CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Sub-Committee

FROM: Budget and Legislative Analyst

SUBJECT: April 10, 2019 Budget and Finance Sub-Committee Meeting

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EXECUTIVE SUMMARY

Legislative Objectives

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

Key Points

- Sunnydale HOPE SF is a 50-acre site to develop mixed-income housing, including replacement of San Francisco Housing Authority housing. MOHCD selected Mercy Housing California, a nonprofit developer, and Related Companies of California, a for profit developer (Mercy and Related) through a competitive process to develop Sunnydale.
- The first two project phases will construct infrastructure improvements on 5 ½ acres of the Sunnydale site that are slated for affordable housing development on Block 6 and market rate housing development on Block 5. Mercy and Related formed Sunnydale Infrastructure LLC to construct the infrastructure improvements.
- In June 2017, the Citywide Affordable Housing Loan Committee recommended a loan to Sunnydale Infrastructure for $4,433,153 for predevelopment planning work. In September 2018, the Citywide Affordable Housing Loan Committee recommended a modification of the original loan to Sunnydale Infrastructure for the project to increase the loan amount by $24,045,738 for a total amount not to exceed $28,478,891.

Fiscal Impact

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

Policy Consideration

- The infrastructure development funded by the $28.5 million loan supports both affordable housing and market rate development. Under the Sunnydale Hope SF Development Agreement, MOHCD provides gap financing for the development cost of the infrastructure if other sources of funds are not available. MOHCD will receive the proceeds from the sale of Block 5 to a market-rate developer, which could cover a portion of the $28.5 million loan that supports the market-rate development.

Recommendations

- Amend the proposed resolution to request the MOHCD Director to submit a written report to the Board of Supervisors on the proceeds of the sale of Block 5 after the finalization of the sale, which includes the process for advertising the availability of the property for sale, the number of bidders, the range of bids, and the criteria for selecting the buyer.
- Approve the proposed resolution as amended.

MANDATE STATEMENT

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

BACKGROUND

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

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

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

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

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

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

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

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

DETAILS OF PROPOSED LEGISLATION

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

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

Phase 1A-1 and 1A-2

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

Sunnydale Infrastructure LLC

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

Gap Loan

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

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

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

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

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

Environmental Compliance

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

FISCAL IMPACT

$28,478,891 in Gap Financing

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

Table 2: Uses of Loan

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

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

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

Sunnydale Block 6

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

Sources of Funds

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

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

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

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

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

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

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

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

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

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

Loan Terms

According to the amended and restated loan agreement, the loan repayment is due on the 57th year of the loan. Loan repayment may be satisfied by the borrower (Mercy and Related) (1) assuming responsibility for one of the parcels slated for affordable housing that would otherwise be the responsibility of the City; (2) completing public infrastructure improvements for City acceptance; and/or (3) obtaining other funds that reduce the amount of the loan.

Total Project Costs

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

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

POLICY CONSIDERATION

The $28.5 million of infrastructure work to be performed by Sunnydale Infrastructure LLC on the five and a half acre Phase 1A-1 and 1A-2 area will support affordable housing development on Block 6, as well as the market-rate development on Block 5, and support further infrastructure development for the 48-acre Sunnydale HOPE SF master development. The Development Agreement between the City and Mercy and Related, as the Sunnydale HOPE SF developer, provides for MOHCD and the City to provide gap financing for the development cost of the infrastructure, preparation of market rate parcels, open space, and affordable housing development if other sources of funds are not available. [4] Under the Cashflow Memorandum of Understanding (MOU) between the San Francisco Housing Authority and MOHCD, MOHCD will receive the proceeds from the sale of Block 5 to a market-rate developer, which could cover a portion of the $28.5 million loan that supports the market-rate development.

Because Block 5 is owned by the San Francisco Housing Authority and therefore not subject to Board of Supervisors approval, the Budget and Legislative Analyst recommends amending the proposed resolution to request the Director of the Mayor's Office of Housing and Community Development to submit a written report to the Board of Supervisors on the proceeds of the sale of Block 5 after the finalization of the sale, which includes the process for advertising the availability of the property for sale, the number of bidders, the range of bids, and the criteria for selecting the buyer.

[4] The Development Agreement between the City and Mercy and Related, as the Sunnydale HOPE SF developer, provides that "MOHCD and the City are committed to predevelopment and gap financing from the HOPE SF Fund and other funds to cover the development cost of the infrastructure, preparation of market rate parcels, open space, and affordable housing development…that are not covered by other funding sources".

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

RECOMMENDATIONS

1. Amend the proposed resolution to request the Director of the Mayor's Office of Housing and Community Development to submit a written report to the Board of Supervisors on the proceeds of the sale of Block 5 after the finalization of the sale, which includes the process for advertising the availability of the property for sale, the number of bidders, the range of bids, and the criteria for selecting the buyer.
2. Approve the proposed resolution as amended.

Item 3 File 18-1212	Department: Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

The proposed ordinance would amend (1) the Administrative Code to give certain non-profit organizations a first-right-to-purchase all multi-family residential buildings (and related construction sites and vacant lots) in the City; and (2) the Business and Tax Regulations Code Section 1108.6 to exempt the "qualified nonprofit" from the transfer tax property rate for all property over at least $5,000,000. The "qualified nonprofit" will be subject to the tax rate of $3.75 per $500 of real property transfer value. The proposed amendment would sunset on July 1, 2024.

