**CITY AND COUNTY OF SAN FRANCISCO**

**BOARD OF SUPERVISORS**

**BUDGET AND LEGISLATIVE ANALYST**

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March 21, 2025

**TO:** Budget and Finance Committee

**FROM:** Budget and Legislative Analyst

**SUBJECT:** March 26, 2025 Budget and Finance Committee Meeting

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**EXECUTIVE SUMMARY**

**Legislative Objectives**

- The proposed hearing would release $2,700,000 in grant funds placed on Budget & Finance Committee reserve for Port's Pier 94/96 Seismic Improvement Project.

**Key Points**

- Originally constructed in the early 1960s, Pier 94/96 is a critical deep-water cargo and emergency response hub for San Francisco. It spans 76 acres, includes heavy maritime infrastructure, and is one of the few remaining piers capable of accommodating large cargo operations.
- Studies of San Francisco's Southern Waterfront found Pier 94/96 is highly vulnerable to liquefaction, slope failure, and structural damage during a significant earthquake, posing potential long-term disruption to citywide emergency and cargo operations.
- On August 5, 2024, FEMA awarded the City $2,700,000 through Cal OES for studies and design work to address seismic weaknesses. The City must provide a $900,000 local match.
- The grant funds will support geotechnical investigations, risk analyses, selection of strengthening alternatives, and development of a 60% design plan. Environmental reviews and permit applications will also be completed.
- Although a 36-month project period was initially planned through August 2027, FEMA's official disaster period of performance ends on August 28, 2026. Work completed after that date will require a grant term extension or risk ineligibility for federal reimbursement. The Port reports it expects to complete most of the grant eligible work by the 2026 deadline.

**Fiscal Impact**

- The total project budget is $3,600,000 (inclusive of the Port's $900,000 local match).
- The Port will use previously approved Harbor Fund appropriations for its 25% match.

**Recommendation**

- Approve the requested release of reserves.

## MANDATE STATEMENT

City Administrative Code Section 3.3(j) states that the Budget and Finance Committee of the Board of Supervisors has jurisdiction over the City's budget and may reserve proposed expenditures to be released at a later date subject to Board of Supervisors approval. The practice of the Board of Supervisors is for the Budget and Finance Committee to approve release of funds placed on reserve by the Committee, without further Board of Supervisors approval.

## BACKGROUND

**Pier 94/96's Earthquake Risk**

Constructed in the early 1960s, Pier 94/96 is one of the few remaining piers in San Francisco designed to handle heavy maritime cargo operations. It spans 76 acres and includes three deep-water berths capable of accommodating large ships, a maintenance building, two cranes for loading and unloading cargo, railroad tracks directly on the pier for easy transport, and immediate connections to a facility designed to transfer shipping containers between ships, trucks, and trains. Due to these features, Pier 94/96 is identified as an emergency response hub in both City and regional emergency plans.

In 2021, the Port conducted a study to examine earthquake risks along San Francisco's Southern Waterfront area. The study showed that Pier 94/96 faces significant danger in the event of a strong earthquake. Specifically, the ground behind the pier could become unstable and behave like quicksand (known as liquefaction), slopes along the shoreline could collapse or shift, and critical parts of the pier's support structure, such as docks and walls, could be severely damaged or collapse. Damage of this magnitude would render the pier unusable for months or years, significantly disrupting emergency response efforts.

**Hazard Mitigation Grant Program**

The Hazard Mitigation Grant Program, administered by the Federal Emergency Management Agency (FEMA), helps governments plan to protect communities from future disasters and reduce potential damage.

On August 5, 2024, FEMA awarded $2,700,000 through California's Office of Emergency Services (Cal OES) to fund studies and design improvements at Pier 94/96.

**Authorization and Funding Status**

On October 8, 2024, the San Francisco Port Commission authorized the Port's Executive Director to request final approval from the Board of Supervisors to accept and expend these grant funds.

In January 2025, the Board of Supervisors and Mayor enacted a resolution that approved the Port accept $2,700,000 from FEMA/Cal OES with the awarded funds being placed into Board of Supervisors Budget & Finance reserve (File 25-0022). The grant agreement requires the City to provide matching funds of $900,000 and, as a result, the grant has "fiscal impact," as defined in Administrative Code Section 2.6-1, and therefore required a hearing before a fiscal committee of the Board of Supervisors and a report from the Budget & Legislative Analyst. Because that did not happen, the resolution placed the revenues on Budget & Finance Committee reserve, pending a report from our office.

## DETAILS OF PROPOSED LEGISLATION

The proposed hearing would release $2,700,000 in grant funds placed on Budget & Finance Committee reserve for Port's Pier 94/96 Seismic Improvement Project.

**Grant**

Under this Hazard Mitigation Grant Program subaward, the California Governor's Office of Emergency Services (Cal OES) is the grantor (on behalf of FEMA), and DEM and the Port are the subgrantees. The approved performance period for the award spans August 5, 2024, through August 28, 2026.

**Scope of Work**

The Port of San Francisco applied for a grant to carry out the Pier 94/96 Seismic Improvements project. The main goal is to study and advance design solutions that address the aging seawall, deteriorating wharf, and unstable soil conditions that could cause serious damage in a major earthquake.

The project involves several steps. First, the Port will evaluate current conditions by assessing land and underwater surfaces, inspecting structures like cranes and utilities, and performing soil testing. Next, the project team will assess earthquake risks, identify and evaluate different options to strengthen the pier, and develop detailed plans for the selected option up to a 60 percent completion level. Environmental reviews and necessary permits will also be completed.

Once this design work is finished, the Port plans to use these findings to request additional Federal Emergency Management Agency (FEMA) grants for construction. The ultimate aim is to restore Pier 94/96 to safe and reliable standards, improve the strength of the surrounding soil, and ensure the facility can adequately handle future cargo operations and emergency response needs.

The Port does not anticipate significant impacts on maritime operations during the assessment phase, as all work involves geotechnical investigations that can be scheduled around tenant activities. Outreach to local communities will occur through direct tenant communications and updates at the Southern Waterfront Advisory Committee.[1]

**Schedule**

The Port planned for and was awarded a 36-month project period ending in August 2027 for the completion of site investigations, risk assessments, design work, and environmental reviews.

[1] The Southern Waterfront Advisory Committee is a community advisory body that provides input on development, environmental, and maritime projects along San Francisco's southern waterfront.

However, under the current FEMA award terms, the federal disaster period of performance will end on August 28, 2026, and any work conducted after that date may be ineligible for reimbursement unless the Port secures a formal time extension from FEMA and the California's Office of Emergency Services (Cal OES). The Port expects to finish the core tasks—such as geotechnical investigations, risk modeling, and preliminary design—by August 2026, but acknowledges that unforeseen complexities could require additional time. If an extension is not granted, any remaining work would either have to be completed at the Port's expense or deferred until new funding could be identified. There is a risk that some grant funds could effectively go unused if the scope isn't finished by the August 2026 deadline or an extension is not granted.

**Local Business Enterprise Program**

While this contract is designated for contractual services that will be put out for bid, Local Business Enterprise requirements are not applicable as federal grants are prohibited from inclusion of requirements that advantage local producers.

