in No Place Like Home: State funding granted to the City to develop supportive housing for persons with serious mental illnesses and are formerly homeless.

Other Non-City sources of funds include:

- \$1,500,000 from the Affordable Housing Program: Loan from the Federal Home Loan Bank of San Francisco.
- \$51,055,510 in federal Low Income Housing Tax Credits allocated by the California Tax Credit Allocation Committee to the developer for affordable housing development.
- \$1,078,870 in federal tax credits for development of the commercial space for the CHEFS program.
- \$12,939,303 in developer equity allocated to the project.

According to Ms. Romero, Episcopal Community Services has committed to raise \$2.6 million to fund the CHEFS program. Episcopal Community Services is prepared to fund approximately \$1.1 million from developer fees earned at other projects as well as contributing back their developer fee on this project. Episcopal Community Services has raised \$1.5 million through their capital campaign which is underway and on track to meet the \$2.6 million target.

The City's Subsidy per Housing Unit

The total per housing unit City subsidy is \$288,403, as shown in Table 2 below. This subsidy amount includes the 258 housing units and the residential support service provided by the CHEFS program.

Table 2: City Subsidy for Affordable Housing Units

Number of units	258
Total residential area (sqft.)	152,519
Total City subsidy	\$74,408,050
City Subsidy per unit	\$288,403
City Subsidy per sf	\$488

Source: MOHCD

Gap Loan Terms for Residential Development (File 19-1114)

According to the amended and restated loan agreement, the loan repayment is due on the 57th year of the loan. Loan repayment obligations are limited to the availability of residual receipts, or annual cash flow after operating costs have been paid. Interest not paid to the City each year

due to lack of available residual receipts will be forgiven and will not accrue. For any year when the replacement reserve balance is less than 1.5 times the original replacement reserve amount, one-third is retained by the project sponsor, and the other two-thirds is deposited into the replacement reserve. In the event that the replacement reserve balance is greater than 1.5 the original amount, then the City would receive repayment on the loan.

Affordability Restrictions

As mentioned above, the amended and restated loan agreement includes a Declaration of Restrictions that controls the affordability of the units in the proposed development. In addition, File 19-1114 would approve a Ground Lease between the City and the owner of the supportive housing operation at 1064-68 Mission Street for \$1.00 per year for a term of 75 years and one option to extend for 24 years. The Ground Lease requires that the lessee operate the supportive housing project.

Operating Costs*Local Operating Subsidy*

According to Ms. Romero, the local operating subsidy for the 258 affordable units will be required after construction is completed in August 2021 to pay for operating costs of the residential units. Over the fifteen year period of 2021 to 2036, the total amount of the local operating subsidy, which is a General Fund expense, is expected to be \$63,532,633.

POLICY CONSIDERATION

The total development cost for the 258 supportive housing units is \$143.6 million, or \$556,644 per unit. On October 16, 2019, the Budget and Finance Committee accepted the Budget and Legislative Analyst's recommendation to amend the resolution in File 19-0980 to request a report from the Mayor's Office of Housing of Community Development on the City's procedures to contain costs of affordable housing development.

RECOMMENDATION

Approve the proposed resolution.

Items 15 and 16 Files 19-1011 and 19-1014	Department: Mayor's Office of Housing and Community Development (MOHCD) Office of Public Finance
EXECUTIVE SUMMARY	
Legislative Objectives	
• File 19-1014: The proposed ordinance would authorize the execution and delivery of taxable or tax-exempt Certificates of Participation (COPs) representing an aggregate principal amount not to exceed \$83,600,000 to finance and refinance certain capital improvement projects, including but not limited to Hunters View, Sunnydale, and Potrero Terrace and Annex housing developments. • File 19-1011: The proposed ordinance would appropriate \$83,600,000 of COPs proceeds to the Mayor's Office of Housing and Community Development (MOHCD) to fund project costs of HOPE SF in FY2019-2020.	
Key Points	
• HOPE SF is an anti-poverty initiative to revitalize San Francisco's largest and most distressed public housing sites as mixed-income developments. In June 2019, the Board of Supervisors adopted the Ten-Year Capital Plan for FY 2020-21 through FY 2029-30, which provides for certificates of participation (COPs) for horizontal infrastructure improvements for the HOPE SF public housing sites at Hunters View, Alice Griffith, Potrero Terrace and Annex, and Sunnydale and Velasco.	
Fiscal Impact	
• Of the \$83,600,000 COPs appropriation, \$57,056,011 would partially fund infrastructure development and provide gap financing to affordable housing development. The remaining COPs appropriation is (a) allocated to financing/issuance costs, the debt service reserve fund, and capitalized interest; and (b) reserved for market uncertainty pending the sale of the COPs. • Annual debt service is approximately \$6.5 million and total debt service of the anticipated 28-year term of the COPs is \$183.6 million, paid from the General Fund. According to the Office of Public Finance, the issuance of the COPs is within the City's debt policy, which limits General Fund debt service at or below 3.25 percent of discretionary General Fund revenues.	
Policy Consideration	
• Per unit development costs for three HOPE SF projects, including Sunnydale Block 6, Hunters View Phase III, and Potrero Block B range from approximately \$747,000 to \$968,000. A portion of the per unit costs for Hunters View and Potrero includes infrastructure development. MOHCD will be submitting a report to the Board of Supervisors on cost containment measures on affordable housing development on December 9, 2019.	
Recommendation	
• Approve the proposed ordinances.	