Key Points

In December 2018, the Board of Supervisors considered File 18-1212, which would amend the Administrative Code to give certain nonprofit organizations a first-right-to-purchase, consisting of both a right of first offer and a right of first refusal, over all multi-family residential buildings of three or more units in the City. Property purchased by "qualified nonprofits" under the proposed ordinance would be required to be preserved as rent-restricted affordable housing.

Fiscal Impact

Mayor's Office of Housing Costs: the ordinance requires Mayor's Office of Housing and Community Development (MOHCD) to oversee and implement the ordinance. MOHCD may need up to an additional 1.0 FTE 9775 Senior Community Development Specialist II to implement the proposed ordinance, at an annual cost of approximately $185,000.

Transfer Tax Reductions: information from the Office of the Assessor-Recorder showed approximately 112 residential properties that may have qualified sold for over $5,000,000 in 2018. The estimated possible maximum in annual transfer tax which would be waived based on the proposed ordinance amendment is $26,243,190.

Welfare Exemption Costs: according to California Revenue and Taxation Code, a welfare exemption is available to property owned and operated by qualifying organizations and used exclusively for rental housing occupied by lower-income households. It is not possible to estimate the financial impact of the exemption costs to the City at this time.

Policy Consideration

The proposed ordinance does not legally obligate the City to invest in nonprofit purchases of multiunit buildings for affordable housing. However, nonprofit organizations may not be successful in purchasing and operating properties identified by the ordinance without an equity or non-performing debt investment by the City.

Recommendation

Approval is a policy matter for the Board of Supervisors

MANDATE STATEMENT

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

BACKGROUND

In December 2018, the Board of Supervisors considered File 18-1212, which would amend the Administrative Code to add Chapter 41B: Community Opportunity to Purchase Act. The Community Opportunity to Purchase Act would give certain nonprofit organizations a first-right-to-purchase, consisting of both a right of first offer[1] and a right of first refusal,[2] over all multi-family residential buildings of three or more units (and related construction sites and vacant lots) in the City, for the purpose of creating and preserving rent-restricted affordable rental housing.

Under this ordinance, the Mayor's Office of Housing and Community Development (MOHCD) would select "qualified nonprofits" based on demonstrated commitment to the provision of affordable housing for low- and moderate-income City residents and demonstrated capacity to effectively acquire and manage residential real property at multiple locations in San Francisco.

Property purchased by "qualified nonprofits" under the proposed ordinance would be required to be preserved as rent-restricted affordable housing, as defined by the ordinance, under a notice of restrictions to be recorded against the property. In particular, the ordinance provides that the mean value of all rents paid by residential tenants in the building could not exceed 80% of Area Median Income (AMI), and that the gross household income of new tenants in the building could not exceed 120% of AMI.

The ordinance would require those who sell property subject to the ordinance to file a signed declaration, under penalty of perjury, affirming that the sale of that property substantially complied with the ordinance. MOHCD would be required to publish the addresses associated with such declarations on its website at least once per week.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend (1) the Administrative Code to give certain non-profit organizations a first-right-to-purchase, as discussed above; and (2) the Business and Tax Regulations Code Section 1108.6 to exempt the "qualified nonprofit" from the transfer tax property rate for all property over at least $5,000,000.[3] Instead, the "qualified nonprofit" will

[1] As to the right of first offer, the prospective seller of a multi-family residential building would be required to notify "qualified nonprofits" of intent to sell the building before offering the building for sale to the general public. "Qualified nonprofits" would then make a firm offer of purchase, which the seller would be free to accept or reject.

[2] Under the ordinance's right of first refusal, a seller who wishes to accept a private buyer's offer to purchase the building must first provide "qualified nonprofits" with an opportunity to match that offer and purchase the building in place of the private buyer.

[3] The transfer tax rates in Section 1102(d)-(f) are as follows: (d) at least $5,000,000 and less than $10,000,000, a tax at the rate of $11.25 for each $500 or fractional part thereof for the entire value or consideration, including, but

be subject to the tax rate in subsection (c) of Section 1108.6 for the entire property, or $3.75 per $500 of real property transfer value. The proposed amendment would apply to all deeds delivered on or after the passage of the proposed ordinance, and sunset on July 1, 2024.

FISCAL IMPACT

Mayor's Office of Housing Costs

The ordinance requires MOHCD to oversee and implement the ordinance, including the following tasks: (a) certify qualified nonprofits on an annual basis and investigate any complaints regarding the certification, (b) develop an information sheet to sellers, (c) maintain and publicize the list of "qualified nonprofits," (d) collect signed declarations affirming that the sale of each building complied with the requirements of the ordinance, and publish the addresses on its website at least once per week, and (e) provide the necessary exemption from the incremental transfer tax property rate. According to Mr. Benjamin McCloskey, Deputy Director of Finance and Administration at the Mayor's Office of Housing and Community Development (MOHCD), MOHCD does not have the current staff capacity for the additional workload as required by the proposed ordinance and its amendments. MOHCD may need up to an additional 1.0 FTE 9775 Senior Community Development Specialist II to implement the proposed ordinance, at an annual cost of approximately $185,000.

Transfer Tax Reductions

The reduction in transfer tax for properties purchased pursuant to the proposed ordinance would depend on the sales price of the property. The reduction in tax rate varies, resulting in transfer tax reductions ranging from $75,000 for a property with a sales price of $5 million to $562,500 for a property with a sales price of $25 million, as shown in Table 1 below.