## FISCAL IMPACT

The proposed hearing authorizes the release from reserve of $2,700,000 in federal grant funds awarded by FEMA's Hazard Mitigation Grant Program through Cal OES for the Pier 94/96 Seismic Improvements Project. Additionally, the Port of San Francisco will provide the required matching funds of $900,000 from the Port Harbor Fund, resulting in a total project budget of $3,600,000. The Port proposes to maximize the use of grant funds by waiving indirect costs in the grant budget. The allocation of the funds is detailed below in Exhibit 1.

**Exhibit 1: Total Grant Budget**

| Category | Amount |
|---|---:|
| Project Management | $179,400 |
| Consultant Procurement | 35,100 |
| Existing Conditions Assessment | 494,000 |
| Earthquake Risk Assessment | 470,000 |
| Alternative Assessment and Design | 540,000 |
| Design (up to 60%) and Environmental Approvals | 1,828,000 |
| Project Closeout | 52,500 |
| **Total** | **$3,600,000** |

Source: Port

Note: Total might not add due to rounding.

The Port acknowledges that project costs may fluctuate over time due to unforeseen conditions and the extended grant award timeline. If increases occur, the Port will engage with FEMA and Cal OES to request additional funding or adjust the project scope to align with available resources.

**Funding Source**

The FEMA Hazard Mitigation Grant Program requires a 25 percent local funding match. The Port's match of $900,000 will be sourced from previously approved appropriations from the Port Harbor Fund. This grant does not require an amendment to the City's Annual Salary Ordinance.

**Future Construction Funding**

If FEMA does not approve additional grants for seismic work identified in the needs assessment process, the Port will explore other financing and delivery options, such as integrating the Pier 94/96 work into the Waterfront Resilience Project or leveraging an offshore wind industry redevelopment plan. This initial grant work is needed to better understand existing site conditions, select a preferred design alternative, and begin detailed design.

## RECOMMENDATION

Approve the requested release of reserves.

| **Item 3**<br>**File 25-0062** | **Department:**<br>Port |
| --- | --- |

**EXECUTIVE SUMMARY**

**Legislative Objectives**

- The proposed hearing would release $55,386,000 in grant funds placed on Budget & Finance Committee reserve for Port's Emissions-Free Ferry System Project.

**Key Points**

- In October 2024, the Port of San Francisco (Port) and San Francisco Bay Ferry (SF Bay Ferry) received $55.4 million from the Environmental Protection Agency to develop the nation's first high speed zero emission ferry network.
- The grant will fund shore power charging installations at the Downtown Ferry Terminal and the Mission Bay Ferry Landing, a new Zero-Emission Electric Vessel (replacing a diesel ferry), and a Maritime Workforce Development Program for 200 people (with the first training cohort scheduled to begin in July 2025).

**Fiscal Impact**

- The $55.4 million grant requires a 10% local match, though 22% in matching funds ($15.5 million) have been identified to strengthen the application.
- Of this, $13.6 million comes from the San Francisco Public Utilities Commission's (SFPUC) Hetch Hetchy Power Division, and $1.9 million from SF Bay Ferry's capital plan.

**Policy Consideration**

- If grant funds are not fully disbursed, the Port could be forced to backfill $4.2 million and the SFPUC up to $3.4 million or curtail their involvement in the project.
- The workforce development program structure is still being finalized, with further details and agreements expected in April 2025. The Board may wish to request updates on this plan before full commitment of the grant funds.

**Recommendation**

- Approve the proposed release of reserves.

## MANDATE STATEMENT

City Administrative Code Section 3.3(j) states that the Budget and Finance Committee of the Board of Supervisors has jurisdiction over the City's budget and may reserve proposed expenditures to be released at a later date subject to Board of Supervisors approval. The practice of the Board of Supervisors is for the Budget and Finance Committee to approve release of funds placed on reserve by the Committee, without further Board of Supervisors approval.

## BACKGROUND

**The Port of San Francisco and Zero-Emission Initiatives**

The Port of San Francisco, a department of the City and County of San Francisco, manages 7.5 miles of waterfront property encompassing prominent tourist destinations, historic landmarks, and maritime industries. In February 2024, the U.S. Environmental Protection Agency (EPA) announced $3 billion in funding under the Clean Ports Program, stating they would prioritize projects that advance climate equity and promote community engagement.

In May 2024, the Port of San Francisco and San Francisco Bay Ferry[1] (SF Bay Ferry) submitted a $55.4 million joint grant application to the EPA for the San Francisco Waterfront Emissions-Free Ferry System. This proposal seeks to establish the first high-speed zero-emission ferry network in the United States. On October 16, 2024, the EPA awarded the full $55.4 million request.

**Prior Board of Supervisors Action**

In January 2025, the Board of Supervisors and Mayor enacted a resolution that approved the Port to accept $55,386,000 in grant revenues and the associated grant agreement with the U.S. Environmental Protection Agency (File 24-1217). The grant agreement requires the City to provide matching funds exceeding $200,000 per year and, as a result, the grant has "fiscal impact," as defined in Administrative Code Section 2.6-1, and therefore required a hearing before a fiscal committee of the Board of Supervisors and a report from the Budget & Legislative Analyst. Because that did not happen, the resolution placed the revenues on Budget & Finance Committee reserve, pending a report from our office.

## DETAILS OF PROPOSED LEGISLATION

The proposed hearing would release $55,386,000 in grant funds placed on Budget & Finance Committee reserve for Port's Emissions-Free Ferry System Project.

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[1] San Francisco Bay Area Water Emergency Transportation Authority is a public transportation agency created by the California Legislature. The Authority uses a brand name, San Francisco Bay Ferry, for its ferry operations and is overseen by a five-member board appointed by the Governor and State Legislature. The Authority leases land from the San Francisco Port for office space and ferry operations.

**Emissions-Free Ferry System Project**

The proposed EPA grant revenues will fund the following components of the San Francisco Waterfront Emissions-Free Ferry System Project, a project jointly managed by the Port and San Francisco Bay Ferry (SF Bay Ferry):

- Electrification Infrastructure: SF Bay Ferry will lead the construction and installation of shore power charging systems, including key electrical components such as switchgear, transformers, and power converters, at the Downtown San Francisco Ferry Terminal and Mission Bay Ferry Landing to enable rapid charging (5-8 minutes) of electric ferries during passenger loading and unloading. Construction and installation are scheduled to begin in the first quarter of 2026 and operations are expected to begin in the third quarter of 2027.
- A Fourth Zero-Emission Electric Vessel: SF Bay Ferry has already purchased three electric ferries, which are scheduled to enter service in 2026. The proposed grant will fund the purchase of a fourth vessel, scheduled to begin assembly in 2026 and will accommodate up to 400 passengers and be fully ADA-compliant. This fourth vessel will become operational in the first quarter of 2028 and will enable service to terminals in Downtown San Francisco, Mission Bay, Treasure Island, Oakland, and Alameda. Once the new vessel arrives, SF Bay Ferry will scrap one of its large diesel ferries with equivalent capacity and functionality. Additionally, the SF Bay Ferry plans to purchase a fifth zero emission as part of its capital plan.
- Maritime Workforce Development Program: Administered by the Working Waterfront Coalition, this program will train 200 participants in zero-emission technologies maintenance over the four-year grant period. The program aims to develop a skilled workforce pipeline to address the shortage of maritime professionals needed for operating and expanding regional ferry services. The workforce development plan is expected to be finalized in April 2025 and the first training cohort funded by this grant will commence in July.