MANDATE STATEMENT

City Administrative Code Section 10.62(b) states that the Board of Supervisors may authorize the issuance of Certificates of Participation (COPs) and other lease financing debt to fund capital projects provided the annual debt service cost of such outstanding general fund appropriation debt does not exceed 3.25 percent of discretionary revenue as determined by the Controller and Director of Public Finance. Administrative Code Section 10.62(c) states that the Director of Public Finance may issue tax-exempt and taxable commercial paper notes to provide interim funds to finance the acquisition, construction and rehabilitation of capital improvements and capital equipment, subject to the project's and financing plan's approval by the Board of Supervisors and Mayor.

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

BACKGROUND**HOPE SF and 10-Year Capital Plan**

HOPE SF is an anti-poverty initiative to revitalize San Francisco's largest and most distressed public housing sites as mixed-income developments. In June 2019, the Board of Supervisors adopted the Ten-Year Capital Plan for FY 2020-21 through FY 2029-30, which provides for certificates of participation (COPs) for horizontal infrastructure improvements for the HOPE SF public housing sites at Hunters View, Alice Griffith, Potrero Terrace and Annex, and Sunnydale and Velasco.

Previously Approved Certificates of Participation

In May 2017, the Board approved an ordinance authorizing the execution and delivery of taxable COPs in an amount not to exceed \$38 million to partially finance the first three phases of the HOPE SF project, consisting of a master revitalization project for the Hunters View housing development in the Bayview-Hunters Point neighborhood of San Francisco (File 17-0294).

DETAILS OF PROPOSED LEGISLATION

File 19-1014 is an ordinance that would:

- Authorize the execution and delivery of taxable or tax-exempt Certificates of Participation (COPs) representing an aggregate principal amount not to exceed \$83,600,000 to finance and refinance certain capital improvement projects, including but not limited to certain properties generally known as Hunters View, Sunnydale, and Potrero Terrace and Annex housing developments;
- Approve the form of a Supplement to Trust Agreement between the City and County of San Francisco (City) and the U.S. Bank National Association, as trustee (Trustee) (including certain indemnities contained therein);

- Approve the respective forms of Supplements to Property Lease and Project Lease, each between the City and the Trustee for the lease and lease back of 375 Laguna Honda Boulevard (or other property as determined by the Director of Public Finance);
- Approve the form of an Official Notice of Sale and a Notice of Intention to sell the COPs;
- Approve the form of an official statement in preliminary and final form;
- Approve the form of a Continuing Disclosure Certificate;
- Grant general authority to City officials to take necessary actions in connection with the authorization, sale, execution and delivery of the COPs;
- Approve modifications to documents; and
- Ratify previous actions taken in connection therewith.

Certificates of Participation

COPs are structured as a lease-lease back, in which the City-owned Laguna Honda Hospital campus at 375 Laguna Honda Boulevard (or other City-owned property as determined by the Director of Public Finance) would serve as the leased property to secure the COPs¹. Based on market conditions expected at the time of the sale, the COPs could be structured for a term of up to 35 years at an interest rate not-to-exceed 12 percent. According to the Office of Public Finance, maximum annual debt service (or maximum annual base rent) is \$7.4 million.

The Office of Public Finance estimates that the COPs would be paid over 28 years with total principal and interest payments of approximately \$183.6 million and an estimated average annual interest rate of 6.6 percent.