Table 1: Reduction in Transfer Tax by Property Price

Property Sale Price	Current Transfer Tax Rate (per $500)	Proposed Transfer Tax Rate	Difference in Transfer Tax Rate	Estimated Transfer Tax Reduction
$5,000,000	$11.25	$3.75	$7.50	$75,000
$10,000,000	13.75	3.75	10.00	$200,000
$25,000,000	15.00	3.75	11.25	$562,500

Source: Budget and Legislative Analyst's Office

not limited to, any portion of such value or consideration that is less than $5,000,000; or (e) at least $10,000,000 and less than $25,000,000, a tax at the rate of $13.75 for each $500 or fractional part thereof for the entire value or consideration, including but not limited to, any portion of such value or consideration that is less than $10,000,000; or (f) at least $25,000,000, a tax at the rate of $15 for each $500 or fractional part thereof for the entire value or consideration, including but not limited to, any portion of such value or consideration that is less than $25,000,000.

Information from the Office of the Assessor-Recorder (Assessor) showed approximately 112 residential properties that may have qualified[4] sold for over $5,000,000 in 2018, with a total sales price of $1,370,273,876. The estimated possible maximum in annual transfer tax which would be waived based on the proposed ordinance amendment is $26,243,190 shown in Table 2 below.

Table 2: Estimated Maximum Annual Transfer Tax Reduction Based on 2018 Sales

Property Sale Price	Total Sales Price of Properties in 2018	Current Tax Rate (per $500)	Difference in Transfer Tax Rate	Estimated Loss in Revenue
At least $5,000,000 and less than $10,000,000	$499,863,046	$11.25	$7.50	**$7,497,946**
At least $10,000,000 and less than $25,000,000	$335,599,876	13.75	10.00	**6,711,998**
At least $25,000,000	$534,810,954	15.00	11.25	**12,033,246**
Total	**$1,370,273,876**	**-**	**-**	**$26,243,190**

Source: Assessor

The actual reduction in transfer tax would be less than $26,243,190 because (a) all transferred property would not likely be purchased by a nonprofit for market rate, (b) the number of properties with a value of $5,000,000 or more may be less than the 112 properties that transferred in 2018, and (c) the estimate of $26,243,190 is an estimate based on Assessor data, and the actual transfer tax paid in 2018 may vary from the estimate.

Welfare Exemption Costs

According to California Revenue and Taxation Code section 214, a welfare exemption is available to property owned and operated by qualifying organizations and used exclusively for rental housing occupied by lower-income households. A property transferred from a private owner to a nonprofit who preserves the property as rent-restricted affordable housing may qualify for the welfare exemption, which would impact the amount of real property taxes collected and paid to the City. It is not possible to estimate the financial impact of the welfare exemption costs to the City at this time.

[4] The Assessor maintains a database of fully transferred properties. However, not all transferred properties may be correctly classified based on the number of units, and the data is not currently sequestered to capture all three units and above. Therefore, this is only an estimate.

POLICY CONSIDERATION

The proposed ordinance does not legally obligate the City to invest in nonprofit purchases of multiunit buildings for affordable housing. According to Mr. McCloskey, nonprofit organizations may not be successful in purchasing and operating properties identified by the ordinance without an equity or non-performing debt investment by the City. City funding of nonprofit organizations to purchase multiunit buildings for affordable housing will be subject to available funds and future Board of Supervisors approval.

RECOMMENDATION

Approval is a policy matter for the Board of Supervisors

Items 4 and 5 Files 19-0317 and 19-0316	Department: Municipal Transportation Agency (MTA)

EXECUTIVE SUMMARY

Legislative Objectives

- File 19-0316: The proposed resolution authorizes the Municipal Transportation Agency (MTA) to terminate the lease agreement with Tad's Inc. (Tad's) for retail space located at 44 Ellis Street in the Ellis-O'Farrell Garage.
- File 19-0317: The proposed resolution authorizes the new retail lease agreement between MTA, as landlord, and Tad's, Inc. (Tad's), as tenant, for approximately 5,368 square feet of retail space at 44 Ellis Street. The proposed resolution would authorize a ten-year lease term to commence upon approval by the Board of Supervisors, from approximately May 2019 to May 2029, with two five-year extension options through approximately May 2039. Total rent to be paid by Tad's to MTA over the initial 10-year term is $5,317,024.

Key Points

- The Ellis-O'Farrell Garage, located at 123 O'Farrell Street, is owned by the City and is under the jurisdiction of the San Francisco Municipal Transportation Agency (MTA). The garage provides three commercial retail spaces totaling 11,000 square feet. The retail space associated with the lease termination and proposed new lease agreement is a 5,368 square feet space that operated as a restaurant at 44 Ellis Street.
- In May 2015, the Board of Supervisors approved a resolution authorizing a ten-year commercial lease between MTA, as landlord, and Les Joulins, USA, Inc. (Les Joulins), as tenant, for use as a restaurant and nightclub (File 15-0312). In March 2017, Tad's, Inc. (Tad's), which operates a restaurant, assumed the lease with six years remaining from the initial lease term. Tad's has not been able to open their business since assuming the current lease.
- For over 20 years, no major improvements have been made to the retail space at 44 Ellis Street, and the tenant has determined that the space needs additional work on top of the pre-authorized improvements in the proposed lease agreement in order to comply with current building codes. Both MTA and Tad's desire to terminate the existing lease agreement in order to enter into a new lease agreement that will extend the term and includes rent abatement which would allow the tenant to make the necessary capital investments.