While negotiations are ongoing, the Port reports the City's goal is for the SFPUC to own the electrification infrastructure funded by this grant. As of this writing, construction responsibilities between the SFPUC and Port are being discussed as the infrastructure spans both public rights-of-way and Port property.

**Impact on the Environment**

The project will establish a zero-emission ferry system expected to carry approximately 1.3 million passengers annually by FY 2027-28. The fourth electric vessel included in this project will replace an existing diesel ferry, avoiding 315,000 metric tons of $CO_2$-equivalent emissions over its operational lifetime.

**Build America, Buy America Act**

The project must comply with federal Buy America Act (BAA) and Build America, Buy America Act (BABA) requirements. According to the Port, SF Bay Ferry evaluated compliance with the BAA and BABA and confirmed that vessels, shore power systems, and electrical infrastructure can be constructed in accordance with BABA requirements. If any components are not fully compliant, the Port expects compliance to be achievable under existing time-limited waivers provided by the Clean Ports Program.

**Local Business Enterprise Requirements**

The proposed project does not include Local Business Enterprise (LBE) requirements due to federal funding restrictions under the EPA Clean Ports Program which prohibits the application of local preferences, including San Francisco's LBE program requirements.

**Risks and Mitigation**

Four Sections in the "Project Risk Mitigation" section of the grant application were marked in the safest category called, "low risk". These included Technical Risks, Security Risks, Organizational Risks, and Financial Stability Risks. Two sections were marked as moderate risks. They are detailed below.

Financial Risks

Marine construction and zero-emission technologies are subject to price volatility, especially for the lithium-ion batteries and industrial-scale transformers that will be used in this project. The Port claims they have mitigated these risks by securing reliable funding sources and planning for inflationary adjustments within the project budget.

Execution Risks

Supply chain delays for electrical components and regulatory challenges could impact project timelines. The Port and SF Bay Ferry report that they are proactively addressing these risks through advanced planning and close coordination with utility providers and regulators.

## FISCAL IMPACT

The $55,386,000 grant award from the EPA will fund the San Francisco Waterfront Emissions-Free Ferry System Project for the period from January 1, 2025, through December 31, 2028. The project budget is shown below in Exhibit 1.

**Exhibit 1: San Francisco Waterfront Emissions-Free Ferry System Budget**

| Funding Source | Downtown Ferry Terminal | Mission Bay Ferry Landing | Vessel | Workforce Program | Total |
|---|---|---|---|---|---|
| Proposed EPA Grant | $7,000,000 | $18,400,000 | $28,000,000 | $2,000,000 | $55,400,000 |
| Previously Appropriated City Funds | | 20,900,000 | | | 20,900,000 |
| SF Bay Ferry Funds | 29,200,000 | 28,000,000 | 30,400,000 | | 87,600,000 |
| SFPUC | 13,600,000 | | | | 13,600,000 |
| SFCTA/Sales Tax | | 4,500,000 | | | 4,500,000 |
| UCSF Gift | | 4,000,000 | | | 4,000,000 |
| **Total** | **$49,800,000** | **$75,800,000** | **$58,400,000** | **$2,000,000** | **$186,000,000** |

Source: Port

Note: All funding sources are pending approval and have not yet been appropriated, except for the "Previously Appropriated City Funds," which make up a combination of Port, General Fund, and OCII funds that have already been spent. All figures are rounded.

The proposed grant requires a 10 percent match; however, the Port and SF Bay Ferry have identified 22 percent matching funds totaling $15,500,000 to enhance the competitiveness of the application. These matching funds are other fundings source committed or planned for the project and will primarily come from the San Francisco Public Utilities Commission ($13.6 million) and the San Francisco Bay Ferry ($1.9 million). The sources for the matching funds are detailed below in Exhibit 2.

**Exhibit 2: Breakdown Matching Funds**

| Funding Source | Amount |
|---|---|
| SFPUC Hetch Hetchy Capital Project Funds | $13,600,000 |
| *SF Bay Ferry* | *1,900,000* |
| Regional Measure 3 (Bridge Toll Revenue) | 900,000 |
| State Transit and Intercity Rail Capital Program | 1,000,000 |
| **Total** | **$15,500,000** |

Source: Grant Resolution Info Form

As shown above, $13.6 million of the $15.5 million in grant matching funds will be monies from the SFPUC Hetch Hetchy Power Division and paid for by SFPUC ratepayers. Depending on the final scope of infrastructure improvements, a portion of SFPUC costs may be reimbursed by SF Bay Ferry. As shown below, the proposed grant's spending plan includes $3.4 million to SFPUC to offset project costs.

In addition, the SF Bay Ferry's capital plan includes $87.6 million in other revenues, of which $1.9 million will be used as matching funds for the proposed grant. SF Bay Ferry's capital funds include federal and state grants and bridge toll revenue.

The breakdown of expenditures under the proposed EPA grant are detailed below in Exhibit 3.

**Exhibit 3: Breakdown of EPA Grant Uses**

| Project Component | Cost |
|---|---|
| **Port Personnel** | |
| (1) Project Manager (0.25 FTE) | $95,000 |
| (2) Project Manager (0.15 FTE) | 56,000 |
| **Fringe Benefits** | |
| Full-time Employees (32% of Salary) | 51,000 |
| **Contractual** | |
| Design, Entitlements, & Regulatory Fees | 500,000 |
| Construction Management, Inspections, and Monitoring | 2,394,000 |
| **Construction** | |
| Behind the Meter Construction* | 1,128,000 |
| **Other** | |
| *Subaward: San Francisco Bay Ferry* | *47,762,000* |
| - Shore Power & Anchoring Systems | 14,000,000 |
| - Fourth High-Speed Vessel | 28,000,000 |
| - Behind the Meter Construction | 3,762,000 |
| - Workforce Development (Working Waterfront Coalition) | 2,000,000 |
| *Subaward: San Francisco Public Utilities Commission* | *3,400,000* |
| **Total Funding** | **$55,386,000** |

Source: Project Budget

Note: "Behind-the-meter" construction refers to electric charging infrastructure located on the customer side of the electricity meter, such as charging equipment for zero-emission ferries. This type of infrastructure is eligible for grant funding, unlike "front-of-the-meter" infrastructure (e.g., transmission or distribution systems, which will be installed by SFPUC).

### Operating Costs

The new electric vessels are expected to last approximately 25 years. Operations and maintenance costs for the ships and electrification infrastructure will be the responsibility of SF Bay Ferry and will not require financial support from the City.

### Job Creation

According to the Port's grant application, the project is expected to create approximately 300 direct jobs and 600 indirect jobs, primarily related to temporary construction activities. Additionally, the SF Bay Ferry is administering a Workforce Development Program which will train over 200 apprentices, with a focus on zero emission maritime technologies.

## POLICY CONSIDERATION

According to the Port, the California Air Resources Board CARB requires new ferry service to be emission free. In January 2025, CARB withdrew its request to the EPA for authority to impose similar regulations on existing ferry services. The new ferry service contemplated at Mission Bay will have to be delivered with emission-free vessels.

