CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: February 2, 2022 Budget and Finance Committee Meeting

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Item 1 **File 21-1306** *(Continued from 1/5/22 meeting)*	**Department:** Homelessness and Supportive Housing (HSH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a grant agreement between the City and Urban Alchemy to operate a semi-congregate shelter at 711 Post Street, for a total term of February 1, 2022 through June 30, 2024, and for a total not-to-exceed amount of $18,736,820.

Key Points

- According to HSH, the Department plans issue a Request for Proposals for temporary shelter providers in FY 2022-23 and current temporary shelter agreements are therefore being set through June 2024.
- Under the proposed grant agreement, Urban Alchemy would provide semi-congregate shelter operations and support services at the 123-unit Ansonia Hotel at 711 Post Street to approximately 250 single adults. Urban Alchemy will execute a lease with 711 Post LLC for use of the property as a temporary shelter, the cost of which is funded by the proposed grant agreement.

Fiscal Impact

- The total not to exceed amount of the proposed grant is $18.7 million, including a $3.5 million contingency. The annualized cost of the program is $6.3 million, not including the contingency.
- FY 2021-22 operating expenses of $2.6 million, which start in February 2022, are funded by Proposition C. The funding sources for the remaining $12.6 million in budgeted operating expenses have not been identified and will be determined in the next annual appropriation process.

Policy Consideration

- HSH is working to open 2,100 total adult and transitional age youth shelter beds by June 30, 2022. This goal includes the addition of new beds and re-opening of beds that were closed during the pandemic. According to HSH, the Department has opened 1,075 congregate and semi-congregate shelter beds. The proposed 250 beds at 711 Post are part of the pipeline of 2,100 shelter beds HSH is working to open.
- The proposed $3.5 million contingency is 23 percent of budgeted expenditures and higher than contingency of other HSH service contracts, which typically range from 8 percent to 12 percent. According to HSH, the relatively high contingency amount is to allow for increased capacity of up to 318 total beds in the final year of the grant agreement, if feasible, given the state of the pandemic.

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

Chapter 21B of the Administrative Code authorizes the Department of Homelessness and Supportive Housing (HSH) to enter into and amend contracts for homeless services without competitive bidding. This waiver is valid until March 2024, or until the Point In Time (PIT) count is at 5,350.[1] In accordance with Chapter 21B, HSH awarded the proposed contract with Urban Alchemy to operate a semi-congregate shelter at 711 Post Street without a competitive solicitation.

Urban Alchemy is a San Francisco-based non-profit founded in 2018. As of December 30, 2021, Urban Alchemy currently operates under five other HSH contracts serving adults experiencing homelessness in the City: Services at Shelter in Place Hotel Site 5, Safe Sleep at Fulton, Safe Sleep at 33 Gough, Safe Sleep at 180 Jones, and a Vehicle Triage Center on Carrol Street. All five contracts are under the $10 million threshold that would require Board of Supervisors approval. HSH reports that Urban Alchemy has been successful in operating all contracts and furthermore, is able to begin services at the new 711 Post St. location in a timely manner.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a grant agreement between the City and Urban Alchemy to operate a semi-congregate shelter for approximately 250 adults experiencing homelessness at 711 Post Street, for a total term of February 1, 2022 through June 30, 2024, and for a total not-to-exceed amount of $18,736,820. The proposed not-to-exceed amount includes a contingency of 23 percent, or $3,503,633. The proposed resolution would also affirm the Planning Department's determination that the temporary shelter operation is not subject to the California Environmental Quality Act (CEQA) and is consistent with the City's General Plan and policy priorities of Planning Code Section 101.1.[2]

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[1] The 5,350 threshold figure below the most recent 2019 point in time count of 8,035. The point in time count is regularly conducted every two years, but the 2021 effort did not occur due to COVID. The next full count is anticipated for 2022, with figures expected to be available in June 2022.

[2] According to the Planning Department, under Assembly Bill 101, the proposed shelter at 711 Post Street does not require environmental review under California Environmental Quality Act (CEQA) because it meets the use by right criteria of being a low barrier navigation center located in a mixed-use zoning area.

Services Provided

Under the proposed grant agreement, Urban Alchemy would provide semi-congregate shelter operations and support services at the 123-unit Ansonia Hotel at 711 Post Street to approximately 250 single adults. Guests must be referred to the program by the City-approved shelter referral systems and processes. Under the agreement, the number of guests served may vary to account for COVID-19 social distancing protocol. Urban Alchemy would provide onsite shelter operations and support services, and obtain and manage other vendors for laundry, meals, and internet.

The program is part of HSH's emergency response to both street homelessness and COVID-19 to quickly open additional non-congregate/semi-congregate shelter beds while congregate shelter is at lower COVID-19 capacity, and as an alternative to outside Safe Sleep sites during the colder months. (See Policy Consideration below)

Reporting Requirements

According to Appendix A of the proposed grant agreement, Urban Alchemy is to provide monthly Shelter Community Meetings (at least 60 percent of guests are to attend), a quarterly resident survey (at least 50 percent of guests are to complete the survey and 75 percent of those shall rate the services as good or excellent), and a complaints process for residents, provide intake and orientation to all guests, turnover beds within 24 hours, refer all guests to employment benefits and other eligible services, and offer assessment for other HSH services (Problem Solving & Coordinated Entry) within one-week of placement

Urban Alchemy is to use various City data systems to maintain current and former guest lists and their relevant associated information, including the ONE (Online Navigation and Entry) System and RTZ, which are systems that record client information through the system of care.

Program Monitoring

HSH will review supporting documentation from Urban Alchemy including monthly and annual invoice review, program monitoring and fiscal and compliance monitoring, and tracking alignment with the aforementioned service objectives.

FISCAL IMPACT

Exhibit 1 below summarizes the sources and uses of the proposed contract spending.

Exhibit 1: Sources and Uses of Proposed Grant Program Funding

Sources	**Amount**
Proposition C	$2,638,981
Other Revenues	12,594,207
Total Sources	**$15,233,188**
Uses	
Salary & Benefits	$7,611,320
Operating Expenses	1,346,409
Subtotal, Operating Expenses	$8,957,729
Indirect Cost (15%)	1,343,659
Lease and Other Expenses	4,918,800
Capital Expenditures	13,000
Total Uses	**$15,233,188**
Contingency (23%)	**$3,503,633**
Total Not To Exceed	**$18,736,820**

Source: HSH

Note: Operating Expenses include Utilities, Office Supplies, Building Maintenance Supplies and Repair, Insurance, Staff Training, Client Supplies, Internet, and Uniforms. Other Expenses include Rental of Property and subcontracted Laundry Services. "Other Revenues" refers to funding sources that have not yet been determined.

As shown above, the proposed grant would provide $15,233,188 of funding to the emergency shelter at 711 Post Street from February 1, 2022 through June 30, 2024, a term of two years and five months. According to HSH, the Department plans issue a Request for Proposals for temporary shelter providers in FY 2022-23 and current temporary shelter agreements are therefore being set through June 2024.

FY 2021-22 expenses from February 1, 2022 through June 30, 2022 are covered by Proposition C, the Gross Receipts Tax for Homelessness Services.[3] The funding sources for the remaining two years of operations have not been identified and will be determined in the next annual appropriation process.

The annualized cost of the proposed temporary shelter is $6.3 million, not including the contingency amount.

Rental of Property

711 Post Street was formerly run as a youth hostel but is no longer active. No tenants remain at the site and the property is vacant. The property owner is "711 Post LLC." Under the proposed grant agreement, Urban Alchemy will execute a lease with 711 Post LLC for use of the property as a temporary shelter. HSH reports that having the operator hold the lease allows for the

[3] According to HSH, current years costs are sourced specifically from the Proposition C Safe Sleep budget, reallocated from the expected winddown one of the Safe Sleep sites closing in early 2022.

operator to provide building maintenance and facilities support and pay rent directly with the property owner. This also allows for direct communication between the operator and building owner when issues arise with the property so they can be immediately addressed. The proposed grant agreement provides for maintenance and facilities management staff.

According to the grant agreement, Urban Alchemy's lease for 711 Post Street has annual lease cost of $1,976,400 (approximately $53.74 per square foot for 36,780 square feet). According to HSH, the cost is based on $1,400 per month for 48 rooms with private bathrooms and $1,300 per month for 75 rooms without bathrooms. The City did not attempt to purchase the building, however, according to HSH staff, the lease agreement provides the City a First Right of Offer to Purchase.

Payment for Services

Urban Alchemy will submit invoices and supporting documentation to HSH on a monthly basis and be reimbursed only for actual costs incurred.

Program Cost

The annual cost of the proposed grant agreement is $6.3 million for 250 beds, or approximately $69 per bed per night, not including meals. Based on other reporting, this is less than the cost of a Safe Sleeping site ($190 per night, as shown in our report for File 20-1187), a Vehicle Triage parking spot ($105 per night, per the February 2021 Controller's Office Vehicle Triage Center Evaluation), and a Navigation Center bed ($87 per night, based on information in our report for File 19-0418).

POLICY CONSIDERATION

Shelter System

As part of the Mayor's Homelessness Recovery Plan, HSH is working to open 2,100 total adult and transitional age youth shelter beds by June 30, 2022. This goal includes the addition of new beds and re-opening of shelter and navigation center beds that were closed during the pandemic. According to HSH data, the Department has opened 1,075 congregate and semi-congregate shelter beds. The 250 beds at 711 Post are part of the pipeline of 2,100 shelter beds HSH is working to open or reopen.

Contingency

As shown above, the proposed grant budget includes a $3.5 million or 23 percent contingency, which is higher than the contingencies in other HSH services contracts, which typically range for 8 percent to 12 percent. According to HSH, the relatively high contingency amount is to allow for increased capacity of up to 318 total beds in the final year of the grant agreement, if feasible, given the state of the pandemic.

RECOMMENDATION

Approve the proposed resolution.

Items 2 & 3 **Files 21-1290 & 21-1291** *(Continued from 1/26/22 meeting)*	**Department:** Municipal Transportation Agency (MTA)

EXECUTIVE SUMMARY

Legislative Objectives

- **File 21-1290**: is an ordinance that would call and provide for a special election to be held on June 7, 2022, in order to submit to San Francisco voters a proposition to incur $400 million of general obligation bonded indebtedness for transportation improvements. In addition, approval of this $400 million general obligation bond would require approval by at least two-thirds of San Francisco voters.

  File 21-1291: is a resolution that would determine and declare that the public interest and necessity demand acquisition, construction, and improvement of street, transit, and transportation infrastructure.

Key Points

- This is the second of two general obligation bonds recommended by prior studies of Municipal Transportation Agency (MTA) funding needs. The proposed $400 million would be used to fund the following capital improvement programs: $42 million for street signals, $42 million on pedestrian and bicycle improvements, $30 million for speed management, $250 million for facility upgrades, $26 million for Muni network improvements, and $10 million for the train control system upgrade.
- All issuances of the bonds and appropriations of the bond fund proceeds would be subject to future Board of Supervisors approval, at which time CEQA review and approval of the specific projects would be required, and the project costs would be identified.

Fiscal Impact

- According to the Office of Public Finance, total estimated debt service is $690 million, including approximately $290 million in interest and $400 million in principal.
- The average property tax rate for the proposed bonds would be $9.61 per $100,000 of assessed valuation, half of which could be passed through to tenants.
- The proposed bonds are consistent with the City’s debt policies related to the amount of debt outstanding and the property tax rate cap.

Recommendation

- Approve the proposed ordinance and resolution.

MANDATE STATEMENT

According to Article 16, Section 18(a) of the State of California Constitution, no county, city, town, township, board of education, or school district, shall incur any indebtedness or liability for any purpose exceeding in any year the income and revenue provided for such year, without the approval of two-thirds of the voters of the public entity voting at an election to be held for that purpose.

City Administrative Code Section 2.34 requires that a resolution of public interest and necessity for the acquisition, construction or completion of any municipal improvement be adopted by the Board of Supervisors not less than 141 days before the election at which such proposal will be submitted to the voters. These time limits may be waived by resolution of the Board of Supervisors.