Fiscal Impact

- Under the proposed lease agreement (File 19-0317), base rent of $442,860 in Year 1, increasing by 4 percent per year, for total base rent over 10 years of $5,317,025. The first five-year option to extend will be at 103 percent of the base rent from the lease year immediately prior. The second five-year option to extend is at the greater of 103 percent of the base rent from the lease year immediately prior or 95 percent of the market rent.

Recommendations

- Amend File 19-0317 to revise the language on page 1, lines 6-7 from "an initial annual base rent of $5,317,064" to "a total rent over the initial 10-year term of $5,317,024."
- 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

The Ellis-O'Farrell Garage, located at 123 O'Farrell Street, is owned by the City and is under the jurisdiction of the San Francisco Municipal Transportation Agency (MTA). The garage provides approximately 950 parking spaces and three commercial retail spaces totaling 11,000 square feet. The retail space associated with the lease termination and proposed new lease agreement is a 5,368 square feet space that operated as a restaurant at 44 Ellis Street.

In May 2015, the Board of Supervisors approved a resolution authorizing a ten-year commercial lease between MTA, as landlord, and Les Joulins, USA, Inc. (Les Joulins), as tenant, for use as a restaurant and nightclub (File 15-0312). The resolution retroactively authorized a lease term of March 1, 2015 through February 28, 2025, with two five-year options to extend the lease through 2035. In March 2017, Tad's, Inc. (Tad's), which operates a restaurant, assumed the lease[1] with six years remaining from the initial lease term. The total amount of base rent for the first ten years of the lease is $5,127,000. The lease also includes $250,000 in rent credits upon completion of certain pre-authorized improvements. Tad's has not been able to open their business since assuming the current lease. However, according to MTA, Tad's has consistently met its obligation to pay the rent due under the current lease, totaling $730,791 as of February 1, 2019.

DETAILS OF PROPOSED LEGISLATION

File 19-0316: The proposed resolution authorizes the Municipal Transportation Agency (MTA) to terminate the lease agreement with Tad's Inc. (Tad's) for retail space located at 44 Ellis Street in the Ellis-O'Farrell Garage.

File 19-0317: The proposed resolution authorizes the new retail lease agreement between MTA, as landlord, and Tad's, Inc. (Tad's), as tenant, for approximately 5,368 square feet of retail space at 44 Ellis Street. The proposed resolution would authorize a ten-year lease term to commence upon approval by the Board of Supervisors, from approximately May 2019 to May 2029, with two five-year extension options through approximately May 2039. Total rent to be paid by Tad's to MTA over the initial 10-year term is $5,317,024.

The current lease agreement between MTA and Tad's is in effect and the approval of the new proposed lease agreement (File 19-0317) is subject to termination of the current lease (File 19-0316). For over 20 years, no major improvements have been made to the retail space at 44 Ellis

[1] According to MTA, the assignment and assumption of the lease agreement did not require Board of Supervisors approval because Section 16.2 of the lease outlines the tenant's right to transfer the lease with a written notice and financial statement of the proposed transferee. MTA states that Tad's Inc. was the transferee who had a strong financial background. For the last two years, Tad's has consistently paid rent on time to the MTA.

Street, and the tenant has determined that the space needs additional work on top of the pre-authorized improvements in the proposed lease agreement in order to comply with current building codes. According to MTA, it is mutually beneficial to MTA and Tad's to have the retail space at 44 Ellis Street completely renovated and to retain a local business that has been operating in the greater Union Square for over 45 years. Consequently, both MTA and Tad's desire to terminate the existing lease agreement in order to enter into a new lease agreement that will extend the term and includes rent abatement which would allow the tenant to make the necessary capital investments. According to MTA, because a major portion of the work constitutes a capital investment for the Ellis O'Farrell Garage, the MTA would like to facilitate the completion of these improvements. In addition, MTA considered amending the current lease as an alternative to termination. However, the lease would require significant changes, and both parties, including the City Attorney's Office, concluded that it would be better to terminate the current lease and enter a new lease agreement.

Table 1 below summarizes the terms of the current and new proposed retail lease agreement at 44 Ellis Street.

Table 1. Terms of Current and Proposed New Lease at 44 Ellis Street

	Current Lease	**Proposed New Lease**
Square Footage	5,368	5,368
Term	March 1, 2015 – February 28, 2025	Approximately May 2019 to May 2029
Tenant Improvements	Up to $250,000; Tenant will be able to use these funds for MTA-approved tenant improvement projects.	Tenant to fund and perform certain improvements to the property which include, but are not limited to, new or renovated mechanical, electrical, plumbing and ventilation systems; new or renovated fire sprinklers, monitoring system, and hood suppression; renovation of two restrooms; new or renovated interior walls, flooring and ceiling finishes; new or renovated exterior façade; new or renovated canopy; new or renovated lighting fixtures; and new paint as determined by tenant subject to terms of the lease.
Monthly Base Rent	$47,890 (Annual $574,680) for the lease year from March 2018 to February 2019.	$36,905 (Annual $442,860)
Annual Base Rent Increases	4 percent	4 percent
Utilities, Services, and Operating Costs	Tenant is responsible for the cost of all utilities and services provided to the premises.	Tenant is responsible for the cost of all utilities and services provided to the premises.
Option to Extend	Two (2) five-year options	Two (2) five-year options
Base Rent Increase on Exercise of Option	The higher of (1) the rent in year ten of the existing lease plus a 3 percent consumer price index increase, or (2) 95 percent of fair market value.	The first five-year option to extend will be at 103 percent of the base rent from the lease year immediately prior. The second five-year option to extend is at the greater of 103 percent of the base rent from the lease year immediately prior or 95 percent of the market rent.
Security Deposit	$50,000	$50,000

Tenant Improvements

As previously mentioned, the proposed new lease agreement contemplates certain improvements to the premises and includes a list of pre-approved work such as hood ventilation replacement, and electrical, plumbing, ceiling, flooring and bathrooms upgrades.