The grant is funded by the EPA. The current presidential administration may no longer consider these electrification efforts a policy priority. Although the grant is fully approved by the Board of Supervisors and Mayor, it may not be fully disbursed during the grant term, which runs through December 2028. The primary financial risk is borne by SF Bay Ferry, which intends to procure a vessel and the associated electrification infrastructure with the proposed grant funding. However, SFPUC ratepayers are also paying for infrastructure upgrades to support the planned electrification of the waterfront. If the grant is not fully disbursed, the Port would have to backfill up to $4.2 million and the SFPUC up to $3.4 million in grant funding for program management and construction costs or end their participation in the project. Loss of grant funds could also result in stranded electrification assets.

The workforce development program is still under development and there are no final agreements between the Workforce Coalition members, SF Bay Ferry, OEWD, or the Port. Agreements are expected in April 2025. The Board of Supervisors should request the final workforce development plan from the Port.

## RECOMMENDATION

Approve the proposed release of reserves.

| **Item 5**<br>**File 25-0234** | **Department:**<br>City Planning |
|---|---|

**EXECUTIVE SUMMARY**

**Legislative Objectives**

- The proposed resolution would retroactively authorize the Planning Department to accept and expend a $7,000,000 grant award from the U.S. Department of Housing and Urban Development's (HUD) Pathways to Removing Obstacles to Housing program for the period from January 22, 2025 through September 30, 2030 and approve the grant agreement.

**Key Points**

- HUD provides grant funding to local governments to address local housing barriers (such as outdated land use policies and regulations and risks associated with a housing stock that is aging) through the Pathways to Removing Obstacles to Housing (PRO Housing) program. The Planning Department applied for $7.0 million in grant funding in response to the August 2024 Round 2 Notice of Funding Opportunity (NOFO) for the program and received a notice of award in January 2025.
- The proposed grant would support process improvements to accelerate permitting timelines and improve consistency in the entitlement process, preservation of the City's Single Room Occupancy buildings and affordable housing development on sites owned by faith-based organizations, expansion of housing types (particularly in high-resourced neighborhoods), and development of a community benefits framework to determine how to address desired benefits in equity communities without increasing the cost of housing.

**Fiscal Impact**

- Grant activities are funded by the proposed $7.0 million HUD grant (41 percent), approximately $7.8 million from the City's General Fund (46 percent), and other grants (13 percent). The HUD program does not require matching funds but awarded additional points to proposals that leverage other funding sources.
- The grant budget includes $10.5 million for salaries and benefits for City staff, including $3.9 million from the proposed grant, to support 7.0 to 8.0 FTE per year over the grant term.

**Policy Consideration**

- Some of the activities include work that is ongoing or planned within City department programs and some of the activities are new and rely on the proposed grant funding, such as contracts with third-party firms for improved permitting systems. Such contracts would not be awarded if the grant funds were paused or cancelled, but staff supported work to improve workflows and use of existing systems would require additional General Fund support to backfill the lost revenues.

**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.

City Charter Section 9.118(a) states that contracts entered into by a department, board, or commission that (i) have anticipated revenues of $1 million or more, or (ii) have anticipated revenues of $1 million or more and require modifications, are subject to Board of Supervisors approval.

## BACKGROUND

The U.S. Department of Housing and Urban Development (HUD) provides grant funding to local governments to address local housing barriers (such as outdated land use policies and regulations and risks associated with a housing stock that is aging) through the Pathways to Removing Obstacles to Housing (PRO Housing) program. The Planning Department applied for $2.0 million in grant funding as part of the Round 1 grant program but did not receive an award.[1] The Planning Department applied for $7.0 million in grant funding in response to the August 2024 Round 2 Notice of Funding Opportunity (NOFO) for the program and received a notice of award in January 2025.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would retroactively authorize the Planning Department to accept and expend a $7,000,000 grant award from the United States Department of Housing and Urban Development's Pathways to Removing Obstacles to Housing program for the period from January 22, 2025 through September 30, 2030 and approve the grant agreement.

The grant is retroactive because the Planning Department received notice of the award on January 24, 2025 (after the grant start date of January 22, 2025) and the proposed resolution was introduced on March 11, 2025.

**Matching Funds**

According to Round 2 NOFO, the program does not require matching funds but awarded a maximum of 10 points (out of 100 total points) to proposals that leverage other funding sources equal to at least 50 percent of the grant. The Planning Department's proposal included $9.9 million in other funds equal to 142 percent of the $7.0 million grant award and received the full

[1] According to the proposed resolution, the City appropriated $2.0 million in FY 2024-25 for PRO Housing grant activities in anticipation of a Round 1 award, which the City did not receive.

10 points for leveraging other funds. As detailed in Exhibit 2 below, the $9.9 million in other funds includes $7.8 million from the City's General Fund and $2.1 million from other grants.

**Grant Activities**

According to the Planning Department's application for grant funds. The grant and other city funds will support the following activities:

1. **Development process improvements** to accelerate permitting timelines and improve consistency in the entitlement process, including improvements to permitting systems, updates to technology, policy, and municipal codes, custom software to improve transparency and the applicant experience (such as an impact fee calculator, online application portal, and project review workspace for planners).
2. **Affordable housing production, preservation, and stabilization** activities to preserve the City's Single Room Occupancy (SRO) buildings and promote affordable housing development on sites owned by faith-based organizations, including a capital needs assessment of Single Room Occupancy (SRO) buildings and legislative changes and capital funding to replace or rehabilitate SROs; and trainings and permitting support for Faith Based Organizations.
3. **Expand housing types, particularly in high-resourced neighborhoods**, including development of pre-approved schematic designs for small-scale multi-family housing (two to nine units), updates to land use controls and tenant protections, and identification of publicly owned sites suitable for housing development.
4. **Prioritize community benefits in equity communities** to prevent displacement in low-income communities of color where most of the recent housing production has occurred and to ensure existing residents benefit from development. Specifically, this activity includes drafting and implementing a community benefits framework to assess existing requirements and use of fee revenues and determine how desired community benefits could be addressed; and development of policies and legislation to implement community benefits without increasing the cost of housing production and preservation.

**Performance Goals**

According to the NOFO, the Planning Department must comply with HUD reporting requirements, including submission of quarterly progress reports throughout the grant term. Exhibit 1 shown below shows potential performance goals for the grant activities according to the Planning Department's grant application.

**Exhibit 1: Draft Performance Goals for Grant Activities**

| Measure | Goal |
|---|---|
| Average time to entitlement and time to building permit approval | Reduce by 50% |
| Number of faith-based organizations entering the training program | 6 to 12 program participants |
| Number of affordable units entitled on faith-based land and percent located in high-resourced areas | At least 25-50% of affordable units located in high-resourced areas |
| Increased zoning capacity for homes in high-resourced areas (Number of new net units) | Capacity created for at least 36,200 additional units |
| Number and percent of homes entitled in high-resourced areas, both market rate and affordable | 25-50% of affordable units located in high-resourced areas |
| Number and percent of homes built in priority equity geographies using streamlined community benefit legislation | Identification of community benefits priorities in 4 to 6 priority equity communities and adoption of objective standards and/or practices addressing priorities of each community |

Source: Grant Application, Exhibit G

Grant activities and goals align with the City's policy goals in the Housing Element 2022 Update. The Board of Supervisors could request that the Planning Department report annually on the proposed grant performance measures during the department's budget presentation.

## FISCAL IMPACT

Grant activities are funded by the proposed $7.0 million HUD grant (41 percent), approximately $7.8 million from the City's General Fund (46 percent), and other grants (13 percent). Exhibit 2 below shows the proposed grant budget.