BACKGROUND

The San Francisco Municipal Transportation Agency (MTA) has undertaken several studies of funding needs, including the Transportation Task Force 2030 (completed in 2013), which recommended the City issue $1 billion in general obligation bonds to fund transportation infrastructure improvements. In November 2014, San Francisco voters approved a $500 million general obligation bond for transportation improvements. According to the November 2021 Quarterly Status Report on those bonds, $493.4 million in bond issuances have occurred, of which $231.8 million has been spent with an additional $37.9 million encumbered. The final $122.8 million of GO Bonds were issued at the beginning of Quarter 1 of FY 2021-22. Expenditures will begin to be reflected in the second and third quarters of FY 2021-22. A second Transportation Task Force 2045 process (completed in 2017) reaffirmed the recommendation for a second Transportation General Obligation Bond.

MTA is proposing a new $400 million series of general obligation bonds for transportation improvements. The Agency is proposing $400 million rather than the $500 million recommended by the Transportation Task Force 2030 and 2045 as the proposed bond is being advanced 2-years earlier, from 2024, and due to the overall City General Obligation capacity within the 10-Year Capital Plan

DETAILS OF PROPOSED LEGISLATION

File 21-1290: The proposed ordinance would call and provide for a special election to be held in San Francisco on June 7, 2022, in order to submit to San Francisco voters a proposition to incur $400 million of general obligation bonded indebtedness for the transportation improvements summarized in Exhibit 1 below. In addition, approval of this $400 million general obligation bond would require approval by at least two-thirds of San Francisco voters. The ordinance also requires that the certain funded projects be subject to a project labor agreement as per Administrative Code Section 6.27.

File 21-1291: The proposed resolution would determine and declare that the public interest and necessity demand acquisition, construction, and improvement of street, transit, and transportation infrastructure.

Both the proposed ordinance (File 21-1290) and resolution (File 21-1291) would:

- Find that the estimated cost of $400 million for such proposed projects will be too great to be paid out of the ordinary annual income and revenue of the City and will require expenditures greater than the amount allowed by the annual tax levy;
- Find that the bond proposal is not subject to review under the California Environmental Quality Act (CEQA);
- Find that the proposed bonds are in conformity with the General Plan, and the eight priority policies of Planning Code, Section 101.1(b);
- Waive the time requirements specified in Administrative Code, Section 2.34;
- Authorize landlords to pass-through 50 percent of the resulting property tax increase to residential tenants under Administrative Code, Chapter 37; and,
- Declare the City's intention to use bond proceeds to reimburse capital expenses incurred prior to the issuance of the proposed bonds

Possible uses of the bond proceeds are shown in Exhibit 1 below.

Exhibit 1: Possible Uses of Bond Funds

Program Area	Possible Uses	Estimated Budget
Muni facility upgrades	Upgrading existing trolley-coach facilities beyond their useful life, expanding rail and bus facilities for additive capacity, installing electric vehicle charging infrastructure	$250 million
Muni network improvements	Rapid Network enhancements, such as bus-only lanes, smart traffic signals, and sidewalk bulbs	$26 million
Muni Train Control System	Investment and expansion in the Muni Metro and Subway Train Control System, including local contribution to leverage match for state and federal grants	$10 million
Street Signal Improvements	Pedestrian and traffic signal improvements and crossings	$42 million
Corridor Pedestrian & Bicycle Improvements	Sidewalk, bike lane, and transit boarding enhancements	$42 million
Speed Management	Traffic calming, speed limit reductions, speeding signs	$30 million
Total		**$400 million**

Source: 2022 Muni Reliability and Street Safety Bond Overview, SFMTA

The proposed budgets noted above include estimated citizen oversight committee and audit costs. All issuances of the bonds and appropriations of the bond fund proceeds would be subject to Board of Supervisors approval, at which time CEQA review and approval of the specific projects would be required, and the project costs would be identified.

Rationale for Proposed Costs

MTA's FY 2020-21 to FY 2024-25 Capital Improvement Program does not include the proposed bonds. In May 2022, MTA will update its Five-Year Capital Improvement Program. The Five-Year CIP will be amended to add GO Bond Funding with more specific projects and programs within one-quarter of the June election, pending the outcome.

According to Jonathan Rewers, MTA Acting Chief Financial Officer, the estimated spending on $42 million street signals, $42 million on pedestrian and bicycle improvements, and $30 million speed management is based on the same proportion of spending on those program areas as for the 2014 bonds. The $250 million for facility upgrades is based on potential spending on facility projects, in consideration of the scarcity of discretionary grant funds for facilities. The $26 million for Muni network improvements is based on the completion of the next round of Muni Forward corridor treatments across the City. And the $10 million for the train control system upgrade is based on the estimated local share required by state and federal grants funding that project.

FISCAL IMPACT

Debt Service

If the proposed $400 million of Muni Reliability and Street Safety Obligation Bonds are approved by San Francisco voters in June 2022, the City is expected to issue multiple series of bonds through FY 2024-25. According to Vishal Trivedi, Financial Analyst in the Office of Public Finance, the proposed bonds are projected to have an annual interest rate of six percent over approximately 20 years, with estimated total debt service payments of $690 million, including approximately $290 million in interest and $400 million in principal. The Office of Public Finance estimates average annual debt service payments of $30 million.

Property Taxes

Repayment of such annual debt service would be recovered through increases to the annual property tax rate. According to the Office of Public Finance, the average property tax rate for the proposed bonds would be $9.61 per $100,000 of assessed valuation, half of which could be passed through to tenants.

Debt Limit

Section 9.106 of the City Charter limits the amount of general obligation bonds the City can have outstanding at any given time to three percent of the total assessed value of property in San Francisco. The FY 2021-22 total assessed value of property in the City is approximately $312 billion, such that the general obligation debt limit is currently approximately $9.3 billion. As of December 2021, there was $2.9 billion of general obligation bonds outstanding, or approximately 0.9 percent of the total assessed value of property in the City. If the proposed $400 million general obligation bonds are issued, the outstanding general obligation bonds would total $3.3 billion, or approximately 1.1 percent of the total assessed value of property.

According to the FY 2021-22 to FY 2030-31 Ten Year Capital Plan, the proposed bonds are consistent with the City's current debt management policy to maintain the property tax rate for City general obligation bonds below the FY 2005-06 rate.

RECOMMENDATION

Approve the proposed ordinance and resolution.

Items 4 & 5 **Files 21-1305 & 21-1295** *(Continued from 1/26/22 meeting)*	**Department:** Recreation & Parks

EXECUTIVE SUMMARY

Legislative Objectives

- **File 21-1305**: The proposed resolution would approve an amendment to the lease and management agreement with the San Francisco Botanical Garden Society to also include the Japanese Tea Garden and the Conservatory of Flowers as part of the leased premises.
- **File 21-1295**: The proposed ordinance would amend the Park Code to waive admission fees for San Francisco residents to the Japanese Tea Garden and the Conservatory of Flowers and reauthorize the Recreation and Park Department to set admission fees for non-resident adults at the Japanese Tea Garden, the Conservatory of Flowers, and the Botanical Garden through flexible pricing.

Key Points

- The Botanical Garden Society (SFBGS) is responsible for admissions collections and other services for the Botanical Garden. The Conservatory of Flowers is currently managed by the Parks Alliance, and the Department is typically responsible for managing admissions at the Japanese Tea Garden in addition to garden maintenance. Under the proposed amendment, SFBGS would provide these same services to the Japanese Tea Garden and the Conservatory of Flowers. Non-profit costs are covered by admission revenues.

Fiscal Impact

- The Department estimates savings of $383,484 from joint management of the gardens due to consolidation of admission staffing and resulting in lower admissions costs than historical spending for the three gardens. The proposed budget includes an annual deposit of $514,105 to the City's Garden Improvement Fund for maintenance and improvement of the gardens.
- The Department estimates that waiving resident fees at the gardens would result in $271,385 in annual lost revenue, but that this would be off-set by higher non-resident adult admission fees. Any net revenue would be assigned to the City's Garden Improvement Fund.

Policy Consideration

- The original lease and management agreement with the Botanical Garden Society approved by the Board of Supervisors was not competitively procured and may be extended through May 2043. Because management of the three gardens has never been competitively procured, we do not know if costs are reasonable or if there are other providers that would bid on a competitive solicitation.

Recommendations

- Approval of Files 21-1305 and 21-1295 are policy matters for the Board of Supervisors.

MANDATE STATEMENT

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

City Charter Section 2.105 states that all legislative acts shall be by ordinance, approved by a majority of the members of the Board of Supervisors.

BACKGROUND

Current Lease and Management Agreement

Under an existing lease and management agreement between the Recreation and Parks Department and the nonprofit organization, San Francisco Botanical Garden Society, the San Francisco Botanical Garden Society is responsible for visitor services, admissions collections, educational programming, marketing, and other services to support operations of the Botanical Garden in Golden Gate Park. The existing agreement was effective beginning in December 2013 and expires December 2023 and includes two options to extend for ten years each.

Proposed Gardens of Golden Gate Park

The Recreation and Parks Commission seeks to bring the Botanical Garden, Japanese Tea Garden, and the Conservatory of Flowers under joint management. The three gardens would be referred to collectively as “the Gardens of Golden Gate Park.”

Currently, all three gardens are separately managed. As mentioned above, the Botanical Garden is managed under a lease and management agreement with the San Francisco Botanical Garden Society. The Conservatory of Flowers is currently managed under a license with the San Francisco Parks Alliance. The license has been in holdover status since it expired in 2012. The Recreation and Parks Department is primarily responsible for managing admissions at the Japanese Tea Garden in addition to garden maintenance.[1] However, the San Francisco Botanical Garden Society has managed admissions collections for the Japanese Tea Garden during the COVID-19 pandemic according to a supplemental agreement to the existing lease and management agreement.

Admission Fees

The Park Code establishes admission fees for the San Francisco Botanical Garden, the Japanese Tea Garden, and the Conservatory of Flowers. There are different rates for children, adults, and seniors. San Francisco residents do not pay any fees at the Botanical Garden and receive discounts at the Japanese Tea Garden and Conservatory of Flowers.

[1] According to Recreation and Parks Department staff, the Department receives support from the Friends of the Japanese Tea Garden and a concessionaire operates the historic Tea House and Gift Shop.

In 2019, the Board of Supervisors authorized the Recreation and Park Department to set non-resident adult admission fees for the three gardens through “flexible pricing” (File 19-0629). This allowed the Department to temporarily increase or decrease the fees based on factors such as public demand, facility conditions, and rates at comparable facilities. The Department could only increase prices once per year by up to 50% and was only permitted to increase prices during certain times of the year depending on the facility. The existing law permits price increases for non-resident adults as follows:

- **Botanical Garden**: Increases only on Saturdays and Sundays
- **Conservatory of Flowers**: Increases only on Fridays, Saturdays, and Sundays
- **Japanese Tea Garden**: Increases only March through October

The flexible pricing system was scheduled to sunset on June 30, 2021, but the Board of Supervisors authorized the extension of flexible pricing at the gardens until December 7, 2021 (File 21-0653). The 2019 flexible pricing legislation also allowed the General Manager to adjust non-resident admission fees for Coit Tower, however that authority was never implemented and expired in June 2021.

DETAILS OF PROPOSED LEGISLATION

File 21-1305

The proposed resolution would approve an amendment to the lease and management agreement with the San Francisco Botanical Garden Society to also include the Japanese Tea Garden and the Conservatory of Flowers as part of the leased premises. The term of the agreement with the Botanical Garden Society remains unchanged.

File 21-1295

The proposed ordinance would amend the Park Code to:

- Waive admission fees for San Francisco residents to the Japanese Tea Garden and the Conservatory of Flowers;
- Authorize the Recreation and Park Department to waive or discount other admission fees at the Japanese Tea Garden, the Conservatory of Flowers, and the Botanical Garden;
- Re-authorize the Recreation and Park Department to set admission fees for non-resident adults at the three gardens through flexible pricing; and
- Affirm the Planning Department’s determination that all associated actions comply with the California Environmental Quality Act.