Commercial Paper

The current plan of finance anticipates initially utilizing the City's commercial paper program, which was launched in June 2010 pursuant to Resolution No. 85-09 and Resolution No. 136-10, to finance certain project costs, including preliminary design, planning, and permitting. Pursuant to Resolution No. 247-13 approved in July 2013, the City's total commercial paper program authorization is \$250 million, of which \$205.4 million is currently unencumbered.

¹ The City leases the City-owned property to the Trustee and leases back the property. The City makes annual base rental payments to the Trustee in an amount required to repay the COPs. When the COPs are fully paid, the property lease is terminated. Annual base rental payments (in effect, debt service) are paid from the City's General Fund. The City entered into the Original Trust Agreement, Original Project Lease, and Original Property Lease in 2009 and entered into two supplemental agreements/leases to the Original Trust Agreement, Original Project Lease, and Original Property Lease for the subsequent series of COPs issued in 2009 and 2012. The City also intends to enter into a third supplemental agreement/lease in 2019 for refunding the previously issued 2009 COPs. Under the proposed ordinance, the City will structure the COPs using the same lease-lease back structure as the City's existing Series 2009A COPs, Series 2009B COPs, Series 2012A COPs, planned Series 2019-R1 Refunding COPs, and planned Series 2020 Hall of Justice COPs utilizing subsequent supplemental agreements as permitted by the Original Trust Agreement, Original Property Lease, and Original Project Lease, each by and between the City and a third-party trustee, currently U.S. Bank National Association.

According to Ms. Anna Van Degna, Director of Public Finance, if the ordinance is approved, commercial paper is anticipated to be issued in early calendar year 2020. The long-term COPs are anticipated to be issued in late calendar year 2020 or in calendar year 2021.

Negotiated Sale

The proposed ordinance permits the COPs to be sold through a negotiated or a competitive sale. Based on current market conditions, the Office of Public Finance intends to sell the COPS competitively. However, according to Ms. Van Degna, the Office of Public Finance may propose a negotiated sale rather than a competitive sale if one of more of the factors described in the City's Debt Policy are present, which currently include: (1) significant deterioration in the City's overall credit rating or outlook; (2) market disruptions that are outside of the City's control, including new or proposed changes in taxation or sector risks; and (3) the transaction consists of (i) variable rate debt or commercial paper, (ii) a non-traditional debt structure (e.g. forward delivery bonds, long-dated maturities or special call features), or (iii) a public/private partnership.

File 19-1011 is an ordinance appropriating \$83,600,000 of Certificates of Participation to the Mayor's Office of Housing and Community Development to fund project costs of HOPE SF in FY2019-2020; and placing these funds on Controller's Reserve pending the sale of the Certificates of Participation, sale of commercial paper as interim financing, or the confirmation of sufficient commercial paper program capacity to certify available funds.

The Project

As described below, the proposed \$83,600,000 of proceeds from COPs would fund certain horizontal and vertical development for the Hunters View, Sunnydale, and Potrero Terrace and Annex housing developments as part of the HOPE SF initiative, as well as related financing costs.

Hunters View

The affordable housing in Hunters View Phase IIIA will consist of 118 rental units located on two parcels with a unit mix of 49 one-bedrooms, 13 two-bedrooms, 16 three-bedrooms, 34 four-bedrooms, 5 five-bedrooms and 1 two-bedroom manager's unit. Except for the manager's unit, all units are restricted at 50 percent San Francisco Area Median Income (AMI) with 53 units designated as public housing replacement units and supported by project-based housing vouchers, funded by the Department of Housing and Urban Development (HUD). The remaining 54 units are funded through allocation of federal tax-credits to the developer. There is one manager's unit. Vertical construction is estimated to start in early 2021. Associated infrastructure required for the construction of the Hunters View Phase III vertical affordable project includes construction of the streets, curbs, gutters, and utility services as well as grading of the 5 market rate parcels² and construction of one open space. This work is expected to commence in Fall 2020.

² According to MOHCD, the grading of the market rate parcels is considered rough grading only and, along with new utility connections in the public right of way, is the minimum necessary to create a saleable parcel. The market rate developer will be responsible for the fine grading and for bringing the utilities to the site from the

Sunnydale

The second affordable housing development to be built on the Sunnydale HOPE SF revitalization site, Block 6, will provide 167 affordable units including 21 one bedroom, 95 two bedroom, 40 three bedroom, and 11 four bedroom apartments. Per HOPE SF's mission of providing mixed income communities, 75 percent of the units, or 125 units, will be set aside for Sunnydale public housing households with a Right to Return and will be subsidized by project-based housing vouchers, funded by HUD. The remaining 41 units are funded through allocation of federal tax-credits to the developer, which will have a maximum affordability of 60 percent AMI. The Project is Type V wood construction over a concrete garage that is partially underground due to the slope of the site. Construction started in November 2019 with full lease up³ expected by Fall 2021.