**Exhibit 2: Sources and Uses for Proposed Grant Activities**

| Sources | Amount | Percent |
|---|---|---|
| HUD PRO Housing Grant (Proposed Grant) | $7,000,000 | 41.4% |
| City General Fund | 7,752,626 | 45.8% |
| Metropolitan Transportation Commission (MTC) Grant[2] | 1,035,000 | 6.1% |
| U.S. Department of Transportation Grant (DOT)[3] | 1,000,000 | 5.9% |
| CA Department of Housing & Community Development (HCD) Grant[4] | 128,000 | 0.8% |
| **Total Sources** | **$16,915,626** | **100.0%** |
| **Uses** | | |
| Salaries | 7,505,686 | 44.4% |
| Fringe Benefits | 2,957,240 | 17.5% |
| Equipment | 211,100 | 1.2% |
| Permit Technology System | 211,100 | |
| Consultants | 700,000 | 4.1% |
| Process Improvement | 350,000 | |
| Architectural & Development Experts | 200,000 | |
| Financial Feasibility & Environmental Review | 150,000 | |
| Contracts and Sub-Grantees | 4,758,000 | 28.1% |
| MTC Grant* | 1,035,000 | |
| DOT Grant* | 1,000,000 | |
| HCD REAP Grant* | 128,000 | |
| SRO Preservation Framework & Needs Assessment | 275,000 | |
| SRO Rehabilitation Fund | 190,000 | |
| Faith-Based Org Training Program | 200,000 | |
| Community Benefits | 150,000 | |
| Predevelopment Grant to Faith-Based Orgs | 480,000 | |
| Grants to CBOs for Community Benefit Workshops | 300,000 | |
| Priority Equity Geographies Fellowship Program & Community Engagement Fund | 1,000,000 | |
| Other Direct Costs | 783,600 | 4.6% |
| Permit Streamlining Measures at 5 Key Permitting Agencies | 750,000 | |
| Fee-waivers for Interagency Project Review of Faith-Based Orgs | 33,600 | |
| **Total Uses** | **$16,915,626** | **100.0%** |

Source: Grant Budget
*According to Planning Department staff, other grants will likely fund other contracts related to the grant activities, but staff did not provide a breakdown of expenditures

[2] The MTC Priority Development Areas (PDA) Planning Grant provides funding for rezoning and land use policy amendments and affordable sites analysis.

The proposed grant, along with City sources and other grants, provide approximately $10.5 million for salaries and benefits for City staff, which reflects 62 percent of the proposed budget. Over the five-year and eight-month term, the budget funds 40.07 full-time equivalent (FTE) positions cumulatively, or approximately 7.0 to 8.0 FTE annually, as shown in Exhibit 3 below. According to Planning Department staff, all positions are existing and none are currently vacant.

**Exhibit 3: Total Staff Hours Over the Grant Period**

| Job Classification | Total Hours | Cumulative FTE |
|---|---:|---:|
| Planner I (5277) | 2,080 | 1.00 |
| Planner II (5278) | 5,408 | 2.60 |
| Planner III (5291) | 15,080 | 7.25 |
| Planner IV (5293) | 13,104 | 6.30 |
| Planner V (5283) | 2,184 | 1.05 |
| Manager IV (0932) | 6,240 | 3.00 |
| Manager V (0933) | 6,240 | 3.00 |
| Division Director (0953) | 1,040 | 0.50 |
| Sr. Community Development Specialist I (9774) | 17,264 | 8.30 |
| Sr. IS Business Analyst (1053) | 987 | 0.47 |
| Project Manager 1 (5502) | 6,240 | 3.00 |
| Project Manager 2 (5504) | 1,248 | 0.60 |
| Administrative Analyst (1822) | 6,240 | 3.00 |
| **Total** | **83,355** | **40.07** |

Source: Grant Budget

## POLICY CONSIDERATION

### Federal Funding Disbursement

According to Planning Department staff, some of the activities include work that is currently ongoing or planned within City department programs and some of the activities are new activities and rely on the proposed grant funding. For example, contracts with third-party firms for improved permitting systems rely on grant funds. Such contracts would not be awarded if the grant funds were paused or cancelled. Staff supported work to improve workflows and use of

[3] The DOT Build America Bureau Innovative Finance and Asset Concession Grant provides funding for technical assistance joint-development program with SFMTA. According to Planning Department staff this grant was awarded to SFMTA for its Joint Development Program, and the cooperative agreement was executed in December 2024.

[4] The HCD Regional Early Action Planning (REAP) Grant provides funding for community stabilization activities in priority equity geographies.

existing systems is matched with funding from the General Fund and could continue without grant funds.

Based on the grant budget, Activities 1 and 2 would be more greatly impacted than Activities 3 and 4 if the PRO Housing grant funds are not disbursed. As shown in Exhibit 4 below, the HUD PRO Housing grant reflects at least half of all funding for Activities 1 and 2, and less than one-third of all funding for Activities 3 and 4. Including the $1.0 million DOT grant, which was previously awarded to the SFMTA, federal funding reflects 47 percent of Activity 3 funding.

**Exhibit 4: PRO Housing Grant Funding by Grant Activity**

| Grant Activity | HUD PRO Housing Grant | DOT Grant | City Funds and Other Grants | Total | % Federal Grant |
|---|---|---|---|---|---|
| Activity 1: Development Process Improvements to Unlock the Pipeline | $2,893,324 | | $2,341,855 | $5,235,179 | 55% |
| Activity 2: Affordable Housing Production, Preservation, and Stabilization | 1,316,806 | | 1,282,786 | 2,599,592 | 51% |
| Activity 3: Expand Housing Types, Esp. in High-Resourced Neighborhoods | 1,558,257 | 1,000,000 | 2,924,118 | 5,482,375 | 47% |
| Activity 4: Streamlined Community Benefits in Priority Equity Geographies | 1,121,672 | | 2,366,868 | 3,488,540 | 32% |
| Activity 5: Grant Administration | 109,940 | | | 109,940 | 100% |
| **Total** | **$7,000,000** | **$1,000,000** | **$9,915,626** | **$16,915,626** | **47%** |

Source: Grant Application, Exhibit D

## RECOMMENDATION

Approve the proposed resolution.

| **Item 6**<br>**File 25-0235** | **Department:** Mayor's Office of Housing and Community Development (MOHCD) |
|---|---|

**EXECUTIVE SUMMARY**

**Legislative Objectives**

- The proposed resolution would approve an amended and restated loan agreement in an amount not to exceed $11,595,214 from the Mayor's Office of Housing and Community Development (MOHCD) to Bernal Heights Housing Corporation (BHHC) for the acquisition, rehabilitation, and permanent financing of three buildings located at 1652-1654 Eddy Street, 3554 17th Street, and 195 Woolsey Street, collectively known as the Bernal Bundle.