Selection of San Francisco Botanical Garden Society

Chapter 23.33 of the Administrative Code requires that leases be competitively bid unless competitive bidding procedures are impractical or impossible. The Department determined that holding a competitive bid for the lease and management of the Conservatory of Flowers and the Japanese Tea Garden would not be practical or feasible given the San Francisco Botanical Garden Society’s specialized knowledge and experience pertaining to specialty gardens, its existing agreement for the Botanical Garden, and the assumed benefits from bringing the three gardens under joint management. Therefore, the Department is proposing to amend the existing lease and management agreement to include the two other gardens. The Board of Supervisors authorized the waiver of the requirement under Chapter 23.33 of the Administrative Code that the existing lease and management agreement be competitively bid, given the San Francisco Botanical Garden Society's specialized knowledge and experience in 2013 (File 13-0537). At that time, the Department estimated that the value of the services provided by the lease was $2.1 million annually, which exceeded the fair market value of the annual rent of $384,062, as estimated by an appraiser. The Department has not conducted a new appraisal of the Botanical Garden nor of the Japanese Tea Garden or the Conservatory of Flowers.

Services Provided

Under the existing agreement, the San Francisco Botanical Garden Society is responsible for managing the following aspects of the Botanical Garden operations: visitor services, admissions collection, educational programming, marketing, volunteer program coordination, special events, and community relations. The Department is responsible for garden maintenance and oversight, including strategic and master site planning, plant collections development and documentation, signage, as well as improvements, renovations, and maintenance of the Botanical Garden. As described below in the Fiscal Impact Section, costs for these services are covered by admission fees and the Botanical Garden Society pays the City a base rent of $100 per year.

Under the proposed amendment to the lease and management agreement, the San Francisco Botanical Garden Society would provide the same services that it currently provides at the Botanical Garden to the Japanese Tea Garden and the Conservatory of Flowers. Similarly, the Department would continue to be responsible for garden maintenance, facility maintenance, and oversight at all three gardens.

Admissions Receipts

According to Exhibit E of the proposed amendment to the lease and management agreement, fees paid for admission to the three gardens may only be used for the benefit of the three gardens. The San Francisco Botanical Garden Society (SFBGS) would collect admission fees and remit them in full to the Department. The Department would allocate monies collected monthly in the following order:

a) SFBGS expenses associated with collection of admission fees, such as personnel costs, office supplies, and rent or related fees for equipment;
b) Department expenses associated with maintenance and oversight of the gardens of $4.4 million per fiscal year;
c) SFBGS education and community outreach expenditures of $650,000 per fiscal year;

d) The balance of admission receipts would be paid into the "Gardens of Golden Gate Park Improvement Fund," which would be maintained by the City.[2]

This reflects the allocation model in the existing agreement for the Botanical Garden. According to the Department, admission receipts from the Japanese Tea Garden historically accrued to the Department's general fund and were used for costs associated with managing admissions and maintenance of all of the gardens. According to Department staff, admission receipts from the Conservatory of Flowers have not been paid directly to the Department. According to a November 2021 Budget and Legislative Analyst Report, *Relations between Recreation and Parks Department and San Francisco Parks Alliance*, there is no provision for a minimum guaranteed amount of admissions receipts to be allocated to the Department in the 2003 agreement with the San Francisco Parks Alliance.

Admission Fee Changes (File 21-1295)

The proposed ordinance would waive admission fees for residents and re-authorize and standardize flexible pricing for adult non-residents. The proposed ordinance would allow the Department to increase prices for non-resident adults only by up to 50% of the Park Code set fee upon 30 days' notice to the public rather than just once per year and does not constrain price increases to certain months or days unlike the existing law. The Department could also decrease fees at any time. In addition, the proposed ordinance would also remove the sunset date for flexible pricing, allowing the Recreation and Park Department to continue using flexible pricing at the three gardens indefinitely. Fee changes must be due to changes in demand at particular days and times, adverse weather, or facility conditions.

Flexible Pricing Use at the Gardens

The Recreation and Parks Department provided an update on flexible pricing at the three gardens to the Board of Supervisors in May 2021. The regular non-resident adult admission fee was $9 at all three gardens until FY 2020-21 when it was increased to $10 at the Japanese Tea Garden and the Conservatory of Flowers and in FY 2021-22 when it increased to $10 at the Botanical Garden due to allowable CPI increases. According to that report, flexible pricing for non-resident adults was applied as follows:

- Botanical Garden: Applied on the weekends starting in November 2019 with a $3 increase.
- Conservatory of Flowers: Applied on the weekends starting in October 2019 with a $2 increase.
- Japanese Tea Garden: Applied starting in March 2020 through September 2020 with a $2 increase. In October 2020, the price was adjusted back to $10, and the $2 increase was restored starting in March 2021.

[2] According to the proposed amendment, expenditures from the Gardens of Golden Gate Park Improvement Fund may only be used for expenses associated with maintenance, renovation, and improvement of the gardens, unless the Recreation and Park Commission and the San Francisco Botanical Garden Society otherwise agree in writing.

Other City Departments Use of Flexible Pricing

At the request of a Supervisor, we completed a short survey of City entities that charge for use of City property.

Our survey found that the Recreation and Parks Department uses a flexible pricing structure for golf fees, which allows the General Manager to adjust resident and tournament rates based on demand, prices at other golf courses, and course conditions.[3] The Academy of Sciences uses dynamic admissions pricing, which varies by day and time. However, the Fine Arts Museums, which include the De Young and Legion of Honor Museums, does not use dynamic pricing for admissions, though the museums charge higher fees for special exhibits.

Additionally, we found that the San Francisco Municipal Transportation Agency (SFMTA) uses dynamic pricing (referred to as transportation demand management) for garage and parking meter fees, both of which are generally based on demand. According to SFMTA staff, since the implementation of dynamic pricing in 2011, garage fees have generally increased and parking meter fees have fluctuated between $0.50 and $10 per hour based on demand for curb space. Garage and parking meter fees are adjusted by SFMTA staff.

Performance of Botanical Garden Society

The existing lease and management agreement does not have performance metrics. Data provided by the Recreation and Parks Department show that admissions increased from 240,000 in FY 2011-12 to 424,000 in FY 2018-19 (the last full year before COVID-19), an increase of 76.7%.

FISCAL IMPACT

The Recreation and Parks Department developed the Gardens of Golden Gate Park budget based on actual spending from FY 2018-19 due to the impact of COVID-19 on subsequent years. Exhibit 1 below summarizes the sources and uses of the proposed amended lease and management agreement.

[3] Park Code Section 12.12(d), which relates to municipal golf courses, states that the General Manager may discount resident rates by 50% and increase them by 25%; tournament rates may be increased by 50%.

Exhibit 1: Sources and Uses of Proposed Gardens of Golden Gate Park

Sources	Botanical Garden	Conservatory of Flowers	Japanese Tea Garden	Total
Admissions Receipts	$1,393,527	$1,047,127	$4,280,000	$6,720,654
Total Sources	**$1,393,527**	**$1,047,127**	**$4,280,000**	**$6,720,654**
Uses				
SFBGS Admissions Cost	536,998	323,202	306,203	1,166,403
Rec & Park Operating Expenses	287,573	250,000	3,865,000	4,402,573
SFBGS Education and Community Engagement Expenses	287,573	250,000	100,000	637,573
Garden Improvement Fund	281,383	223,925	8,797	514,105
Total Uses	**$1,393,527**	**$1,047,127**	**$4,280,000**	**$6,720,654**

Source: Recreation and Parks Department

Note: Admission receipts are based on FY 2018-19 fees. At that time, flexible pricing was not in use for adult non-residents, and adult residents paid discounted fees at the Conservatory of Flowers and the Japanese Tea Garden and no admission fee at the Botanical Garden.

As shown above, the proposed budget includes $4.4 million in operating expenses for the Recreation and Parks Department for maintenance and oversight of the three gardens. According to Department staff, the estimates are based on three years of spending and include costs associated with 27.15 FTE positions (including 14.25 FTE Gardeners, 4.0 Nursery Specialists, 2.25 Custodians, and other maintenance positions), deferred maintenance, and materials and supplies. City costs are expected to increase from $3.9 million in FY 2018-19 to $4.4 million in the first year of the proposed agreement due to increases in City salary and benefits costs and costs associated with maintenance of the Conservatory of Flowers, which was previously paid for by the San Francisco Parks' Alliance out of admissions revenue. Attachment 1 compares the proposed budget to FY 2018-19 actual expenses for the three gardens.

The Department estimates savings of $383,484 from joint management of the gardens compared to FY 2018-19 expenses, due to consolidation of admission staffing and resulting in lower admissions costs than historical spending for the three gardens. The proposed budget assumes annual admission levels are the same as FY 2018-19 levels.

The savings would support an increase of $150,000 in education and community engagement programming for the San Francisco Botanical Garden Society to cover the additional facilities as well as increases in the Recreation and Parks Department budget described above. The proposed amended lease and management agreement would result in an estimated annual deposit of $514,105 to the Gardens of Golden Gate Park Improvement Fund. This reflects an increase from prior year deposits to the Garden Improvement Fund because admission receipts from the Conservatory of Flowers and the Japanese Tea Garden were not previously deposited to a dedicated improvement fund.

Admission Fee Changes (File 21-1295)

As noted above, under the proposed ordinance, fees for resident admissions are waived at the Conservatory of Flowers and the Japanese Tea Garden to align with current practices at the Botanical Garden, and the Department could raise fees for non-residents by a maximum of $5, up to $15 at all three gardens. Exhibit 2 below shows the number of visitors and total admissions revenue for the three gardens for FY 2018-19. Admissions were lower in subsequent years due to the impacts of COVID-19. In FY 2018-19 non-resident adult admission fee collections across the three gardens accounted for approximately three-quarters of total admissions revenue.

Exhibit 2: Total Visitors and Admissions Revenue, FY 2018-19

Facility	Resident	Non-Resident Adult	Non-Resident Other [a]	Other Free [b]	Total Visitors
Botanical Garden	211,719	107,056	54,339	63,618	436,732
Conservatory of Flowers	20,338	74,383	49,064	25,042	168,827
Japanese Tea Garden	29,400	380,145	100,364	246,270	756,179
Total Visitors	**261,457**	**561,584**	**203,767**	**334,930**	**1,361,738**
Admissions Revenue	**$271,385**	**$5,054,301**	**$1,221,695**	**$0**	**$6,547,381**
Percent of Total Revenue	4.1%	77.2%	18.7%	0.0%	100.0%

Source: Recreation and Parks Department

[a] Non-Resident other includes discounted admissions for children and senior non-residents.

[b] Other Free includes free admissions for low-income residents and non-residents, free admissions hours at the gardens, and other free admissions.

Note: FY 2018-19 revenues for the Botanical Garden was $1.2 million, $1.0 million for the Conservatory of Flowers, and $4.3 million for the Japanese Tea Garden.

Recreation and Parks Department staff estimate that waiving resident fees at the Conservatory of Flowers and the Japanese Tea Garden would result in $271,385 in annual lost revenue based on admission fee collections for residents in FY 2018-19, as shown above. The Department estimates this lost revenue would be more than off-set by increased revenue from reauthorizing flexible pricing for non-resident adult admission fees. Non-resident admission fees are currently $10 at each of the three gardens. If the Department increased admission fees for non-residents by $2 up to $12 for the entire year, admission receipts would increase by approximately $1.1 million based on FY 2018-19 admissions data from the Department. If non-resident adult admissions decrease because of the $2 price increase, the increased revenue would be lower than $1.1 million but would likely still cover the $271,385 in lost revenue from waiving admission fees for residents. Under the proposed lease and management agreement, any surplus revenue would be assigned to the City's Gardens of Golden Gate Park Improvement Fund for expenses associated with maintenance, renovation, and improvement of the gardens.

POLICY CONSIDERATION

Agreement Amendment

The proposed lease and management agreement amendment (File 21-1305) allows the Botanical Garden Society, which operates the Botanical Garden, to operate the Japanese Tea Garden, typically operated by City staff, and the Conservatory of Flowers, currently operated by the San Francisco Parks Alliance. According to Recreation and Parks Department staff, the Botanical Garden Society temporarily took over admission operations at the Japanese Tea Garden during the pandemic and City staff have been re-assigned to recreation centers.