According to MTA, when Tad's assumed the Lease, Tad's agreed the list of pre-authorized work was necessary. Tad's also determined the space needed a new mechanical system and ductwork for heating, ventilating and air conditioning, a new fire protection system for sprinkler and hood, new lighting fixtures, supply and exhaust fans, fan-coil unit, condensing heat pump unit, and new exterior façade and canopy to meet building codes.

The current lease agreement allows the tenant to apply up to $250,000 as a rent credit against the base rent due, if the tenant completes any of the improvement projects from the pre-approved list. The rent credit is not an estimate of the total cost for the list of pre-authorized tenant improvement work. According to MTA, the agency recognized the space needed work, and the rent credit was intended to allow for some upgrades. None of the improvements that were the subject of the rent credit were completed while the former tenant, Les Joulins, occupied the space.

According to MTA, due to the extent of the work needed to bring the space up to building code and safe operating standards, Tad's has not been able to open their business since assuming the current lease. Tad's intends to completely renovate the restaurant and fund the necessary building improvements to bring the space up to code, at a reported estimated cost of $2,700,000. According to MTA, Tad's estimates the project will take approximately nine months to complete. Consequently, to facilitate the tenant's construction of necessary improvements to the retail space, the proposed new lease agreement includes nine months of rent abatement. According to MTA, the proposed new lease agreement includes rent abatement and not rent credits because the tenant has been currently working with City departments to get permits and aims to complete the improvement work. The current lease provided rent credits because the tenant at the time (Les Joulins) did not provide any construction schedule. According to MTA, to ensure the tenant will complete the improvements, MTA staff and contractors who manage the facility will work alongside with the tenant throughout the construction process. The tenant has closed operations while awaiting building permits and will work with the Department of Building Inspection (DBI) to inspect the construction build out.

FISCAL IMPACT

Under the proposed lease agreement (File 19-0317), base rent of $442,860 in Year 1, increasing by 4 percent per year, for total base rent over 10 years of $5,317,025, as shown in Table 2 below. According to MTA, the rent increase percentage is based on the U.S. Department of Labor's Consumer Price Index (CPI), which is currently between 3 to 4 percent.

Table 2. 10-Year Rent Payable by Tad's to MTA

Lease Year	Price Per Square Foot/Year	Monthly Rent	Annual Rent
Year 1	$82.50	$36,905	$442,860
Year 2	85.80	38,381	460,574
Year 3	89.23	39,916	478,997
Year 4	92.80	41,513	498,157
Year 5	96.51	43,174	518,084
Year 6	100.37	44,901	538,807
Year 7	104.39	46,697	560,359
Year 8	108.56	48,564	582,774
Year 9	112.91	50,507	606,084
Year 10	117.42	52,527	630,328
Total			**$5,317,024**

Rent During Extension Term

The first five-year option to extend will be at 103 percent of the base rent from the lease year immediately prior. The second five-year option to extend is at the greater of 103 percent of the base rent from the lease year immediately prior or 95 percent of the market rent.

Fair Market Rent

As noted above, under the current lease, Tad's pays rent of $47,890 per month or $574,680 per year, equivalent to $107.06 per square foot per year. Under the proposed new lease, Tad's pays rent of $36,905 per month or $442,860 per year, equivalent to $82.50 per square foot, a reduction of 24 percent compared to the existing lease.

In November 2018, the MTA hired an independent appraiser, R. Blum+Associates (R. Blum) to appraise the market rent of the retail space at 44 Ellis Street. The appraiser used the direct comparison method and based on recent comparables, determined the range of rental rate to be between $82.50 and $87.50 per square foot. R. Blum determined that the market rent of the retail space as of November 15, 2018, in as-is condition, is estimated to be $87.56 per square foot per year. With consideration of nine months of rent abatement, the market rent is adjusted upward to between $87.50 and $92.50 per square foot. Consequently, based on R. Blum's evaluation, the nine-month rent abatement is valued at $5 per square foot per year.

MTA set the first year rent at $82.50 per square foot to account for the nine-month rent abatement which is approximately $5 per square foot below R. Blum's fair market rent estimate of $87.50 per square foot. The value of the rent abatement over 10 years is $322,244, which is less than the estimated tenant improvement expenditures to be incurred by Tad's. No additional rent credit for tenant improvement work is included in the proposed lease.

In December 2018, the MTA hired another independent appraiser, David Tattersall & Co. (Tattersall), to provide an appraisal review of the report by R. Blum. The report by Tattersall was in agreement with the market rental rates in the R. Blum report.

Proposed Amendment

The proposed resolution on the new lease agreement (File 19-0317) states on page 1, lines 6-7 "an initial annual base rent of $5,317,064". However, as discussed above, the total rent to be paid by Tad's to MTA over the initial 10-year term of the proposed lease agreement is $5,317,024. Therefore, the proposed resolution (File 19-0317) should be amended on page 1, lines 6-7 to state "a total rent over the initial 10-year term of $5,317,024".