**Key Points**

- The Bernal Bundle is a is a scattered site rehabilitation project of three affordable housing properties owned by BHHC totaling 26 residential units: (1) Positive Match, located at 1652 Eddy Street, (2) Hazel Betsey, located at 3554 17th Street, and (3) 195 Woolsey Street. The City previously provided loans to the three sites to acquire and rehabilitate the properties, and the total outstanding principal on those loans is $4,114,056.
- In 2023, MOHCD issued a Notice of Funding Availability (NOFA) for Existing Nonprofit (ENP) owned rental housing capital repairs and awarded BHHC a loan to provide funding for the Bernal Bundle. In 2024, BHHC was awarded an additional $1.2 million in loan funding from the Elevator Modernization Program (EMP) to replace the Hazel Betsey elevator.
- The rehabilitation scope includes elevator replacement, seismic retrofits, flooring replacement, fire escape upgrades, fire alarm systems, window replacement, roof repair, electrical upgrades, security intercom replacement, lighting and fan upgrades, exterior stair and deck repairs, plumbing upgrades, exterior paint, siding replacement, asbestos abatement, and HVAC upgrades.

**Fiscal Impact**

- The proposed loan provides $11,595,214 for the Bernal Bundle, including a soft debt loan of up to $7,884,214 and a PASS loan of up to $3,711,000. The soft debt loan includes an ENP loan of $3,770,158, which includes elevator modernization funding of $1,200,000, and the refinance of $4,114,056 in existing loans. The soft debt loan would be repaid based on residual income in the project.
- The ENP loan amount ($3,770,158), which includes the General Fund, Housing Trust Fund, and Certificate of Participation amounts, is equal to $145,006 per unit. According to the 20-year cash flow analysis for the project, the project's revenues are sufficient to cover operating expenses, debt service, reserves, and management fees.

**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

**PASS Program**

The Mayor's Office of Housing and Community Development (MOHCD) administers the Preservation and Seismic Safety (PASS) program, which was authorized by voters in 2016 and provides low-cost financing to fund the acquisition and preservation of affordable housing and seismic retrofits to existing buildings. The program is funded by $260.7 million in general obligation bonds, including $156.0 million for market-rate loans and $104.7 million for below market-rate loans. Unlike other MOHCD permanent loans for affordable housing which are structured as soft debt and repaid through residual receipts, PASS program loans are structured as hard debt, which means they must be repaid every month for the duration of the lending period.

**Bernal Bundle**

The Bernal Bundle is a scattered site rehabilitation project of three properties owned by Bernal Heights Housing Corporation (BHHC) totaling 26 residential units:

1. <u>Positive Match, located at 1652 Eddy Street</u>, is a permanent supportive housing site for homeless families with adults with HIV/AIDS who also have a substance abuse and/or mental health diagnosis. The site has seven units: 1 one-bedroom, 5 two-bedrooms, and 1 three-bedroom unit. Catholic Charities provides on-site supportive services in a rented commercial space.
2. <u>Hazel Betsey, located at 3554 17th Street</u>, is a permanent supportive housing site for formerly homeless families and individuals with HIV/AIDS who also have a substance abuse and/or mental health diagnosis. The site has nine units: six studios and 3 one-bedroom units. Catholic Charities provides on-site supportive spaces in a rented commercial space.
3. <u>195 Woolsey Street</u> has 10 studio units for low-income and disabled adults. There are no on-site supportive services.

The City previously provided loans to the three sites to acquire and rehabilitate the properties, with loans disbursed between 1995 and 2017. The total outstanding principal on those loans is $4,114,056.

**Project Selection**

In February 2023, MOHCD issued a Notice of Funding Availability (NOFA) for Existing Nonprofit (ENP) owned rental housing capital repairs. BHHC responded to the NOFA and MOHCD scored

BHHC's application 86.65 out of 120 possible points, which exceeded the minimum score of 70 points, and awarded BHHC a loan to provide funding for the Bernal Bundle. In April 2024, the Citywide Affordable Housing Loan Committee approved BHHC's request for a loan with ENP and PASS funding, existing loan consolidation and recast, and interest forgiveness for the Bernal Bundle project in an amount not to exceed $10,395,214. The loan was not executed and therefore it did not come to the Board of Supervisors for approval.

In 2024, the Department of Homelessness and Supportive Housing (HSH) issued a NOFA for the Elevator Modernization Project (EMP) program to repair or replace elevators in permanent supportive housing buildings. The NOFA was undersubscribed, and MOHCD and HSH awarded a portion of unused funds to BHHC to replace the Hazel Betsey elevator.[1] In February 2025, the Citywide Affordable Housing Loan Committee approved an increase in the loan amount to the project for a total amount not to exceed $11,595,214 to reflect the additional funds for elevator repair.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would: (1) authorize the MOHCD Director to execute loan documents for the permanent financing of the Bernal Bundle buildings located at 1652-1654 Eddy Street, 3554 17th Street, and 195 Woolsey Street, for a total loan amount not to exceed $11,595,214; (2) affirm the Planning Departments' determination under the California Environmental Quality Act (CEQA); (3) find that the loan is consistent with the General Plan and Planning Code; and (4) authorize the MOHCD Director or their designee to modify the loan documents and take certain actions in furtherance of the resolution.

The documents approved as part of this resolution include: (1) a Loan Agreement between the City and Hazel Eddy Woolsey LLC (an affiliate of BHHC); (2) Declarations of Restrictions for affordable housing; (3) Promissory Notes; and (4) Deeds of Trust.

### Loan Agreement and Repayment

The proposed loan agreement provides for a loan amount not to exceed $11,595,214, which includes a soft debt loan of up to $7,884,214 and a PASS loan of up to $3,711,000. The soft debt loan includes an ENP loan of $3,770,158, which includes elevator modernization funding of $1,200,000, and the refinance of $4,114,056 in existing loans. The PASS loan is funded by PASS General Obligation Bond Series 2020C and includes three components: (1) a market-rate loan; (2) a below market-rate loan; and (3) a deferred loan. MOHCD combines PASS market-rate loans with PASS affordable loans (below market-rate and deferred) to create a blended interest rate and maximize total bond proceeds available for affordable housing preservation projects. The interest rates and repayment terms for the loans are provided in Exhibit 1 below based on the terms in the four separate promissory notes (one for each type of PASS loan and one for the ENP loan. The PASS loans mature 42 years after the recordings of the deeds of trust or 40 years after

[1] According to MOHCD, HSH awarded $6,415,057 of the $10,000,000 of COP funds available in their Elevator Modernization NOFA to eligible projects. That left $3,584,943 for other uses, including MOHCD projects, which also includes the $1.2M going to the Bernal Bundle.

the project completion date, and the ENP loan matures 55 years after the recording of the deed of trust.

**Exhibit 1: PASS and Existing Nonprofit Capital Loan Summary for Bernal Bundle**

| Loan | Amount | Annual Interest Rate | Interest Type | Repayment |
|---|---|---|---|---|
| PASS Market Rate | $2,259,999 | 3.87% | Compound | Monthly Payments |
| PASS Below Market Rate | 1,246,896 | 0.96% | Compound | Monthly Payments |
| PASS Deferred | 204,105 | 0.96% | Compound | Repaid at Maturity |
| *PASS Subtotal* | *$3,711,000* | | | |
| Exiting Nonprofit, Elevator Repair, Recast | 7,884,214 | 3.00% | Simple | Annual Payments, equal to 2/3 of Residual Receipts |
| **Total** | **$11,595,214** | | | |

Source: Master Promissory Notes

*Required Rents*

The Declarations of Restrictions, which cover all loan products, outline required rents for all units in each of the three properties in the Bernal Bundle. Income restrictions are as follows:

1. **Positive Match (<u>1652 Eddy Street</u>)**: All seven units are rented to households with up to 50 percent of Area Median Income (AMI).
2. **Hazel Betsey (<u>3554 17th Street</u>)**: All nine units are rented to households with up to 50 percent of AMI.
3. **<u>195 Woolsey Street</u>**: two units are rented to households with up to 50 percent of AMI, and eight units are rented to households with up to 60 percent of AMI.