Net revenues from the Conservatory of Flowers, which previously went to the San Francisco Parks Alliance, together with revenues from the Japanese Tea Garden and Botanical Garden, will all be provided to the Recreation and Parks Department account to cover Department staffing costs and facility maintenance costs. Overall, City costs are expected to increase from $3.9 million in FY 2018-19 to $4.4 million in the first year of the proposed agreement due to increases in City salary and benefits costs and costs associated with maintenance of the Conservatory of Flowers, which was previously paid for by the San Francisco Parks' Alliance out of admissions revenue. Beyond that, the proposed agreement does not expand the scope of City services related to the gardens.

The original lease and management agreement with the Botanical Garden Society approved by the Board of Supervisors was not competitively procured and may be extended through May 2043. Aside from expanding operations to include the Japanese Tea Garden and Conservatory of Flowers, the proposed lease and management agreement amendment is generally consistent with the original agreement approved by the Board of Supervisors. Lease and management of each of the three gardens has never been competitively procured. The Botanical Garden Society has been operating the Botanical Garden since 1955. The Japanese Tea Garden has been operated by the City, and the Conservatory of Flowers has been operated by the San Francisco Parks' Alliance since it reopened in 2003. The Department believes that the Botanical Garden Society is uniquely suited to operate garden admissions, given the organization's $20 million endowment and fundraising capacity that may be used to fund garden improvements, strong community ties, and network of volunteers.

Because management of the three gardens has never been competitively procured, we do not know if costs are reasonable or if there are other providers that would bid on a competitive solicitation. We therefore consider approval of the proposed resolution (File 21-1305) to be a policy matter for the Board of Supervisors.

Fee Ordinance

As noted above, the proposed ordinance (File 21-1295) would eliminate residential admission fees for the three gardens and continue to allow dynamic pricing for non-resident adult admission fees. The $271,385 annual revenue loss from the elimination of residential admission fees could be offset by an increase of $0.50 in non-resident admission fees.[4] If the proposed ordinance modifying the garden admission fees is not approved, the admission fees for the gardens are expected to cover the operating expenses of both the Botanical Garden Society and the City for all three gardens. If the non-resident fees are increased beyond that breakdown point, all additional net revenue would accrue to an improvement fund dedicated to garden improvements.

We consider approval of the proposed ordinance (File 21-1295) to be a policy matter for the Board of Supervisors.

RECOMMENDATIONS

1. Approval of File 21-1305 is a policy matter for the Board of Supervisors.
2. Approval of File 21-1295 is a policy matter for the Board of Supervisors.

[4] In FY 2018-19, the three gardens had 561,584 visitors. Therefore, a $0.50 increase in admissions fees with the same number of visitors would equate to $280,792 in new revenues.

Attachment 1

Exhibit 3: Proposed Gardens of Golden Gate Park Budget Compared to FY 2018-19 Actuals (All Gardens)

Sources	FY 2018-19 Actuals	Proposed Budget	Difference	Percent Difference
Admissions Receipts	$6,568,309	$6,720,654	$152,345	2.3%
Total Sources	**$6,568,309**	**$6,720,654**	**$152,345**	**2.3%**
Uses				
SFBGS Admissions Cost	1,549,857	1,166,403	(383,454)	-24.7%
Rec & Park Operating Expenses	3,914,343	4,402,573	488,230	12.5%
Botanical Garden	*287,573*	*287,573*	*0*	*0.0%*
Conservatory of Flowers	*0*	*250,000*	*250,000*	
Japanese Tea Garden	*3,626,770*	*3,865,000*	*238,230*	*6.6%*
SFBGS Education and Community Engagement Expenses	487,573	637,573	150,000	30.8%
Garden Improvement Fund	209,409	514,105	304,696	145.5%
Total Uses	**$6,161,182**	**$6,720,654**	**$559,472**	**9.1%**

Source: Recreation and Parks Department

Note: FY 2018-19 actuals do not include Rec & Park operating costs for the Conservatory of Flowers. Garden Improvement Fund amounts for FY 2018-19 are less than the difference between sources and SFBGS and City uses because, under the existing license agreement with the San Francisco Parks Alliance, net revenues from the Conservatory of Flowers are provided to the City.

Items 6, 7, 8, & 9 **Files 22-0004 – 22-0007**	**Department:** Municipal Transportation Agency (MTA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolutions would retroactively approve parking garage contract amendments between San Francisco Municipal Transportation Authority (SFMTA) and the following vendors: (i) IMCO Parking, LLC, increasing the amount by $3,519,692, for a total amount not to exceed $46,478,944 (File 22-0004); (ii) Imperial Parking (U.S.), LLC, increasing the amount by $5,204,448, for a total not to exceed $65,588,907 (File 22-0005); (iii) IMCO Parking, LLC, increasing the amount by $3,423,007, for a total not to exceed $45,684,255 (File 22-0006); and (iv) LAZ Parking California, LLC, increasing the amount by $6,632,821, for a total not to exceed $92,377,245. Each contract would be extended by one year, for total contract terms of 11 years.

Key Points

- SFMTA manages 20 parking garages and lots, divided into three groups. After conducting a Request for Proposals (RFP), SFMTA awarded parking operation and management contracts to Pacific Park Management (later acquired by Imperial Parking) for the Group A garages, IMCO Parking for the Group B garages, and LAZ Parking for the Group C garages. SFMTA has a separate contract with IMCO Parking for the 5th and Mission Garage.
- SFMTA had planned to issue an RFP for new parking operator contracts in the summer of 2021. Due to the COVID-19 pandemic and its impact on the parking industry, SFMTA is now requesting to extend the existing contracts by one year until new vendors are selected.
- The original contracts' not to exceed amounts included management fees but did not include other costs, such as labor, benefits, and maintenance costs. SFMTA has submitted revised legislation with contract not-to-exceed amounts that encompass total actual and projected expenditures for each contract. Our report is based on the revised resolutions.
- Based on spending data provided by SFMTA, each contract's spending exceeded the $10 million threshold for Board of Supervisors approval between FY 2013-14 and FY 2014-15.

Fiscal Impact

- Actual and projected expenditures for the four contracts total approximately $250 million. Actual and projected revenues total approximately $690 million. After deducting expenditures, the actual and projected net revenues total approximately $440 million.

Recommendations

- Request the Director of Transportation to review all SFMTA contracts to identify any contracts that require retroactive Board of Supervisors approval, provide a written report on the review to the Board of Supervisors within 60 days of approval of the resolution, and include the report within this legislative file.
- Approve the proposed resolutions.

MANDATE STATEMENT

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

BACKGROUND

The San Francisco Municipal Transportation Agency (SFMTA) manages 16 City-owned parking garages and lots and four parking garages owned by the Parking Authority.[1] The SFMTA has divided these 20 garages and lots into three groups, as follows:[2]

Group A includes the Civic Center Garage, Sutter Stockton Garage, Lombard Street Garage, Performing Arts Garage, Pierce Street Garage, Mission Bartlett Garage, 16th and Hoff Streets Garage, and 7th and Harrison Parking Lot.

Group B includes the St. Mary's Square Garage, Portsmouth Square Garage, Golden Gateway Garage, and Kezar Stadium Parking Lot.

Group C includes the Union Square Garage, Moscone Center Garage, Ellis-O'Farrell Garage, Polk Bush Garage, North Beach Garage, Vallejo Street Garage, and San Francisco General Hospital Garage.

In April 2010, SFMTA issued a Request for Proposals (RFP) for the operation and management of the Groups A, B, C garages. SFMTA received five proposals, and a four-member panel reviewed the proposals and scored them, as shown in Exhibit 1 below.[3]

Exhibit 1: Proposals and Scores from RFP

Proposer	Written Score	Interview Score	Total Score (out of 200)
IMCO Parking, LLC (JV)[4]	93.26	92.99	186.24
Imperial Parking	86.50	86.25	172.75
LAZ Parking	83.50	84.00	167.50
Pacific Park Management	86.00	79.75	165.75
Central Parking, SF (JV)	66.25	78.75	145.00

Source: SFMTA

[1]California law establishes parking authorities for every city and county to finance, construct, and manage parking facilities. While the Parking Authority is a separate legal entity from SFMTA, SFMTA acts as the Parking Authority and the SFMTA Board serves concurrently as the Parking Authority Commission.

[2] According to Senior Manager Malone, the groups were originally intended to have a roughly equal number of total parking spaces and revenues. As new garages were added, SFMTA grouped them with other nearby garages to promote operational efficiency, as well as to attempt to balance the three groups.

[3] The panel consisted of a Public Works Director of Street and Environmental Services, a Recreation and Park Department Director of Finance and Administration, an SFMTA Director of Off-Street Parking, and an SFMTA Parking Operations Assistant.

[4] IMCO Parking, LLC received a 7.5 percent bonus score because its joint venture partner, Convenient Parking, is a certified Local Business Enterprise (LBE) with 40 percent participation.

Imperial Parking is the senior partner of IMCO Parking joint venture, and the RFP stipulated that no entity could be awarded multiple contracts (including as a joint venture partner), so its proposal was disqualified. Therefore, IMCO Parking, LAZ Parking, and Pacific Park Management were deemed the three highest scoring responsive and responsible proposers and were awarded contracts. Under the RFP rules, the highest scoring proposer received first choice of the garage group contracts, the second highest proposer received the second choice, and the third highest scoring proposer was awarded the remaining contract. IMCO Parking selected the Group B contract, LAZ Parking selected the Group C contract, and Pacific Park Management was awarded the Group A contract. In December 2011, the SFMTA Board and Parking Authority approved contracts with the three vendors. Each contract was for an initial term of six years, from February 2012 through January 2018, with two 18-month options to extend through January 2021, and an amount not to exceed $907,920. In 2014, Imperial Parking acquired Pacific Park Management, and the contract for Group A garages was assigned to Imperial Parking.

5th and Mission Garage

In 2011, the City of San Francisco Downtown Parking Corporation, a nonprofit public benefit corporation, issued an RFP for the operation and management of the 5th and Mission garage, which it leased from SFMTA. The Parking Corporation received five proposals, and a five-member panel revied the proposals and scored them, as shown in Exhibit 2 below.[5]

Exhibit 2: Scores and Proposals from 5th and Mission Garage RFP

Proposer	Written Proposal Score	Oral Presentation Score	LBE Bonus Points	Total Score
IMCO Parking, LLC	97.00	53.80	11.31	162.11
Parking Concepts, Inc.	104.40	54.40	0.00	158.80
LAZ Parking	87.00	59.60	0.00	146.60
Pacific Park Management	93.00	51.80	0.00	144.80
AMPCO	91.20	53.00	0.00	144.20

Source: SFMTA

IMCO Parking was deemed the highest scoring responsive and responsible proposer and was awarded a contract. In January 2012, the SFMTA Board approved the contract between the Parking Corporation, and IMCO Parking, for a term of five years, from March 2012 through February 2017, with two 2-year options to extend through February 2021, and an amount not to exceed $587,510. In 2013 the Parking Corporation dissolved.[6] In anticipation of the dissolution,

[5] The panel consisted of an SFMTA Parking Manager, an SFMTA Parking Analyst, a Downtown Parking Corporation Board Member, an Ellis-O'Farrell Parking Corporation Corporate Manager, and a Portsmouth Square Parking Corporation Corporate Manager.

[6] The City established parking corporations to act as fiscal trustees for bond financed parking garages, under the oversight of the Controller's Office. In 2009, the Controller's Office delegated oversight of the parking corporations to SFMTA. In 2012, SFMTA refinanced the outstanding debt for the four garages with remaining debt, taking the debt onto itself. With a reduced role, the parking authorities began to wind down their operations. The San Francisco Downtown Parking Corporation, which leased the 5th and Mission Garage, formally dissolved in 2013.

the Director of Transportation approved the assignment and assumption of the contract from the Parking Corporation to SFMTA in September 2012.