RECOMMENDATIONS

1. Amend File 19-0317 to revise the language on page 1, lines 6-7 from "an initial annual base rent of $5,317,064" to "a total rent over the initial 10-year term of $5,317,024."

2. Approve the proposed resolutions.

Items 9 and 10 Files 19-0204 and 19-0191	Department: San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve retail concession leases between San Francisco International Airport (Airport) and (i) HG SFO Retailers 2017 JV (HG), with Minimum Annual Guaranteed (MAG) rent of $1,800,000; and (ii) The Marshall Retail Group, LLC (Marshall Retail), with MAG rent of $600,000. Each lease would have a term of seven years, with two one-year options to extend.

Key Points

- In June 2018, the Airport Commission authorized Airport staff to issue a Request for Proposals (RFP) for two retail concession leases in Terminal 1, Boarding Area C, a retail marketplace and a newsstand. The Airport received ten proposals for the two leases, and an evaluation panel determined HG and Marshall Retail to be the highest scoring responsive and responsible proposers. In November 2018, the Airport Commission approved the leases.
- The proposed resolution would approve leases with HG and Marshall Retail for terms of seven years, with two one-year options to extend each lease. The tenants would pay the greater of the MAG or percentage rent based on gross revenues.

Fiscal Impact

- Over the initial seven-year terms of the leases, the Airport would receive at least $16,800,000 in MAG rent. If the Airport exercises the two options to extend each lease, it would receive at least an additional $4,800,000 in MAG rent, for a total of at least $21,600,000. The Airport expects to receive percentage rent, which would exceed the MAG.

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 June 2018, the San Francisco International Airport (Airport) Commission authorized Airport staff to issue a Request for Proposals (RFP) for two retail concession leases in Terminal 1, Boarding Area C, a retail marketplace and a newsstand. After issuing the RFP and conducting an informational meeting, Airport staff gathered feedback from potential proposers. In September 2018, the Airport Commission authorized Airport staff to accept proposals. In October 2018, the Airport received ten proposals for the two leases, with each proposal meeting the minimum qualifications. A three-member panel reviewed the proposals and scored them as shown in Table 1 below.

Table 1: Proposals and Scores for Terminal 1 Retail Lease RFP

Proposer	Concept Name	Score
Lease 1: Retail Marketplace (File 19-0191)		
HG SFO Retailers 2017 JV	49 Mile Market	90.33
The Marshall Retail Group, LLC	Replenish	88.00
Pacific Gateway Concessions, LLC	SF Made Market	85.45
NewsLink of SF, LLC	SF Provisions	79.73
Paradies Lagardere @ SFO 2018, LLC	Lillie’s Market	69.72
Lease 2: Newsstand (File 19-0204)		
The Marshall Retail Group, LLC	The Scoop	81.13
HG SFO Retailers 2017 JV	San Francisco Chronicle	79.67
NewsLink of SF, LLC	Newslink	78.80
Paradies Lagardere @ SFO 2018, LLC	The Goods	75.95
Pacific Gateway Concessions, LLC	HubSF by Where Traveler	73.46

HG SFO Retailers 2017 JV (HG)[1] and The Marshall Retail Group, LLC were determined to be the highest scoring responsive and responsible proposers. In November 2018, the Airport Commission approved leases with these tenants.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve retail concession leases between the Airport as landlord and HG and Marshall Retail as tenants. Each lease would have a term of seven years with two one-year options to extend, for a total term of nine years. Each tenant would pay the

[1] HG SFO Retailers 2017 JV is a joint venture between Hudson Group Retail, LLC, RDJ Enterprises, LLC, and Stewart Manhattan Investments, Inc.

greater of the Minimum Annual Guaranteed (MAG) rent or percentage rent based on gross revenues. The key provisions of the lease are shown in Table 2 below.

Table 2: Key Provisions of Proposed Leases

Tenant	HG (File 19-0191)	Marshall Retail (File 19-0204)
Term	7 years	7 years
Options to Extend	Two 1-year options to extend	
Square Footage	1,996 square feet	510 square feet
Initial MAG Rent[2]	$1,800,000	$600,000
MAG Adjustment	Adjusted annually based on Consumer Price Index (CPI)	
Percentage Rent (of Gross Revenues)	12% up to $500,000; 14% from $500,000-$1,000,000 16% over $1,000,000	
Minimum Investment	$650 per square foot of the premises	
Interim Rent During Construction	16% of gross revenues	
Deposit	Equal to ½ of initial MAG (subject to mid-term adjustment)	
Early Termination	Airport may terminate with 6 months written notice, if space is required for Airport's Five-Year or Ten-Year Capital Plan	
Promotional Charge	$1 per square foot per year	
Pest Control Fee	$75 per month, subject to adjustment	

According to Mr. Tomasi Toki, Airport Principal Property Manager, the HG retail marketplace would include items such as books, newspapers and magazines, souvenirs, snacks, health and beauty products, sports apparel, electronics, and travel accessories. HG has announced prospective partnerships with several local brands, including Boudin Bakery, Aquarium of the Bay, and the Exploratorium. The marketplace would also include a variety of California wines, with a touch screen kiosk providing information about the different options.

According to the proposed lease with Marshall Retail, the lease space will be used for selling periodicals, magazines, national and local newspapers, maps and guidebooks, travel accessories, and other concessions.

