CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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February 3, 2023

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: February 8, 2023 Budget and Finance Committee Meeting

TABLE OF CONTENTS

Item 1 **File 23-0039**	**Department:** Office of Contract Administration (OCA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve Modification No. 2 to the asphalt materials (petroleum, emulsions, sealants, and concrete base) purchasing contract between the Office of Contract Administration (OCA) and Granite Rock Company, extending the contract term by two years through October 2026, and increasing the not-to-exceed amount by $13,989,728, for a total not to exceed $23,889,728.

Key Points

- In 2019, OCA issued an Invitation for Bids (IFB) for suppliers of asphalt materials. Granite Rock Company was the only bidder and was awarded a contract for a term of three years and an amount not to exceed $7,687,850. In June 2022, OCA executed Modification No. 1 to the contract, extending the term by two years through October 2024, and increasing the not-to-exceed amount by $2,212,150, for a total not to exceed $9,900,000. OCA has determined that due to high inflation, it would be beneficial to the City to extend the Granite Rock Company contract rather than issue a new IFB.
- Under the contract, Granite Rock Company supplies various asphalt products at set prices. Pricing may be increased or decreased by request once per year based on the percentage change in the Producer Price Index (PPI) for asphalt products.

Fiscal Impact

- The proposed Modification No. 2 would increase the not-to-exceed amount of the contract by $13,989,728, for a total not to exceed $23,889,728. To date, contract expenditures have been funded approximately 95.2 percent by the City's General Fund (through the Department of Public Works), approximately 4.6 percent by the SFPUC Water Enterprise operating funds, and approximately 0.2 percent by Port operating funds.

Policy Consideration

- As a petroleum-based product, asphalt prices may fluctuate dramatically. The contract pricing may be adjusted next in June 2023.
- The Budget & Legislative Analyst reviewed seven contracts for goods, commodities, and non-technology services procured or amended by the Office of Contract Administration in 2022 and found that each had an average of two bids.

Recommendations

- Approve the proposed resolution.
- Request a report from the Purchaser and City Administrator by June 2023 that: (1) assesses existing procurement strategies and municipal code requirements, (2) evaluates the feasibility of partnering with other governments to increase the number of joint procurements that the City participates in, and (3) provides recommendations to increase the number of bidders for goods, commodities, and services.

MANDATE STATEMENT

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

BACKGROUND

In 2019, the Office of Contract Administration (OCA) issued an Invitation for Bids (IFB) for suppliers of asphalt materials (petroleum, emulsions, sealants, and concrete base). Granite Rock Company was the only bidder and was awarded a contract.[1] In November 2019, OCA executed a contract with Granite Rock Company for a term of three years, from November 2019 through October 2022, and an amount not to exceed $7,687,850. In June 2022, OCA executed Modification No. 1 to the contract, extending the term by two years through October 2024, and increasing the not-to-exceed amount by $2,212,150, for a total not to exceed $9,900,000.

Under Modification No. 1, Granite Rock Company's pricing increased by 47.6 percent due to an increase in the Producer Price Index (PPI) for asphalt, consistent with the terms of the contract (and included in the IFB).[2] OCA has determined that due to high inflation, it would be beneficial to the City to extend the Granite Rock Company contract rather than issue a new IFB. According to Taraneh Moayed, OCA Assistant Director, securing a new contract would likely not result in better pricing than provided by Granite Rock Company, and may lock the City into higher base rates subject to future PPI increases. OCA and Granite Rock Company have agreed to extend the contract term through October 2026, the maximum allowable term under the IFB. Should inflationary pressures ease before the contract end date, OCA will revisit the possibility of terminating this as-needed contract before October 2026 and rebidding this contract to secure better pricing.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Modification No. 2 to the asphalt materials purchasing contract between OCA and Granite Rock Company, extending the contract term by two years through October 2026, and increasing the not-to-exceed amount by $13,989,728, for a total not to exceed $23,889,728. Other terms of the contract would not change.

Under the contract, Granite Rock Company supplies various asphalt products at set prices. Pricing may be increased or decreased by request once per year based on the percentage change in the

[1] According to Assistant Director Moayed, OCA invited four suppliers to the sourcing event for the IFB and posted the FB to the City's Partner's website for all interested parties to bid. The IFB included a requirement that the contractor have storage warehouse, distribution facility, parking area and will-call counter (for City Department pick-ups) located within San Francisco, which may have contributed to the low number of bids.