Potrero Terrace and Annex

Phase II for Potrero Terrace and Annex will be divided into three new parcels: City-owned streets, a market-rate parcel for Block A housing (up to 125 units), and an affordable parcel for Block B (up to 165 units). Starting in winter 2020, streets will be rebuilt to match the Potrero master plan grid and one new street will be added, increasing the total rights-of-way to 129,133 square feet. Wide sidewalks and pedestrian measures will be included along with new pedestrian and street lights consistent with the master plan. Phase II also includes a Mini Park of approximately 3,900 square feet (.09 acres). Existing overhead power lines will be undergrounded and existing underground gas lines will be moved to acceptable depths to accommodate the new streets. A PUC switchgear station will be located in this phase (on Block B parcel) to serve Block A and Block B.

All of the units in Block B will be restricted to households at incomes at or below 60 percent AMI. Approximately 124 units, 75 percent of the total, will be set aside as public housing replacement units for existing Potrero households, subsidized by project-based housing vouchers, funded by HUD. The remaining 40 units, excluding the one manager's unit, are funded through allocation of federal tax-credits to the developer. The project is estimated to start construction in Fall 2020.

FISCAL IMPACT

Of the \$83,600,000 authorization, the City would pay approximately \$57,056,011 in total project costs to partially fund infrastructure development and provide gap financing to affordable housing development, \$1,270,943 in financing costs, \$6,697,401 allocated to a debt service reserve funds, and \$16,210,645 in capitalized interest, totaling \$81,235,000. The balance of \$2,365,000 is reserved for market uncertainty pending the sale of the COPs. Table 1

public right of way. While there is no explicit arrangement for these costs to be repaid, the sales proceeds from the market rate parcels will return to MOHCD and will be utilized to finance future affordable projects.

³ A lease up schedule is defined as the time that it takes newly available properties to attract tenants and reach stabilized occupancy. Lease ups are generally associated with multi-family complexes that are in the midst of construction.

below identifies the sources and uses for the proposed appropriation and the proceeds from the sale of the COPs.

Table 1: Sources and Uses

Sources and Uses	Amount
Sources	
COP Par Amount	\$81,235,000
Uses	
HOPE SF development	56,942,127
CSA Audit Fee	113,884
Subtotal Estimated Project Costs	57,056,011
Debt Service Reserve Fund ^a	6,697,401
Capitalized Interest ^a	16,210,645
Issuance Costs	702,298
Underwriter's Discount Fee	568,645
Total Delivery Expenses	24,178,989
Total Estimated Costs	81,235,000
Reserve for Market Uncertainty	2,365,000
Total Uses	\$83,600,000

Source: Office of Public Finance

^a The debt service reserve fund sets aside funds equal to one year of debt service as an additional security for timely repayment of the debt. The capitalized interest fund is the source of funds to repay debt prior to completion of the project.

Details of the HOPE SF total project costs of \$56,942,127 are shown in Table 2 below.

Table 2: Summary of HOPE SF Project Costs for Development Sites

Development Sites	Cost
Hunters View	
Phase IIIA & IIIB Infrastructure	\$4,844,393
Phase III Vertical Gap Financing (118 affordable units)	16,545,729
<i>Subtotal</i>	<i>\$21,390,122</i>
Sunnydale	
Phase 1A-1A2 – Block 6 Gap Financing(167 affordable units)	16,528,630
<i>Subtotal</i>	<i>\$16,528,630</i>
Potrero Terrace and Annex	
Phase II – Infrastructure for Block B (165 affordable units) and Block A (125 market rate units)	11,000,000
Phase II – Block B Gap Financing (165 affordable units)	8,023,375
<i>Subtotal</i>	<i>\$19,023,375</i>
Total	\$56,942,127

Source: MOHCD

Debt Service

According to the Office of Public Finance, average annual debt service on the \$81,235,000 in COPs is estimated to be approximately \$6.5 million. Total debt service over the anticipated 28-

year term is approximately \$183.6 million, which includes approximately \$81.2 million in principal and \$102.4 million in interest. Debt service will be paid from the City's General Fund.