According to Mr. Toki, the HG lease is expected to commence on August 28, 2019, and the Marshall Retail lease is expected to commence on January 1, 2020.

FISCAL IMPACT

Under the terms of each lease, the tenants would pay the greater of the MAG rent or rent equal to a percentage of gross revenues. Over the initial seven-year terms of the leases, the Airport would receive at least $16,800,000 in MAG rent. If the two one-year options to extend each lease are exercised, the Airport would receive at least an additional $4,800,000 in MAG rent, for a total of at least $21,600,000. MAG rents are shown in Table 3 below.

[2] The Airport sets MAG rents for retail lease sites at approximately 75 percent of projected percentage rent.

Table 3: MAG Rent Paid to Airport

Tenant	MAG Rent	Initial Term MAG (7 Years)	Option Term MAG (2 Years	Total MAG Paid
HG (File 19-0191)	$1,800,000	$12,600,000	$3,600,000	$16,200,000
Marshall Retail (File 19-0204)	600,000	4,200,000	1,200,000	5,400,000
Total	**$2,400,000**	**$16,800,000**	**$4,800,000**	**$21,600,000**

According to Mr. Toki, the Airport expects to receive percentage rent, which would exceed the MAG.

RECOMMENDATION

Approve the proposed resolution.

Item 12 File 19-0105	Department: Department of Public Health (DPH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves Amendment No. 1 to the contract between the Department of Public Health (DPH) and Community Awareness and Treatment Services (CATS) for the medical respite and sobering center program, for a total five-year term from July 2017 through June 2022, and contract amount of $23,186,920.

Key Points

- CATS was selected to provide fiscal intermediary services to the San Francisco Homeless Outreach Team (SFHOT) and the medical respite and sobering program through a 2013 Request for Proposals (RFP). DPH did not execute a new contract with CATS for these services following the 2013 RFP, but rather amended an existing 2010 contract with CATS to add medical and respite sobering center services.
- In July 2017, the sobering center and medical respite programs were removed from the 2010 contract between CATS and DPH to create a stand-alone contract. The medical respite and sobering center program is provided jointly by DPH and CATS. Under the July 2017 contract between DPH and CATS for the medical respite and sobering center program, CATS was to complete the ongoing construction of new space at the existing medical respite and sobering center located at 1171 and 1185 Mission Street.

Fiscal Impact

- The contract amount is $23,186,920 from FY 2017-18 to FY 2021-22, funded by the City's General Fund. The contract amount includes a grant from Tipping Point for CATS to complete expansion of the medical respite and sobering center from 56 beds to 87 beds.

Policy Consideration

- The scope of work in the 2017 contract between DPH and CATS differs in part from the scope of work defined in the 2013 RFP. While the 2013 RFP specifically defined the scope of work to be fiscal intermediary services, the 2017 contract's scope of work for CATS includes overseeing construction of the expanded facility from 56 beds to 87 beds. At the request of the Budget and Legislative Analyst's Office, the Department of Public Health submitted the contract to the Office of Contract Administration for review. According to the Director of the Office of Contract Administration, while the 2017 contract provision for CATS to oversee construction of the expanded facility from 56 beds to 87 beds is not consistent with the scope of work outlined in the original RFP, the scope of work in the proposed first amendment is generally consistent with the original RFP.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

Administrative Code Section 21.42 authorizes the Department of Public Health to designate behavioral health services contracts as sole source, where such services are provided by non-profit organizations. To be designated sole source, the Department should determine that such services are unique to the Department, consistent with the Department's mission and goals, and require specialized skills, personnel, facilities, or other resources.

BACKGROUND

Original Request for Proposals

In November 2013, the Department of Public Health (DPH) issued a Request for Proposals (RFP) to solicit providers for fiscal intermediary services for the San Francisco Homeless Outreach Team (SF HOT) and medical respite and sobering center. The scope of services outlined in the RFP included fiscal management and human resource services for two direct service cost centers; 1) SF HOT and 2) medical respite and sobering center clients.

Three proposers responded to the RFP and a panel reviewed and scored the proposals, as shown in Table 1 below.

Table 1: Proposers and Scores for RFP

Rank	Proposer	Score
1	Community Awareness & Treatment Services (CATS)	99.2
2	Public Health Foundation Enterprises (PHFE)	88.8
3	Health RIGHT 360	83.8

DPH deemed Community Awareness & Treatment Services (CATS) to be the highest scoring responsive and responsible proposer.

Contracts between DPH and CATS

CATS had been providing behavioral health services, including fiscal intermediary services to support SF HOT, through a 2010 contract with DPH. DPH did not execute a new contract with CATS to provide fiscal intermediary services to SFHOT and the medical respite and sobering center following the 2013 RFP. Rather, DPH amended the 2010 contract with CATS to add medical and respite sobering center services; the amended contract's scope of work defined support services to be provided by CATS to medical respite and sobering center clients, but did not specifically define fiscal intermediary services to be provided by CATS to the medical respite and sobering center. The Board of Supervisors approved the amendment to the 2010 contract between CATS and DPH in December 2015, extending the contract from December 31, 2015 through December 31, 2017 (File 15-1033, Resolution 469-15).

In July 2017, the sobering center and medical respite programs were removed from the larger CATS contract to create a stand-alone contract. The medical respite and sobering center are primary care programs, while the programs under the 2010 contract between CATS and DPH were managed under Behavioral Health Services.