Previous and Proposed Contract Amendments

Each of the contracts have been amended several times to add new garages, exercise the options to extend, extend the contracts an additional year (for a total of 10 years), and increase the not-to-exceed amounts. The Groups A, B, and C contracts each expired on January 31, 2022, and the 5th and Mission contract (now between SFMTA and IMCO Parking) will expire on February 28, 2022.

SFMTA had planned to issue an RFP for new parking operator contracts in the summer of 2021. Due to the COVID-19 pandemic and its impact on the parking industry, SFMTA needed more time to evaluate the operations and management of the parking facilities. SFMTA issued the new RFP in January 2022 and anticipates awarding new contracts by the end of 2022. SFMTA is requesting to extend the existing contracts for one year until the new contracts are in place. In December 2021, the SFMTA Board approved contract amendments extending the four contracts.

Board of Supervisors Approval

When the contracts were initially drafted in 2011, they only referenced the management fee amounts paid by SFMTA to the vendors. The contracts did not specify not-to-exceed amounts that encompassed total contract costs, such as labor, benefits, and maintenance costs, that significantly exceed the management fee amounts.[7] Subsequent contract amendments provided not-to-exceed amounts that only accounted for the management fee. As this amount did not exceed $10 million for any contract, the contracts have not been brought forward to the Board of Supervisors for approval. Based on spending data provided by SFMTA, each contract's spending exceeded the $10 million threshold for Board of Supervisors approval under City Charter Section 9.118(b) between FY 2013-14 and FY 2014-15. In consultation with the Budget and Legislative Analyst, SFMTA has submitted revised legislation with contract not-to-exceed amounts that encompass total actual and projected expenditures for each contract. Our report is based on the revised resolutions.

In reporting on a resolution approving a Department of Children, Youth, & Their Families grant agreement (File 21-0960), in October 2021 the Budget & Legislative Analyst identified two other grant agreements that required retroactive Board of Supervisors approval because the expenditures exceeded $10 million. Two resolutions (22-0059 & 22-0062) pending at the Budget & Finance Committee would provide retroactive approval of those agreements. In response, the Controller's Office has created dashboards indicating necessary approvals within the City's financial system and the City Attorney's Office has created a checklist for contract approvals, which includes a reminder about Board of Supervisors approval. Both offices are reaching out to legal and financial staff to remind them about Board approval of contracts.

[7] Staff from SFMTA and the City Attorney's Office were unable to locate records explaining why the contract amounts only referenced the management fees. Current staff did not work on the 2011 contracts.

DETAILS OF PROPOSED LEGISLATION

The proposed resolutions would approve the following SFMTA garage contract amendments that retroactively correct the contract amounts: (i) the Fourth Amendment with IMCO Parking, LLC for the 5th and Mission Garage, increasing the amount by $3,519,692, for total not to exceed $46,478,944 (File 22-0004); (ii) the Fifth Amendment with Imperial Parking, LLC for the Group A garages, increasing the not-to-exceed amount by $5,204,448, for a total not to exceed $65,588,907 (File 22-0005); the Seventh Amendment with IMCO Parking, LLC for the Group B garages, increasing the not-to-exceed amount by $3,423,007, for a total not to exceed $45,684,255 (File 22-0006); and (iv) the Fifth Amendment with LAZ Parking California, LLC, increasing the not-to-exceed amount by $6,632,821, for a total not to exceed $92,377,245 (File 22-0007). Each contract would be extended by one year, through January 2023 for the Groups A, B, and C contracts, and through February 2023 for the Fifth and Mission Garage contract. Other material terms of the contracts would not change. Approval of the amendments to the Groups A, B, and C contracts is retroactive, as these contracts expired on January 31, 2022. The proposed extensions are beyond the terms contemplated by the original RFP (for garage groups A, B, & C).

Under the contracts, SFMTA pays a flat management fee to each operator, as well as reimbursement for all expenses. SFMTA collects all revenue from the garages. According to Rob Malone, SFMTA Senior Manager of Parking and Curb Management, the contract model has allowed SFMTA to provide improved customer service, as vendors can hire additional staff to meet customer demand. Under the previous lease model, SFMTA received a flat fee from the operators, which incentivized operators to reduce expenses and maximize profits without necessarily providing good service or maintenance. According to Senior Manager Malone, the total staffing before the COVID-19 pandemic between the four contracts was approximately 220 full-time equivalent (FTE) employees. Staffing reached a pandemic low of approximately 75 FTE employees, and current staffing is approximately 85 FTE employees.

According to Senior Manager Malone, SFMTA has not considered operating the garages in-house. A benefit of the contract model is that the operators act as the merchant of record for payment transactions and are responsible with meeting Payment Card Industry compliance standards. The operators have greater experience and capacity in managing collections and security of the revenue stream than SFMTA would be if the garages were operated in-house.

According to Senior Manager Malone, the contracts do not have quantitative performance measures or ratings. However, SFMTA staff assesses the effectiveness of the service on a qualitative basis, such as whether the vendors are effective partners in implementing parking policies and providing parking operation services. SFMTA staff meets with the vendors on a monthly basis to review financials, operations, and policy issues, and discuss any performance issues during those meetings.

FISCAL IMPACT

As noted above, the proposed contract amendments would increase the not-to-exceed amounts of the contracts as follows: (i) increase the not-to-exceed amount of the IMCO Parking contract for the 5th and Mission garage by $3,519,692, for a total not to exceed $46,478,944 (File 22-0004);

(ii) increase the not-to-exceed amount of the Imperial Parking contract for the Group A garages by $5,204,448, for a total not to exceed $65,588,907 (File 22-0005); (iii) increase the not-to-exceed amount of the IMCO Parking contract for the Group B garages by $3,423,007, for a total not to exceed $45,684,255 (File 22-0006); and (iv) increase the not-to exceed amount of the LAZ Parking contract for the Group C garages by $6,632,821, for a total not to exceed $92,377,245 (File 22-0007). Also as noted above, these amounts account for all actual and projected contract expenditures, while previous not-to-exceed amounts only accounted for management fees. Actual and projected contract expenditures total approximately $250 million, as shown in Exhibit 3 below.

Exhibit 3: Actual and Projected Contract Expenditures

	IMCO Parking (File 22-0004)	Imperial Parking (File 22-0005)	IMCO Parking (File 22-0006)	LAZ Parking (File 22-0007)	Total
Management Fees to Date	$662,735	$1,351,858	$1,105,560	$1,458,052	$4,578,205
Other Actual Expenditures	42,296,517	59,032,601	41,155,688	84,286,372	226,771,178
Subtotal, Actual Expenditures	*$42,959,252*	*$60,384,459*	*$42,261,248*	*$85,744,424*	*$231,349,383*
Management Fees, 1-Year Extension	$77,482	$184,466	$137,592	$172,166	$571,706
Other Projected Expenditures	3,442,210	5,019,982	3,285,415	6,460,655	18,208,262
Subtotal, Projected Expenditures	*$3,519,692*	*$5,204,448*	*$3,423,007*	*$6,632,821*	*$18,779,968*
Total Actual and Projected Expenditures	**$46,478,944**	**$65,588,907**	**$45,684,255**	**$92,377,245**	**$250,129,351**

Source: SFMTA

To date, SFMTA has received approximately $620 million in total revenue from the four contracts. SFMTA anticipates approximately $70 million in projected revenues over the one-year extension term, for total actual and projected revenues of approximately $690 million. After deducting expenditures, the total actual and projected net revenues from the four contracts total approximately $440 million, as shown in Exhibit 4 below.

Exhibit 4: Actual and Projected Parking Revenues

	IMCO Parking (File 22-0004)	Imperial Parking (File 22-0005)	IMCO Parking (File 22-0006)	LAZ Parking (File 22-0007)	Total
Actual Revenues to Date	$172,569,679	$159,724,494	$118,271,312	$169,775,014	$620,340,499
Actual Expenditures	(42,959,252)	(60,384,459)	(42,261,248)	(85,744,424)	(231,349,383)
Actual Net Revenues	*$129,610,427*	*$99,340,035*	*$76,010,064*	*$84,030,590*	*$388,991,116*
Projected Revenues	$15,000,000	$21,400,000	$11,850,000	$21,385,000	$69,635,000
Projected Expenditures	(3,519,692)	(5,204,448)	(3,423,007)	(6,632,821)	(18,779,968)
Projected Net Revenues	*$11,480,308*	*$16,195,552*	*$8,426,993*	*$14,752,179*	*$50,855,032*
Total Actual and Projected Revenues	$187,569,679	$181,124,494	$130,121,312	$191,160,014	$689,975,499
Total Actual and Projected Expenditures	(46,478,944)	(65,588,907)	(45,684,255)	(92,377,245)	(250,129,351)
Total Actual and Projected Net Revenues	**$141,090,735**	**$115,535,587**	**$84,437,057**	**$98,782,769**	**$439,846,148**

Source: SFMTA

According to Senior Manager Malone, approximately 75 percent of contract revenues and expenditures are allocated to SFMTA and approximately 25 percent are allocated to the Recreation and Park Department (REC), which owns the Union Square Garage, Portsmouth Square Garage, Civic Center Garage, and half of the St. Mary's Square Garage. Based on these allocations, of the $440 million in actual and projected net revenues, approximately $330 million are allocated to SFMTA and approximately $110 million are allocated to REC.

Operating Revenues & Costs

The management fee of each operator is based on the number of parking spaces in each garage and escalated by five percent in contract years 4 and 7. Under the agreements, the garage operators must comply with SFMTA's Parking Facility Operation and Management Regulations, which require operators to submit annual budgets to SFMTA for approval, as well as daily and monthly reports detailing actual revenues and expenditures. Parking fees are set by SFMTA.

RECOMMENDATIONS

1. Request the Director of Transportation to review all SFMTA contracts to identify any contracts that require retroactive Board of Supervisors approval, provide a written report on the review to the Board of Supervisors within 60 days of approval of the resolution, and include the report within this legislative file.
2. Approve the proposed resolutions.

Item 10 File 22-0016	Department: Mayor's Office of Housing & Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would: (1) allow Mayor's Office of Housing & Community Development (MOHCD) to enter into a standard grant agreement with the State Department of Housing and Community Development, (2) authorize the City to accept and expend $5 million provided by the grant agreement, (3) waive the inclusion of the indirect costs in the grant budget, and (4) agrees that the Department will provide a 1:1 local funding match.

Key Points

- The California Department of Housing and Community Development Local Housing Trust Fund Grant Program issued a Notice of Funding Availability (NOFA) to provide grant funds of up to $5 million to municipalities that have established local housing trust funds.
- In July 2020, the Board of Supervisors authorized the Mayor's Office of Housing and Community Development (MOHCD) to apply for the State grant funds. In February 2021, the State approved an award of $2,861,068 in grant funds and in March 2021, after a change in the State budget for the program, the State awarded an additional $2,138,932 of the Local Housing Trust Fund grant totaling $5 million.
- The proposed grant agreement requires funding be used to fund 100% affordable housing construction, 30 percent of units be permanent supportive housing units restricted to households making 30 percent of area median income or less, and for the City to prioritize projects that have already secured predevelopment funding. Grant funded reimbursements must be requested by March 2030.

Fiscal Impact

- According to Benjamin McCloskey, MOHCD Deputy Director of Finance & Administration, the Department expects to use the proposed grant funds for a 221-unit affordable housing project being developed by Mercy Housing at 600 Seventh Street. As of July 2021, the total cost of the project was $147.3 million, however, the Department is still finalizing the development budget, which will include the proposed grant funds and required match. The Department will submit a financing proposal to the Affordable Housing Loan Committee in Spring 2022 and any City loans greater than $10 million will be subject to Board of Supervisors approval.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Administrative Code Section 10.170-1 states that accepting Federal, State, or third-party grant funds in the amount of $100,000 or more, including any City matching funds required by the grant, is subject to Board of Supervisors approval.

BACKGROUND

In November 2012, San Francisco voters approved Proposition C, a charter amendment that requires funding a Housing Trust Fund for the purpose of creating, acquiring, and rehabilitating housing that is affordable for households earning up to 120 percent of Area Median Income; and promoting affordable homeownership programs. The current adopted budget includes $60 million for the Housing Trust Fund in FY 2021-22 and $45.2 million in FY 2022-23.