*Occupancy*

According to MOHCD, the Bernal Bundle has struggled to achieve the 90 percent occupancy requirement set as a condition for loan closing by the proposed loan approved by the Affordable Housing Loan Committee in 2024. As of February 2025, 12 of the 26 total units, or 46 percent, were vacant. This is partially due to property management turnover and a lack of referrals of HIV-positive tenants from the San Francisco Housing Authority and MOHCD.[2] According to Amanda Fukutome-Lopez, MOHCD Multifamily Lending Project Manager, BHHC has been working with SFHA and HSH to fill referral units at Positive Match and Hazel Betsey. BHHC has received referrals for approximately seven to eight new households, across those two sites, who plan to move in shortly. After these units are occupied, approximately four to five units will remain vacant. BHHC staff is currently working through the DAHLIA waitlist for 195 Woolsey to identify potential tenants to fill the vacant units at that site.

Because PASS is a hard debt product and the exiting nonprofit loan is a soft debt product based on residual receipts, MOHCD has amended the loan agreement to state that PASS loan

[2] The proposed loan includes $2.5 million in Housing Opportunities for Persons With AIDS (HOPWA) funds, a U.S. Department of Housing and Urban Development (HUD). HOPWA funds are dedicated to projects for people who are HIV positive.

disbursements are subject to the 90 percent occupancy requirement, rather loan closing for all funds.

**Rehabilitation Scope**

The proposed loan funds approximately $7 million in rehabilitation work (including soft costs) that will be undertaken by BHHC and overseen by MOHCD.

The rehabilitation scope includes elevator replacement, seismic retrofits, flooring replacement, fire escape upgrades, fire alarm systems, window replacement, roof repair, electrical upgrades, security intercom replacement, lighting and fan upgrades, exterior stair and deck repairs, plumbing upgrades, exterior paint, siding replacement, asbestos abatement, and HVAC upgrades. According to the MOHCD loan evaluation memo to the Citywide Affordable Housing Loan Committee, the rehabilitation scope was based on a Capital Needs Assessment.

Under the proposed loan agreement, construction must begin by April 30, 2025 and be completed by March 1, 2026. The project must achieve 100 percent occupancy by April 30, 2026.

## FISCAL IMPACT

The proposed loan would provide up to $11,595,214 to finance the acquisition, rehabilitation, and permanent financing of the Bernal Bundle. The sources and uses of funds are shown in Exhibit 2 below.

**Exhibit 2: Sources and Uses of Proposed Loan**

| Sources | Amount |
|---|---|
| ENP Loan & Refinance of Existing Loans | $7,884,214 |
| PASS Market-Rate Loan | 2,259,999 |
| PASS Below Market-Rate Loan | 1,246,896 |
| PASS Deferred Loan | 204,105 |
| *Subtotal, City Loans* | *11,595,214* |
| Bernal Equity | 166,642 |
| **Total Sources** | **$11,761,856** |

| Uses | Amount |
|---|---|
| Acquisition (Refinance of Existing Loans) | $4,012,936 |
| Construction (Includes 19% Contingency) | 6,284,078 |
| Soft Costs (Includes 10% Contingency) | 693,888 |
| Reserves | 166,642 |
| Developer Fee | 604,313 |
| **Total Uses** | **$11,761,856** |

Source: Proposed Loan Agreement

According to Multifamily Lending Project Manager Fukutome-Lopez, the refinancing of existing loans is intended to extend the affordable housing deed restriction period for the Bernal Bundle properties. In addition to the refinancing, MOHCD is waiving approximately $1.8 million in interest from the existing loans to improve BHHC's balance sheet. Since the ENP loan is soft debt based on residual receipts, MOHCD only anticipates soft debt service payments when the properties are near full occupancy.

Construction costs include a 19 percent hard cost contingency and 10 percent soft cost contingency. Reserves are funded by existing Bernal Bundle equity and include $66,642 in operating reserves and $100,000 in replacement reserves.[3] Total costs include $604,313 in developer costs and $693,888 in soft costs, including $140,622 in relocation costs.[4]

**ENP Loan and Existing Funding Sources**

The proposed ENP loan is funded by:

- $2,500,000 from the General Fund
- $70,158 from the Housing Trust Fund
- $1,200,000 from 2023 Certificates of Participation (COP) funds (for elevator replacement)

The existing loan sources to be refinanced are:

- $228,869 from Hotel Tax Funds
- $1,350,178 from HOME funds (affordable housing developer fees)
- $2,535,009 from HOPWA funds (Housing Opportunities for Persons With AIDS, U.S. Department of Housing and Urban Development funding)

**City Subsidy and PASS Loan**

The not-to-exceed City loan of $11.6 million is equal to approximately $445,970 per unit, including PASS funding of $142,731 per unit and soft debt of $303,239 per unit. The ENP loan amount ($3,770,158), which includes the General Fund, Housing Trust Fund, and Certificate of Participation amounts, is equal to $145,006 per unit. The elevator replacement loan of $1.2 million exceeds the maximum award of $500,000 per project anticipated by the EMP NOFA, but MOHCD believes the additional funds are justified because after the original MOHCD award of ENP Funds, it was determined that the initial estimate for elevator repair was insufficient, and that the additional funding was required to maintain minimum housing quality standards for the nine disabled households at Hazel Betsey. The higher per unit cost limit from the ENP NOFA was waived because the site is very small, and the limit could not facilitate the elevator replacement, which MOHCD determined was necessary.

Because PASS funding is a hard debt product, there is no subsidy guideline for PASS funding, but PASS loans are constrained and sized based on a minimum debt service coverage ratio of 1.15, a maximum loan-to-value ratio of 90 percent, and a maximum loan-to-cost ratio of 80 percent.

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[3] Operating reserves support unanticipated operating costs for at least 20 years. Replacement reserves support the project's capital needs over time.

[4] MOHCD anticipates that BHHC would have to relocate a total of four households from Hazel Betsey and 195 Woolsey for approximately two to three weeks, and the commercial spaces (occupied by Catholic Charities) for up to six months. The relocation budget also allows for possible relocation of up to 10 additional tenants during the rehabilitation period.

**Operating Revenues and Expenses**

According to the 20-year cash flow analysis for the project, the project's revenues are sufficient to cover operating expenses, reserves, and management fees. Project revenues consist of tenant rents, rental assistance through a Housing Assistance Payment contract for the Positive Match units and a Continuum of Care contract for the Hazel Betsey units, and commercial rents from Catholic Charities. The operating budget assumes annual rental income loss of five percent for the residential units and 10 percent for commercial space. As mentioned above, after newly referred tenants move in, approximately 15 to 19 percent of units will be vacant.

PASS loans must be repaid according to the terms discussed above. A portion of net income after operating expenses (residual receipts) will be used to repay the remaining City loan.