City's Debt Policy

The current plan of finance anticipates utilizing the City's commercial paper program, which was approved by the Board of Supervisors in March 2009 (File 09-0197) and March 2010 (File 10-0269) to finance project costs pending issuance of the COPs. Of the City's total commercial paper program of \$250 million re-authorized by the Board of Supervisors in May 2016 (File 16-0427); \$205.4 million is currently unencumbered.

The City's policy is to limit General Fund debt service at or below 3.25 percent of discretionary General Fund revenues. The anticipated incremental debt service associated with the delivery and execution of the COPs complies with the City's policy of limiting General Fund debt service payments at or below 3.25 percent of General Fund Discretionary Revenue, as set forth and maintained in the City's Capital Plan.

POLICY CONSIDERATION

The average development cost per unit of the HOPE SF projects to be funded by the \$83.6 million in COPs is as follows:

- Sunnydale HOPE SF Block 6: \$890,333
- Hunters View Phase III: \$968,488
- Potrero Block B: \$747,586

A portion of the per-unit costs for Hunters View and Potrero includes infrastructure development.

According to Ms. Lydia Ely, Director of Public Housing Initiatives at MOHCD, construction representatives and MOHCD project management staff work together to contain costs and engage in value engineering. According to Ms. Ely, MOHCD will be submitting a report to the Board of Supervisors on cost containment measures and project costs on affordable housing development on December 9, 2019.

RECOMMENDATION

Approve the proposed ordinances.

Item 17 File 19-1116	Department: Mayor's Office of Housing & Community Development
EXECUTIVE SUMMARY	
Legislative Objectives - The proposed resolution would authorize an amended and restated loan agreement between the Mayor's Office of Housing and Community Development (MOHCD) and the San Francisco Accelerator Fund (the Housing Accelerator Fund) to increase the loan amount from \$10 million to \$20 million and extend the repayment term to the City from April 2037 to November 2039. Key Points - The Housing Accelerator Fund provides lending to affordable projects in San Francisco. The core lending activities include early stage financing of small site acquisitions, single room occupancy renovations, and sites intended to be developed for affordable housing. - In April 2017, MOHCD provided a \$10 million loan to the Housing Accelerator Fund, with the full amount to be repaid by April 2037. Those monies are leveraged with other private capital sources raised by the Housing Accelerator Fund and lent to affordable housing projects identified by nonprofit sponsors, and jointly underwritten by The Housing Accelerator Fund and MOHCD. As those project sponsors repay the Housing Accelerator Fund, the Housing Accelerator Fund then reinvests that money into other projects. Fiscal Impact - The proposed resolution would increase the loan amount to the Housing Accelerator Fund from \$10 million to \$20 million. The additional \$10 million will be sourced from the City's Affordable Housing Production and Preservation Fund, which is funded by excess Education Revenue Augmentation Funds. - According the proposed secured promissory note and proposed first amendment, the original \$10 million and the proposed additional \$10 million must be repaid to the City in twenty years, in 2039. The interest rate on the amended \$20 million loan will remain at 0%. The City's total \$20 million investment will revolve and continue to fund affordable housing projects identified by the Housing Accelerator Fund until the amount is repaid to the City. 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**San Francisco Housing Accelerator Fund**

The Housing Accelerator Fund provides lending to affordable projects in San Francisco. The core lending activities include early stage financing of small site acquisitions, single room occupancy (SRO) renovations, and sites intended to be developed for affordable housing. According to Ms. Caroline McCormack, Project Manager at the Mayor's Office of Housing and Community Development (MOHCD), one of the major advantages of the Housing Accelerator Fund as a lender is that it can deploy capital more quickly than if the City were the direct lender, which requires more administrative approvals and therefore more time. This allows affordable housing providers funded by the Housing Accelerator Fund to more effectively compete in the marketplace to acquire sites to create and preserve affordable housing.

Selection of the Housing Accelerator Fund

In April 2016, MOHCD released a Request for Qualifications for a non-profit loan fund to provide funding for affordable housing acquisitions and repairs in San Francisco. The San Francisco Housing Accelerator Fund was the only respondent and scored 96 points out of a possible 100. The scoring committee consisted of the MOHCD Director of Housing Development, a Project Director from the Office of Economic and Workforce Development, and a Senior Fiscal and Policy Analyst from the Mayor's Office of Public Policy and Finance.