The California Department of Housing and Community Development Local Housing Trust Fund Grant Program issued a Notice of Funding Availability (NOFA) to provide grant funds of up to $5 million to municipalities that have established local housing trust funds. According to the State NOFA, grant funds are awarded to local governments that have committed funds to the development of affordable housing and must be matched dollar-for-dollar by the applicant.

In July 2020, the Board of Supervisors authorized the Mayor's Office of Housing and Community Development (MOHCD) to apply for the State grant funds. In February 2021, the State approved an award of $2,861,068 in grant funds and in March 2021, after a change in the State budget for the program, the State awarded an additional $2,138,932 of the Local Housing Trust Fund grant totaling $5 million.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would: (1) allow MOHCD to enter into a standard grant agreement with the State Department of Housing and Community Development, (2) authorize the City to accept and expend $5 million provided by the grant agreement, (3) waive the inclusion of the indirect costs in the grant budget, and (4) agrees that the Department will provide a 1:1 local funding match.

The proposed standard agreement requires grant funding be used to fund 100% affordable housing construction, 30 percent of units be permanent supportive housing units restricted to households making 30 percent of area median income or less, and for the City to prioritize projects that have already secured predevelopment funding. Grant funded reimbursements must be requested by March 2030.

FISCAL IMPACT

According to Benjamin McCloskey, MOHCD Deputy Director of Finance & Administration, the Department expects to use the proposed grant funds for a 221-unit affordable housing project being developed by Mercy Housing at 600 Seventh Street. As of July 2021, the total cost of the project was $147.3 million, however, the Department is still finalizing the development budget, which will include the proposed grant funds and required match. The Department will submit a financing proposal to the Affordable Housing Loan Committee in Spring 2022 and any City loans greater than $10 million will be subject to Board of Supervisors approval.

RECOMMENDATION

Approve the proposed resolution.

Item 11 **File 21-1266**	**Department:** Mayor's Office of Housing & Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a restated and amended loan agreement between the Mayor's Office of Housing and Community Development (MOHCD) and Sunnydale Infrastructure Phase 1A3, LLC (Sunnydale Infrastructure) in the amount of $25,072,111 to fund horizontal development for Phase 1A-3 of the Sunnydale project.

Key Points

- Sunnydale is a public housing project owned by the San Francisco Housing Authority and being redeveloped as part of HOPE SF. Phase 1A-3 includes 128 replacement public housing units and 42 affordable housing units in two apartment buildings, 30,000 square feet of ground floor community-serving space, and a 28,000 square foot community center.
- The horizontal infrastructure funded by the loan to Sunnydale Infrastructure includes demolition of existing buildings, abatement of hazardous site conditions, and preparation of the site for development. Infrastructure improvements are expected to be completed and conveyed to the City by December 2023.

Fiscal Impact

- MOHCD previously loaned Sunnydale Infrastructure $5,800,000 for predevelopment work for Sunnydale Phase 1A-3, funded by 2015 Affordable Housing General Obligation bond proceeds and the Housing Trust Fund. The restated and amended loan agreement adds $19,272,111 to the existing loan, funded by proceeds of the 2015 and 2019 Affordable Housing General Obligation bonds. The project was awarded $6,500,000 from the California Department of Housing & Community Development, reducing the MOHCD loan balance.
- The loan is for 57 years and will be considered forgiven when Sunnydale Infrastructure LLC conveys the public streets and infrastructure funded by the loan to the City.

Policy Consideration

- Phase 1A-3 consists of two affordable housing blocks – Block 3A and Block 3B – for which MOHCD planned to apply for federal Low Income Housing Tax Credits (LIHTC). However, none of the eight LIHTC applications submitted by the City in 2021, including Block 3B, were approved. Block 3B is eligible for alternative funding from the California Accelerator Fund. Four San Francisco projects denied LIHTC funding in 2021 are expected to be awarded forgivable loans from Tier 1 of the California Accelerator Fund in January 2022. Three additional projects, including Sunnydale 3B, are expected to apply for Tier 2 funding from the California Accelerator Fund in February 2022. MOHCD has not yet applied for funding for Block 3A.

Recommendation

- Because the proposed amended and restated infrastructure loan agreement between MOHCD and Sunnydale Infrastructure Phase 1A3 LLC is consistent with the master development agreement and development agreement approved by the Board of Supervisors, we recommend approval of 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

Sunnydale/Velasco (Sunnydale) is a 50-acre, 775-unit public housing project owned by the San Francisco Housing Authority (Housing Authority). Sunnydale is in Visitacion Valley, generally bounded by McLaren Park to the north, Crocker Amazon Park to the west, Hahn Street to the east, and Velasco to the south.

Sunnydale is being redeveloped as part of HOPE SF.[1] The Board of Supervisors approved the master development agreement and development agreement between the City, the Housing Authority, and Sunnydale Development Company LLC[2] in January 2017 (File 16-1164) to develop Sunnydale. The development agreement provided for: (a) development of up to 1,770 housing units, consisting of 1,074 replacement public housing and affordable housing units, and 694 market rate housing units;[3] and (b) associated infrastructure, open space, transportation, and other projects.

The Sunnydale development phases consist of:

- Parcel Q, which was purchased by the Mayor's Office of Housing and Community Development (MOHCD) in 2017 (File 17-1197) for construction of a 55-unit affordable housing project. The project, which opened in 2019, is operated by Mercy Housing under a ground lease with MOHCD.
- Phases 1A-1 and 1A-2, which consisted of 167 affordable housing units on Block 6 and 41 market rate housing units on Block 5, and associated infrastructure improvements. MOHCD entered into a loan agreement with Sunnydale Infrastructure LLC[4] (File 19-0315) to construct the infrastructure improvements. Construction of the affordable housing units on Block 6 received a Temporary Certificate of Occupancy and began leasing in

[1] HOPE SF is a City project to redevelop four San Francisco Housing Authority (SFHA) sites – Hunters View, Alice Griffith, Potrero Terrace and Annex, and Sunnydale – as mixed residential developments consisting of replacement public housing units, other affordable housing, and market rate housing. Funding sources include City, State, federal, and private funds.

[2] Sunnydale Development Company LLC, which is composed of Mercy Housing California and Related Companies of California LLC, was selected following a Request for Qualifications.

[3] The development agreement provided for 1,768 housing units, of which 1,074 were replacement public housing and affordable housing units, and 694 were market rate units. According to the development plan, these units were within the envelope of the master plan, which provided for at least 969 rent restricted units affordable to current residents of Sunnydale, and approximately 600 market rate units.

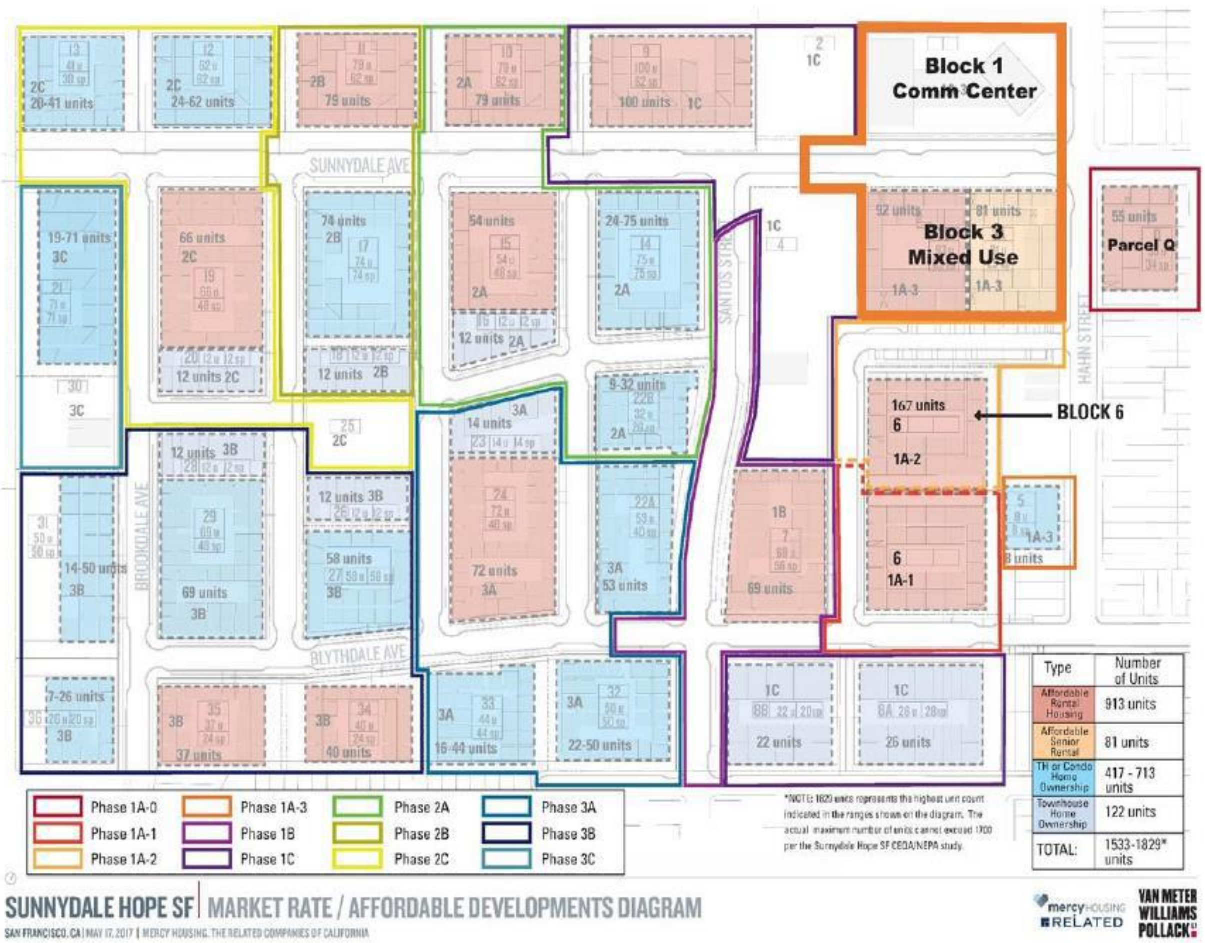
[4] Sunnydale Infrastructure LLC was formed by Mercy Housing California (Mercy Housing) and Related Companies of California LLC (Related Companies) to develop infrastructure for Sunnydale HOPE SF.

November 2021. According to MOHCD staff, planning for the market-rate units has been delayed due to COVID-19.

- Phase 1A-3, which consists of 170 affordable housing units in the 1500 block of Sunnydale Avenue. The development comprises two apartment buildings and approximately 30,000 square feet of community-serving commercial space, including an early childhood education center, a health center, and a customer service center for residents.
- Future phases include 1B and 1C, and Phases 2 and 3 (including subphases). According to the development agreement, these phases will construct an additional 580 affordable housing units, and associated infrastructure.

Exhibit 1 below shows the Sunnydale development phases. Parcel Q development was completed in 2019 and Block 6 development was completed in November 2021 as noted above. Block 1 and Block 3 are the next Sunnydale project phase (Phase 1A-3).

Exhibit 1: Sunnydale Project Phases



Source: Citywide Affordable Housing Loan Committee

Development Structure

The Sunnydale project includes a master developer, infrastructure developer, and affordable housing developer. The master developer is Sunnydale Development Company LLC, a limited liability company formed by Mercy Housing of California (Mercy Housing) and Related Companies of California (Related). The City and Housing Authority entered into a master development agreement and development agreement with Sunnydale Development Company LLC for the development of the Sunnydale project as a whole.

The infrastructure developer for Phase 1A-3 is Sunnydale Infrastructure Phase 1A3 LLC, a limited liability company formed by affiliates of Mercy and Related for horizontal development, including demolition of existing structures, abatement of hazardous site conditions, preparation of site for construction of housing and other improvements, installation of utilities infrastructure, and construction of streets, bicycle and pedestrian facilities, open space, and other improvements. The restated and amended loan agreement is between the City and Sunnydale Infrastructure Phase 1A3 LLC.