## RECOMMENDATION

Approve the proposed resolution.

| **Item 8**<br>**File 25-0193** | **Department:** Department of Homelessness and Supportive Housing (HSH) |
|---|---|

## EXECUTIVE SUMMARY

### Legislative Objectives

- The proposed resolution would approve a lease for non-congregate shelter use between the Department of Homelessness and Supportive Housing (HSH) and Lombard Hotel Group for the Monarch Hotel at 1015 Geary Street, for a term of one year and initial annual base rent of $1,597,320

### Key Points

- In 2020, the City entered into a booking agreement with the Monarch Hotel, located at 1015 Geary Street, to use as a non-congregate shelter. The booking agreement has since been amended five times and expired March 31, 2025. HSH has determined that leasing the hotel provides a more cost-efficient option, and the Real Estate Division (RED) has negotiated a lease with the hotel owner. The original lease included in the legislative file was for one year with four one-year options to extend the term. HSH and RED have renegotiated the lease to eliminate the options to extend, and HSH plans to submit an amended resolution, retroactive to April 1, 2025, to approve a one-year lease at the same initial base rent.
- The lease would have a term of one year from April 2025 through March 2026. The fair market rent was determined estimating the landlord’s revenues and costs that the hotel would generate if it were operated as a tourist hotel. HSH has contracted with WeHOPE to provide supportive services at the hotel.

### Fiscal Impact

- The proposed lease would have initial annual rent of $1,597,320. Rent would be paid by the City’s General Fund. HSH would also pay a termination fee of $100,000 at the end of the lease.
- HSH estimates that by converting from the booking agreement to a lease, HSH would save approximately $1.4 million per year, or approximately $40 per room per night.

### Recommendation

- Approve the proposed resolution, as amended.

## MANDATE STATEMENT

City Administrative Code 23.27 states that any lease with a term of one year or longer and where the City is the tenant is subject to Board of Supervisors approval by resolution.

## BACKGROUND

In 2020, the City entered into a booking agreement with the Monarch Hotel, located at 1015 Geary Street, to use as a non-congregate shelter in response to the COVID-19 pandemic. The Department of Homelessness and Supportive Housing (HSH) and Human Services Agency (HSA) identified the property through a Request for Information (RFI) issued in February 2020. The booking agreement has since been amended five times, most recently by the Board of Supervisors in July 2024 (File 24-0634) and expires March 31, 2025.

Due to the ongoing need for shelter capacity, HSH wishes to continue non-congregate shelter operations at the Monarch Hotel. HSH has determined that leasing the hotel provides a more cost-efficient option than extending the booking agreement. In addition, a lease would clarify the owner's responsibility and timing for maintenance and repairs, insurance requirements, methodology for calculating rent increases, and responsibility of taxes and expenses. The lease structure could also allow HSH to utilize services (such as meals and laundry) through existing grant agreements with non-profit operators rather than through the hotel operator, which may reduce operating costs. The Real Estate Division (RED) has negotiated a lease on behalf of HSH with the owner of the Monarch Hotel.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a non-congregate shelter lease between HSH and Lombard Hotel Group for the Monarch Hotel, for a term of one year and annual base rent of $1,597,320.

The lease was originally negotiated to have an initial term of one year from April 2025 through March 2026, with four one-year options to extend, and three percent annual escalation. HSH and RED have renegotiated the lease to eliminate the options to extend beyond one year. HSH plans to introduce an amended resolution at the March 26, 2025 Budget and Finance Committee meeting, retroactive to April 1, 2025. The proposed lease also provides the City right of first refusal if the landlord receives an offer to purchase to the property.

Key terms of the proposed lease are shown in Exhibit 1 below.

**Exhibit 1: Key Terms of Proposed Lease**

| | |
|---|---|
| **Address** | 1015 Geary Street |
| **Premises** | 38,706 Square Feet |
| **Units** | 102 Units (97 Shelter Units, 5 Office Units) |
| **Initial Term** | 1 Year |
| **Options to Extend** | None |
| **Initial Annual Base Rent** | $1,597,320 ($15,660 per Unit, $41.27 per Square Foot) |
| **Rent Escalation** | Not Applicable |
| **Utilities** | Paid by City |
| **Janitorial, Security, & Program Services** | Paid by City |
| **Building Systems Maintenance** | Paid by Landlord, unless damage is caused by City or its clients |
| **If Property Is for Sale** | City has right of first refusal |
| **Termination Fee** | City pays landlord $100,000 |

Source: Proposed lease

An appraisal for the hotel was not required under Administrative Code Section 23.27 because the proposed annual rent is less than $45 per square foot. However, Colliers International conducted an appraisal for RED in 2024 for the Stanford Hotel, and RED used the methodology from that appraisal to determine the fair market rent for Monarch Hotel. The methodology involved identifying an average nightly rate per room for the hotel to determine a monthly rate for the entire hotel, then reducing that amount to account for expected vacancies and hotel operating costs, to estimate the monthly net revenue for the hotel. Using this methodology, RED determined that the negotiated annual rent of $15,660 per room was reasonable fair market rent.

**Service Provider**

HSH has contracted with WeHOPE to provide supportive services at the Monarch Hotel. Services include guest intake, entry and exit, wellness checks, room inspections, habitability checks, room turnover, referrals and coordination of services, support groups and activities, building maintenance, and exit planning. The grant funds are approximately 18.64 full-time equivalent (FTE) employees.

HSH is in the process of negotiating a new contract with WeHOPE to commence in April 2025. The estimated annual cost of the new grant agreement, plus meals, is approximately $4.3 million. The grant will not require Board of Supervisors approval because the initial agreement is not expected to exceed 10 years or $10 million.

*Performance and Fiscal Monitoring*

HSH staff conducted a site visit at the Monarch Hotel to assess WeHOPE's services in August 2024 and identified no findings. HSH staff reviewed WeHOPE's financial documents as part of the FY 2023-24 Citywide Fiscal and Compliance Monitoring Program and identified two findings: less than 15 percent of funding came from non-City sources, and the organization had less than 30 days of operating cash. WeHOPE responded with its corrective actions planned and taken to address the findings, and HSH has found WeHOPE to be in conformance with city standards.

## FISCAL IMPACT

The proposed lease would have an annual base rent of $1,597,320. Rent would be paid by the General Fund. As noted above, HSH would also pay a termination fee of $100,000, also from the General Fund.

**Costs Compared to Booking Agreement**

HSH estimates that by converting from the booking agreement to a lease, HSH would save approximately $1.4 million per year, or approximately $40 room per night. This includes both savings in the rent, as well as moving certain costs (such as meals, janitorial costs, and security) from the booking agreement to HSH service agreements). The comparison of costs is shown in Exhibit 2 below.

**Exhibit 2: Cost Comparison, Booking Agreement vs. Lease**

| **Annualized Cost, Booking Agreement** | |
|---|---|
| Room Rent | 3,203,811 |
| Meals | 1,139,400 |
| Services and Operations | 2,966,736 |
| **Total Budget** | **$7,309,947** |
| Number of Shelter Rooms | 97 |
| Nightly Room Rate | $206 |

| **Annualized Cost, Proposed Lease** | |
|---|---|
| Room Rent | $1,597,320 |
| Meals | 730,000 |
| Services and Operations | 3,577,695 |
| **Total Budget** | **$5,905,015** |
| Number of Shelter Rooms | 97 |
| Nightly Room Rate | $167 |
| | |
| **Annual Cost Savings** | **$1,404,932** |
| Nightly Rate Savings | $40 |

Source: HSH. Totals may not add due to rounding.

## RECOMMENDATION

Approve the proposed resolution, as amended.