Projects Funded by the Housing Accelerator Fund

In April 2017, MOHCD provided a \$10 million loan to the Housing Accelerator Fund, with the full amount to be repaid by April 2037.¹ Those monies are leveraged with other private capital sources raised by the Housing Accelerator Fund and loaned to affordable housing projects identified by nonprofit sponsors, and jointly underwritten by the Housing Accelerator Fund and MOHCD.² As those project sponsors repay the Housing Accelerator Fund, the Housing Accelerator Fund then reinvests that money into other projects. the Housing Accelerator Fund funded projects are detailed in Table 1 below.

¹ At the time, these loans were not believed to require Board of Supervisors' approval

² Underwriting standards for projects are included in the loan agreement between the City and HAF.

Table 1: The Housing Accelerator Fund Funded Projects

Projects That Have Repaid HAF Loans						
Sponsor	Address	Supervisorial District	Date Closed	Total Units	Total SFHAF Loan	Allocation of MOHCD Funds*
MEDA	60 28th St	8	12/15/17	6	\$2,946,244	Repaid
MEDA	1411 Florida	9	5/24/17	7	\$3,628,060	Repaid
MEDA	3280 17th St	9	1/4/18	16	\$9,162,595	Repaid
MEDA	4830 Mission	11	7/25/18	27	\$13,349,940	Repaid
BRIDGE	4840 Mission	11	6/7/17	135	\$9,000,000	Repaid
MEDA	305 San Carlos	9	10/31/17	14	\$5,730,987	Repaid
Repaid Project Totals			7 Projects	205	\$43,817,826	Repaid
Projects With Outstanding HAF Loans						
Sponsor	Address	Supervisorial District	Date Closed	Total Units	Total SFHAF Loan	Allocation of MOHCD Funds
MEDA	65-69 Woodward	9	1/29/18	6	\$3,294,659	\$561,329
MEDA	654 Capp St	9	5/30/18	7	\$3,577,812	\$653,608
CCDC	937 Clay St	3	7/16/18	76	\$11,539,312	\$1,106,085
TNDC	270 Turk	6	3/19/19	86	\$24,970,264	\$3,335,906
CCDC	1535 Jackson	3	5/9/19	30	\$7,240,000	\$539,667
SFHDC	520 Shrader	5	5/30/19	7	\$4,429,284	\$576,528
MEDA	3544 Taraval	4	9/19/19	6	\$2,480,048	\$393,973
MEDA	3154-3158 Mission	9	9/23/19	10	\$8,633,332	\$1,798,890
MEDA	369 3rd Ave	1	11/1/19	13	\$8,185,634	\$1,034,014
Outstanding Project Totals			10 Projects	241	\$74,350,345	\$10,000,000

Source: MOHCD

Notes: "MEDA" refers Mission Economic Development Agency; "CCDC" refers to Chinatown Community Development Center; "TNDC" refers to Tenderloin Neighborhood Development Corporation; "SFHDC" refers to San Francisco Housing Development Corporation; and "BRIDGE" refers to BRIDGE Housing.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize an amended and restated loan agreement between the Mayor's Office of Housing and Community Development and the San Francisco Accelerator Fund to increase the loan amount from \$10 million to \$20 million and extend the repayment term to the City from April 2037 to November 2039.

FISCAL IMPACT

As noted above, the proposed resolution would increase the loan amount to the Housing Accelerator Fund from \$10 million to \$20 million. The additional \$10 million will be sourced

from the City's Affordable Housing Production and Preservation Fund, which is funded by excess Education Revenue Augmentation Funds.

Repayment Terms

According to the proposed secured promissory note and proposed first amendment, the original \$10 million and the proposed additional \$10 million must be repaid to the City in twenty years, in 2039. The interest rate on the amended \$20 million loan will remain at 0%. The City's total \$20 million investment will revolve and continue to fund affordable housing projects identified by the Housing Accelerator Fund until the amount is repaid to the City.

the Housing Accelerator Fund Project Pipeline

Table 2 below summarizes the Housing Accelerator Fund's expected project pipeline. As loans are repaid from the outstanding projects shown in Table 1 above, the Housing Accelerator Fund will invest in additional projects during the course of the proposed twenty year loan.

Table 2: The Housing Accelerator Fund Project Pipeline

Upcoming Projects			
	Number of Projects	Total Unit	Projected SFHAF Loan
Active Pipeline	4 Projects	32	\$16,100,000
Near-Term Prospective (figures subject to change)	6 Projects	417	\$62,600,000
Long-Term Prospective (figures subject to change)	7 Projects	495	\$52,201,000
Total Pipeline	17 Projects	944	\$130,901,000

Source: MOHCD

RECOMMENDATION

Approve the proposed resolution.