The affordable housing developers are Sunnydale Block 3A LP and Sunnydale Block 3B LP. These are single purpose limited partnerships formed by affiliates of Mercy and Related, who are the general partners of the limited partnerships.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a restated and amended loan agreement between the Mayor's Office of Housing and Community Development (MOHCD) and Sunnydale Infrastructure Phase 1A3, LLC (Sunnydale Infrastructure), a California limited liability company, in the amount of $25,072,111 to fund horizontal development for Phase 1A-3 of the Sunnydale project.

Phase 1A-3 of the Sunnydale project includes 128 replacement public housing units and 42 affordable housing units in two apartment buildings, 30,000 square feet of ground floor community-serving space, and a 28,000 square foot community center. Under the restated and amended loan agreement, Sunnydale Infrastructure will enter into a ground lease with the San Francisco Housing Authority in order for Sunnydale Infrastructure to prepare the affordable housing parcels (Blocks 3A and 3B) and the community center parcel (Block 1) for development.

Sunnydale Development Company LLC, formed by Mercy Housing and Related, is the master developer of the Sunnydale project, as noted above, and Sunnydale Infrastructure Phase 1A3 LLC was formed by affiliates of Mercy Housing and Related to develop the Sunnydale Phase 1A-3 horizontal infrastructure.

MOHCD previously loaned Sunnydale Infrastructure $5,800,000 for predevelopment and design work for Sunnydale Phase 1A-3, of which $5,200,000 was funded by 2015 Affordable Housing General Obligation bond proceeds and $600,000 was funded by the Housing Trust Fund. The restated and amended loan agreement adds $19,272,111 to the existing loan of $5,800,000 for a total loan of $25,072,111, funded by proceeds of the 2015 Affordable Housing General

Obligation bond ($4,600,000) and 2019 Affordable Housing General Obligation bond ($14,672,111).[5]

Loan Terms

The loan is for 57 years with a due date no later than December 31, 2081. The loan will be considered repaid upon (a) assignment of the promissory note to the developers of the affordable housing;[6] or (b) delivery of completed infrastructure improvements to the City. According to the loan evaluation document submitted to the November 5, 2021, Citywide Affordable Housing Loan Committee, the loan will be considered forgiven when Sunnydale Infrastructure LLC conveys the public streets and infrastructure funded by the loan to the City. The loan does not accrue interest.

Horizontal Development

The horizontal development funded by the loan to Sunnydale Infrastructure LLC includes demolition of existing buildings, abatement of hazardous site conditions, and preparation of the site for development. The work includes demolition of 13 public housing buildings and utilities, realigning streets, preparing the site for construction of new housing and the community building, and construction of new utilities, street, transit, and pedestrian and bicycle improvements. Infrastructure improvements are expected to be completed and conveyed to the City by December 2023.

<u>Tenant Impact</u>

Phase 1A-3 will demolish 84 public housing units, of which 58 are occupied; of the 58 households, 14 households still need to be relocated. According to MOHCD staff, by the end of January 2022, 10 households will be relocated to 290 Malosi Road (Block 6 of the Sunnydale project) and four households will be relocated to other vacant rehabilitated units in the Sunnydale project. The horizontal infrastructure budget includes $275,660 for tenant relocation costs.

Vertical Development Funding and Transfer of Parcels

Vertical development consists of two affordable housing buildings on Blocks 3A and 3B and a community center on Block 1.

Block 1 Community Center

Affiliates of Mercy and Related will purchase Block 1 from the Housing Authority for a nominal fee to construct the community center, estimated to cost $40 million. According to MOHCD staff,

[5] The 2015 Affordable Housing General Obligation bond was for $310 million. As of December 2021, all authorized bonds have been issued and been allocated to active projects. The 2019 Affordable Housing General Obligation bond was for $600 million. As of December 2021, approximately $260 million in bonds have been issued, and $253 million in available bond proceeds have been allocated to active projects.

[6] According to the restated and amended loan agreement, Sunnydale Infrastructure may assign the promissory note to either or both Block 3 developers, which will then be secured by the deed of trust for MOHCD's gap loan to the Block 3 development. The Block 3 developers are two limited partnerships formed by Mercy and Related affiliates – Sunnydale Block 3B Partners LP and Sunnydale Block 3A Partners LP – to finance construction of the two affordable housing buildings.

approximately $23 million in private fundraising has been pledged and $12.6 million in new market tax credits[7] are available for the community center project.

Block 3A and 3B Affordable Housing

Mercy and Related affiliates formed two limited partnerships – Sunnydale Block 3B Partners LP and Sunnydale Block 3A Partners LP – to finance construction of the two affordable housing buildings. The Block 3A building is 80 units for seniors 62 years and older and includes 30,000 square feet of commercial space serving the public, including a health center, early childhood education center, and retail space. The Block 3B building is 90 units for families with a mix of studio, one-, two-, and three-bedroom apartments. The Housing Authority will enter into 99-year ground leases with the limited partnerships to own and operate the affordable housing.

FISCAL IMPACT

Total horizontal infrastructure costs are $25,072,111, shown in Exhibit 2 below.

Exhibit 2: Sources and Uses of Loan Funds

	Demolition/ Abatement	Improvements	Total
Sources			
2015 GO Bonds	$5,200,000	$4,600,000	$9,800,000
2019 GO Bonds		14,672,111	14,672,111
Housing Trust Fund	600,000		600,000
Total Sources	**$5,800,000**	**$19,272,111**	**$25,072,111**
Uses			
Hard Costs			
Demolition & Construction	$3,715,003	$14,399,575	$18,114,578
Contingency (10%)	302,769	1,508,688	1,811,457
Escalation (5%)		905,729	905,729
Subtotal Hard Costs	4,017,772	16,813,992	20,831,764
Soft Costs			
Design/Engineering, Environmental, Permits	1,454,918	1,986,719	3,441,637
Contingency (10%)	145,492	198,672	344,164
Subtotal Soft Costs	1,600,410	2,185,391	3,785,801
Developer Fee	181,818	272,727	454,545
Total Project Costs	**$5,800,000**	**$19,272,110**	**$25,072,110**

Source: Loan Documents

[a] Total uses of $25,072,109 are less than sources of $25,072,110 due to rounding

[7] New market tax credits are federal tax credits awarded to private investors in exchange for equity investments in disadvantaged communities. New market tax credits are allocated by Community Development Financial Institutions (private financial institutions serving disadvantaged communities), defined in the federal Community Reinvestment Act, revised in 2000. According to MOHCD staff, the San Francisco Community Investment Fund, LISC (Local Initiatives Support Corporation), and Enterprise Community Partners are interested in providing an equity allocation. The San Francisco Community Investment Fund is a qualified Community Development Entity, which under the Community Renewal Tax Relief Act of 2000, can apply to the Community Development Financial Institution for an award of new market tax credits. LISC is a non-profit corporation – founded by the Ford Foundation and funded by banks, corporations, foundations, and government – making loans, grants, and equity investments. Enterprise Community Partners is a nonprofit organization investing in affordable housing and community development.

Allocation of infrastructure costs to Block 1, Block 3A, Block 3B, and public right of way are shown in the Attachment.

Demolition and Infrastructure Costs

According to Citywide Affordable Housing Loan Committee documents, demolition and horizontal infrastructure costs were estimated based on Sunnydale Infrastructure's discussions with consultants and the bid from the project's general contractor; these estimates were reviewed by the Department of Public Works. The 10 percent contingency is consistent with industry standards for which contingencies range from 5 – 10 percent. The 5 percent escalation is consistent with the California Construction Cost Index, which increased from 3.5 percent in CY 2019 to 13.4 percent in CY 2021.

Developer Fee

The development agreement between the City, Housing Authority, and Sunnydale Development Company LLC provided a development fee to be paid to Sunnydale Development Company of $2.1 million over the term of the project. Each project phase was allocated approximately 9 percent of the total $2.1 million developer fee, which for Phase 1A-3 is $454,545.

California Infrastructure and Infill Grant Funding

Sunnydale Development Company was awarded $6,500,000 from the California Department of Housing and Community Development for Block 3B. Sunnydale Development Company may draw down these funds when construction of the affordable housing begins. Draw down of the $6,500,000 grant reduces the MOHCD loan balance from $25,072,110 to $18,572,110.

POLICY CONSIDERATION

Financing for Block 3A and Block 3B Housing Development

Block 3A and Block 3B affordable housing projects were originally intended to apply for federal Low Income Housing Tax Credit financing and associated bond approval from the California Treasurer's California Debt Limit Allocation Committee (CDLAC). However, according to the Citywide Affordable Housing Committee loan report, changes to CDLAC regulations have made San Francisco projects less competitive due to high construction costs. The City submitted the application for Block 3B to CDLAC in April 2021, but according to MOHCD staff, none of the eight affordable housing applications submitted by the City to CDLAC in 2021, including Block 3B, were approved due to high construction costs and other factors that disadvantage San Francisco and other Bay Area cities.

Block 3B is eligible for alternative funding from the California Accelerator Fund administered by the California Department of Housing & Community Development, which was approved in the State's FY 2021-22 budget, funded with $1.75 billion in federal American Rescue Plan Act of 2021 monies. According to MOHCD staff, four San Francisco projects denied funding in 2021 by CDLAC, including one HOPE SF project (Potrero Block B), are expected to be awarded forgivable loans from Tier 1 of the California Accelerator Fund in January 2022. Three additional projects, including Sunnydale 3B and Hunters View Phase 3, are expected to apply for Tier 2 funding from the California Accelerator Fund in February 2022. Anticipated date of these awards is not yet published.

MOHCD has not yet applied to CDLAC for funding for Block 3A. According to discussions with MOHCD staff, because Block 3A contains 30,000 square feet in commercial space, the Block 3A project would not be competitive for federal Low Income Tax Credit financing and the associated bonds. MOHCD and other City departments are exploring alternative funding sources for the commercial space. According to MOHCD staff, Block 3A could potentially qualify for federal Low Income Housing Tax Credit and associated bond financing if changes to CDLAC regulations are enacted in 2022 or for California Housing Accelerator Fund loans if additional State funds are allocated to the Housing Accelerator Fund.

Because the proposed amended and restated infrastructure loan agreement between MOHCD and Sunnydale Infrastructure Phase 1A3 LLC is consistent with the master development agreement and development agreement approved by the Board of Supervisors, we recommend approval of the proposed resolution.

RECOMMENDATION

Approve the proposed resolution.

Attachment: File 21-1266

	Demolition/ Abatement	Improvements	Total	Block 3A (20%)	Block 3B (21%)	Block 1 (Community Building)	Public Right of Way	Total
Sources								
2015 GO Bonds	5,200,000	4,600,000	9,800,000	372,985	996,425	1,711,517	6,719,073	9,800,000
2019 GO Bonds		14,672,111	14,672,111				14,672,111	14,672,111
Housing Trust Fund	600,000		600,000	600,000				600,000
Total Sources	**5,800,000**	**19,272,111**	**25,072,111**	**972,985**	**996,425**	**1,711,517**	**21,391,184**	**25,072,111**
Uses								
Hard Costs								
Demolition & Construction	3,715,003	14,399,575	18,114,578	846,074	866,456	1,488,275	14,913,772	18,114,577
Contingency (10%)	302,769	1,508,688	1,811,457	126,911	129,968	223,241	2,237,066	2,717,186
Escalation (5%)		905,729	905,729					0
Subtotal Hard Costs	4,017,772	16,813,992	20,831,764	972,985	996,424	1,711,516	17,150,838	20,831,763
Soft Costs			*0*					*0*
Design, Engineering, Environmental, & Other	1,454,918	1,986,719	3,441,637				3,441,637	3,441,637
Contingency	145,492	198,672	344,164				344,164	344,164
Subtotal Soft Costs	1,600,410	2,185,391	3,785,801	0	0	0	3,785,801	3,785,801
Developer Fee	181,818	272,727	454,545				454,545	454,545
Total Uses [a]	**5,800,000**	**19,272,110**	**25,072,110**	**972,985**	**996,424**	**1,711,516**	**21,391,184**	**25,072,109**

Source: Amended & Restated Loan Agreement

[a] Total uses of $25,072,109 are less than sources of $25,072,110 due to rounding.