The medical respite and sobering center program is provided jointly by DPH and CATS, serving homeless adults with substance use disorders and chronic medical needs. Program clients need assistance with chronic health management, medication adherence, and social services. DPH provides medical care and social services, while CATS provides support services, including building maintenance, hospitality and food, and program operations, such as daily living support and transportation.

The new contract between DPH and CATS for the medical respite and sobering center program was established for two-years from July 2017 through June 2019, in an amount not-to-exceed $8,823,784. The 2017 contract's scope of work defined (a) the support services to be provided by CATS to medical respite and sobering center clients, and (b) CATS responsibility for constructing additional medical respite and sobering center space to add beds. While the new contract did not define the fiscal intermediary services to be provided by CATS to the medical respite and sobering center, the contract did state that "all objectives and descriptions of how objectives will be measured are contained in the SF DPH Fiscal Intermediary Performance Objectives document". According to Ms. Michelle Ruggels, Director of the DPH Business Office, the Department established medical respite program performance objectives specific to this program, which replaces the fiscal intermediary performance objectives referenced in the contract; the Department plans to revise the contract to include the medical respite program performance objectives.

Status of Construction and Addition of Beds

Under the July 2017 contract between DPH and CATS for the medical respite and sobering center program, CATS was to complete the ongoing construction of new space at the existing medical respite and sobering center located at 1171 Mission Street and 1185 Mission Street. A project team made up of staff from DPH, CATS, the Department of Public Works, and the selected architect are to oversee the project. According to Ms. Ruggels, DPH awarded the contract to CATS for two years to align with the time period of a major capital expansion, increasing the program's capacity from approximately 56 beds to 87 beds. The capital expansion was completed in FY 2017-18.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Amendment No. 1 to the contract between DPH and CATS, extending the term of the contract by three years through June 2022, and increasing the not-to-exceed amount by $14,363,136, from $8,823,784 to $23,186,920.

Contract Term

DPH awarded the 2017 contract to CATS for medical respite/sobering center support services through the 2013 RFP. As noted above, in the more than three-year period between the RFP and the contract award in 2017, CATS provided support services to the medical respite/sobering center through a separate contract that had been awarded in 2010. The proposed Amendment No. 1 to the 2017 contract would allow for a total contract term of five years from July 1, 2017 through June 30, 2022, which is consistent with the original RFP, which provided for a term of up to 10 years.

FISCAL IMPACT

The proposed resolution would increase the not-to-exceed amount of the contract by $14,363,136, for a total contract amount of $23,186,920. The contract funds approximately 63,673 program support staff hours annually, at a rate of $63.08 per hour, and includes a projected annual Cost of Doing Business increase of 2.5 percent in FY 2019-20 through FY 2021-22. Support staff hours can include services to maintain and clean facilities, providing meals, and transporting clients to medical or social service appointments. With the exception of a grant from Tipping Point in FY 2017-18, used to complete construction of the location to increase the beds from 56 to 87, the contract is funded by the City's General Fund. The sources and uses of funds are shown in Table 2 below.

Table 2: Sources and Uses of Funds in CATS Contract

Sources	**FY 2017-18**	**FY 2018-19**	**FY 2019-20**	**FY 2020-21**	**FY 2021-22**	**Total**
San Francisco General Fund	$4,031,972	$4,016,417	$4,097,087	$4,179,378	$4,263,321	$20,588,176
Tipping Point Grant	612,000	-	-	-	-	612,000
Subtotal	*$4,643,972*	*$4,016,417*	*$4,097,087*	*$4,179,378*	*$4,263,321*	*$21,200,176*
Contingency (12% of FY 2018-19 – FY 2021-22)						1,986,744
Total Not-to-Exceed Amount						**$23,186,920**

Uses	**FY 2017-18**	**FY 2018-19**	**FY 2019-20**	**FY 2020-21**	**FY 2021-22**	**Total**
Medical Respite/Sobering Center Services (Approximately 63,673 Annual Staff Hours)	$4,031,972	$4,016,417	$4,097,087	$4,179,378	$4,263,321	$20,588,176
Facility Expansion	612,000	-	-	-	-	612,000
Subtotal	*$4,643,972*	*$4,016,417*	*$4,097,087*	*$4,179,378*	*$4,263,321*	*$21,200,176*
Contingency (12% of FY 2018-19 – FY 2021-22)						1,986,744
Total Not-to-Exceed Amount						**$23,186,920**

POLICY CONSIDERATION

The 2013 RFP solicited providers of fiscal intermediary services, including fiscal management and human resource management. According to Ms. Ruggels, CATS has been providing fiscal intermediary services, as authorized in the RFP, by providing human resource management for CATS support staff, management of the capital expansion, and financial management of the building maintenance and other functions that support the program.

The scope of work in the 2017 contract between DPH and CATS differs from the scope of work defined in the 2013 RFP. While the 2013 RFP specifically defined the scope of work to be fiscal intermediary services, the 2017 contract's scope of work includes for staff to oversee construction of the expanded facility from 56 beds to 87 beds.

At the request of the Budget and Legislative Analyst's Office, the Department of Public Health submitted the contract to the Office of Contract Administration for review. According to the Director of the Office of Contract Administration, while the 2017 contract provision for CATS to oversee construction of the expanded facility from 56 beds to 87 beds is not consistent with the scope of work outlined in the original RFP, the scope of work in the proposed first amendment is generally consistent with the original RFP.

RECOMMENDATION

Approve the proposed resolution.