Item 12 File 21-1269	Department: Recreation and Parks Department (REC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize REC to accept and expend cash and/or in-kind grants valued at $10,000,000 from Sunnydale Infrastructure, LLC, to design and construct the Herz Playground Recreation Center, and approve an associated grant and permit agreement for a term of approximately two years and five months, commencing upon Board of Supervisors approval through June 2024. The proposed grant and permit agreement allows for firms providing in-kind design and construction services to access the work site.

Key Points

- Sunnydale Infrastructure is a partnership between Mercy Housing California and Related California that is implementing the HOPE SF Sunnydale Neighborhood Development Plan, part of a large-scale, multi-phased development consisting of approximately 1,770 housing units and 3.5 acres of open space. Sunnydale Infrastructure, in collaboration with the Boys and Girls Club, is leading a fundraising campaign to provide a grant of $10 million to help build a new Recreation Center at neighboring Herz Playground. REC has also identified $10 million in matching funds from the 2020 Health and Recovery Bond (Proposition A).
- The Herz Playground Recreation Center is designed as an approximately 11,500 square foot building with a full-size basketball court, multi-purpose room, staff office, restrooms, kitchen, and storage spaces. The plans also include exterior pathway improvements, security lighting, an outdoor fitness terrace, and a nature exploration area and picnic area. Construction is anticipated to commence in early 2023 and be completed by June 2024.

Fiscal Impact

- The proposed grant agreement would accept and expend $10 million in cash and/or in-kind grants from Sunnydale Infrastructure. The City would provide a $10 million match from 2020 Proposition A General Obligation Bond funds, as well as a $600,000 General Fund appropriation that is not part of the grant agreement.
- The project budget is currently estimated at approximately $24.2 million, leaving a funding shortfall of approximately $3.6 million. The grant agreement stipulates that Sunnydale Infrastructure and REC would work together to identify funding sources to address the funding shortfall but that neither is responsible for funding the shortfall. REC is exploring an application for $2,000,000 in Proposition 68 grant funding from the state, and U.S. House Speaker Nancy Pelosi has also requested $1,500,000 in funding for the project through the federal budget reconciliation process.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Administrative Code Section 10.170-1 states that accepting federal, state, or third-party grant funds in the amount of $100,000 or more, including any City matching funds required by the grant, is subject to Board of Supervisors approval.

BACKGROUND

Sunnydale Infrastructure is a partnership between Mercy Housing California and Related California that is implementing the HOPE SF Sunnydale Neighborhood Development Plan, which is part of a large-scale, multi-phased development consisting of approximately 1,770 housing units and 3.5 acres of open space.[1] The Sunnydale plan includes the development of a neighborhood hub, which will provide a new community center with youth, senior, and family programs, recreational amenities, and neighborhood-serving retail.

The neighborhood hub development also includes construction of a new recreation center at neighboring Herz Playground. Sunnydale Infrastructure, in collaboration with the Boys and Girls Club, is leading a fundraising campaign to provide a grant of $10 million toward the project.[2] The Recreation and Parks Department (REC) has also identified $10 million in matching funds from the 2020 Health and Recovery Bond (Proposition A).[3] In March 2021, the Recreation and Park Commission recommended that the Board of Supervisors approve a grant agreement between REC and Sunnydale Infrastructure for cash and/or in-kind grants valued at up to $15 million for the design and construction of the Herz Playground Recreation Center.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize REC to accept and expend cash and/or in-kind grants valued at $10,000,000 from Sunnydale Infrastructure, LLC, to design and construct the Herz Playground Recreation Center, and approve an associated grant and permit agreement for a term of approximately two years and five months, commencing upon Board of Supervisors approval

[1] HOPE SF is a City project to redevelop four San Francisco Housing Authority (SFHA) sites – Hunters View, Alice Griffith, Potrero Terrace and Annex, and Sunnydale – as mixed residential developments consisting of replacement public housing units, other affordable housing, and market rate housing. Funding sources include City, State, federal, and private funds. The Board of Supervisors approved the master development agreement and development agreement between the City, the Housing Authority, and Sunnydale Development Company LLC in January 2017 (File 16-1164) to develop Sunnydale. Sunnydale Development Company LLC, which is composed of Mercy Housing California and Related Companies of California LLC, was selected following a Request for Qualifications.

[2] According to Deputy Director Tinclair, Sunnydale Infrastructure's contribution is voluntary and not a requirement of a development agreement.

[3] Proposition A, approved by San Francisco voters in November 2020, authorized the City to issue up to $487.5 million in general obligation bonds. Of the bond proceeds, $207 million was allocated to mental health facilities and homeless housing and shelters, $239 million was allocated to parks, open space, and recreation facilities, and $41.5 million was allocated to improving streets, curb ramps, and plazas.

through June 2024.[4] The proposed grant and permit agreement allows for firms providing in-kind design and construction services to access the work site.

The Herz Playground Recreation Center is designed as an approximately 11,500 square foot building with a full-size basketball court, multi-purpose room, staff office, restrooms, kitchen, and storage spaces. The plans also include exterior pathway improvements, security lighting, an outdoor fitness terrace, and a nature exploration area and picnic area. Construction is anticipated to commence in early 2023 and be completed by June 2024.

Role of Sunnyvale Infrastructure and the City

Exhibit G to the proposed grant agreement outlines the roles and responsibilities between REC and Sunnydale Infrastructure. REC is the owner of the project site and would own and operate the completed building. REC is responsible for final review and approvals for all scopes of work, schedules, and percentages of completion or deliverables for contracts entered into by Sunnydale Infrastructure. Sunnydale Infrastructure would coordinate logistics for the development of the project design and work collaboratively with REC to oversee project design. REC would coordinate all necessary City approvals. REC and Sunnydale Infrastructure would determine whether REC enters into a construction contract for the full project scope or if each party enters into separate contracts for specific scopes of work. Sunnydale Infrastructure would provide in-kind project management consulting services in an advisory and coordination role with no fee. Any documents prepared by Sunnydale Infrastructure on behalf of REC would be City property.

According to Nathan Tinclair, REC Deputy Director of Partnerships, there are no specific monitoring reports for contractors working on the Recreation Center project. However, contractors procured by REC and provided in-kind by Sunnydale Infrastructure, should Sunnydale Infrastructure provide an in-kind grant of construction services, would be required to meet prevailing wage requirements (monitored by the Office of Labor Standards Enforcement), subcontractor participation (monitored by the Contract Monitoring Division), Local Hire, First Source and/or workforce goals (monitored by the Office of Economic and Workforce Development); and for City-held contracts the Project Labor Agreement (monitored by the Office of Labor Standards Enforcement). The selection of in-kind service providers would not be subject to Chapter 21 contract requirements, including competitive solicitation. However, the Grant Agreement requires that all architecture, engineering, and construction professionals procured by Sunnydale Infrastructure must be licensed and insured. There may be additional contracting requirements if the project receives state and/or federal funding (see below).

[4] According to Deputy Director Tinclair, REC had sought authorization for acceptance and expenditure of up to $15 million in grants to provide authority for additional grants above Sunnydale Infrastructure's $10 million grant commitment. However, the Controller's Office advised REC that the Board of Supervisors could only authorize acceptance and expenditure of up to $10 million in grants, because that was the amount of Sunnydale Infrastructure's commitment.

FISCAL IMPACT

The proposed grant agreement would accept and expend $10 million in cash and/or in-kind grants from Sunnydale Infrastructure. The City would provide a $10 million match from 2020 Proposition A General Obligation Bond funds, as well as a $600,000 General Fund appropriation that is not part of the grant agreement. The sources and uses of funds are shown in Exhibit 1 below.

Exhibit 1: Sources and Uses of Funds

Sources	Amount
Sunnydale Infrastructure Grant	$10,000,000
2020 Health and Recovery Bond (Proposition A)	10,000,000
General Fund Appropriation	600,000
Total Sources	**$20,600,000**

Uses	Amount
Construction (Includes 5% Design & 5% Bid Contingency)	$16,868,300
Construction Contingency (7%)	1,180,800
Architectural & Engineering Services	2,000,000
Construction Management Services	995,900
Regulatory Costs (Includes Public Art & Permit Fees)	939,200
Consultant Services (Includes Survey, Reports, & Cost Estimating)	593,400
REC Project Management	400,000
Reserve, Utilities, Miscellaneous[5]	1,222,500
Total Uses	**$24,200,100**

Source: Proposed Grant Agreement, Recreation and Parks

As shown above, the project budget is currently estimated at approximately $24.2 million, leaving a funding shortfall of approximately $3.6 million. The grant agreement stipulates that Sunnydale Infrastructure and REC would work together to identify funding sources to address the funding shortfall, and that neither party shall be obligated to fund any shortfall. According to Deputy Director Tinclair, REC is exploring an application for $2,000,000 in Proposition 68 grant funding from the state.[6] Deputy Director Tinclair reports that U.S. House Speaker Nancy Pelosi has also requested $1,500,000 in funding for the project through the federal budget reconciliation process. If state and federal funding are obtained, the remaining funding shortfall would be approximately $100,000.

According to the proposed grant agreement, the grant funding will be sourced from charitable donations, managed by Sunnydale Infrastructure. According to Deputy Director Tinclair, the $10 million grant commitment is part of a larger $40 million fundraising campaign by Sunnydale

[5] According to Deputy Director Tinclair, the Reserve, Utilities, and Miscellaneous line item is mostly for utility costs, such as bringing electricity, water, and sewer connections to the site. It also includes a soft cost reserve to cover additional design, engineering, and consulting fees.

[6] Proposition 68, approved by California voters in June 2018, authorized $4 billion in general obligation bonds for state and local parks, environmental protection projects, water infrastructure projects, and flood protection projects.

Infrastructure to build the Recreation Center along with the adjacent Community Center on the Sunnydale campus. To date, approximately $23 million has been raised out of the total fundraising goal of $40 million. In-kind design and project coordination donations are expected to total approximately $3.6 million, and cash or in-kind contributions towards construction are expected to total approximately $6.4 million. Attachment 1 provides the list of contributions committed to Sunnydale Infrastructure's fundraising campaign to date.

The proposed grant and permit agreement provides for naming and recognition rights for various spaces in the new recreation center, subject to approval of the Mercy Housing, REC staff (for gifts up to $250,000) and the Recreation & Parks Commission (for naming the building, which has a minimum gift size of $8 million and for naming the center floor and basketball court, which has a minimum gift size of $2 million).

According to the proposed grant agreement City funds will pay for a REC Project Manager I to manage the Herz Playground Recreation Center project.

According to Deputy Director Tinclair, the estimated annual maintenance and operating costs for the Recreation Center are approximately $1,037,000. This amount includes gardeners and custodial staff, structural maintenance, tree maintenance, and Recreation Center staff.

RECOMMENDATION

Approve the proposed resolution.

Attachment 1: List of Contributors to Sunnydale Infrastructure's Fundraising Campaign (Minimum $1,000 Contribution)

Contributor	Amount
Bill Witte & Related CA	$5,000,000
Kilroy Realty	5,000,000
Mercy Housing	3,000,000
Boys and Girls Clubs of San Francisco	3,000,000
Wu Yee Children's Services	2,000,000
Howard and Irene Levine Family Foundation	2,000,000
Jay and Pat Cahill	1,000,000
Nibbi Brothers	500,000
Horace K. Goldsmith Foundation	500,000
Dan Springer (DocuSign)	500,000
Sisters of the Holy Family	100,000
Salesforce	100,000
Robert Mullarkey	71,932
Gellert Foundation	45,000
Alan and Sue Rothenberg	25,000
Robert Mullarkey	2,500
Anderson Commercial Flooring	2,500
Karen Lerner	2,500
Scott Cannon	1,000
James Mullarkey	1,000
Lisa Lampe	1,000
Kelly Fernandez	1,000
James Mullarkey	1,000
Miscellaneous Contributions under $1,000	10,823
Total	**$22,865,255**