[2] According to the Bureau of Labor Statistics, the PPI value for asphalt increased 47.6 percent, from 228 in September 2019 to 336.536 in April 2022.

PPI for asphalt products. The contract may be used by any City department, and to date it has been used by the Department of Public Works, Public Utilities Commission (SFPUC), and the Port.

FISCAL IMPACT

The proposed Modification No. 2 would increase the not-to-exceed amount of the contract by $13,989,728, for a total not to exceed $23,889,728. Actual contract expenditures through December 2022 total $7,898,636. Using actual expenditures from FY 2019-20 through FY 2022-23, OCA projects average future contract expenditures of $346,832 per month.[3] Actual and projected expenditures are shown in Exhibit 1 below.

Exhibit 1: Actual and Projected Expenditures

Actual Expenditures (through December 2022)	$7,898,636
Projected Expenditures per Month	346,832
Remaining Months	46
Projected Expenditures	$15,954,263
Total Actual and Projected Expenditures	$23,852,899

Source: OCA

To date, contract expenditures have been funded approximately 95.2 percent by the City's General Fund (through the Department of Public Works), approximately 4.6 percent by the SFPUC Water Enterprise operating funds, and approximately 0.2 percent by Port operating funds.

POLICY CONSIDERATION

Price Fluctuation

As a petroleum-based product, asphalt prices may fluctuate dramatically. In 2022, the PPI value for asphalt increased from 251.267 in January to a high of 425.062 in July, and then decreased to 189.218 in December.[4] Under the contract, Granite Rock Company's prices may be increased or decreased once per year based on the PPI. Therefore, pricing may be locked in at levels significantly higher or lower than annual averages based on the timing of the PPI adjustment. The contract pricing may be adjusted next in June 2023.

Low Number of Bidders

The Budget & Legislative Analyst reviewed seven contracts for goods, commodities, and non-technology services procured or amended by Office of Contract Administration in 2022 and found that each had an average of two bids. Consistent with the Administrative Code, at times, the City has relied on the procurement process of other public agencies, Tucson, AZ and Sourcewell (a Minnesota governmental entity), to contract with vendors for goods. Two such agreements

[3] Actual expenditures for the first half of FY 2022-23 total $4,636,687. Projecting forward, OCA estimates that expenditures for the full fiscal year will be $9,273,374. When combined with expenditure amounts from FY 2020-21 and FY 2021-22, the average annual expenditure amount is $4,161,982, and the average monthly amount is $346,832.

[4] Source: Bureau of Labor Statistics, https://beta.bls.gov/dataViewer/view/timeseries/PCU3241103241109

approved by the Board of Supervisors in 2022 had an average of eight bidders. Increasing the number of bidders in response to a solicitation often results in lower costs.

In response to requests from Supervisor Mandelman, the Office of Contract Administration and City Administrator's Office are reviewing the impact of Administrative Code Chapter 12X (which prohibits travel and contracting with vendors based in states that have discriminatory practices) and procurement of low-value contracts. In addition, the Office of Contract Administration, City Administrator's Office, and Controller's Office are reviewing existing business processes to improve contracting timelines. While considering these efforts, the Board of Supervisors should request a report from the Purchaser and City Administrator by June 2023 that: (1) assesses existing procurement strategies and municipal code requirements, (2) evaluates the feasibility of partnering with other governments to increase the number of joint procurements that the City participates in, and (3) provides recommendations to increase the number of bidders for goods, commodities, and services.

RECOMMENDATIONS

1. Approve the proposed resolution.
2. Request a report from the Purchaser and City Administrator by June 2023 that: (1) assesses existing procurement strategies and municipal code requirements, (2) evaluates the feasibility of partnering with other governments to increase the number of joint procurements that the City participates in, and (3) provides recommendations to increase the number of bidders for goods, commodities, and services.

Item 3 **File 22-1247**	**Department:** Recreation & Parks (REC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a lease and operating agreement between the City and the Golden Gate Park Golf Development Foundation, a non-profit, for the management and operations of Golden Gate Park Golf Course for an initial term of six-years with one option to extend for an additional nine years.

Key Points

- The Golden Gate Park Golf Course is a nine-hole course located in Golden Gate Park near 47th Avenue and Fulton Street. Under a prior management agreement, the Golden Gate Park Golf Foundation, a non-profit, has been managing and operating the golf course. The Recreation and Parks Department (REC) is responsible for maintenance of the Golden Gate Park Golf Course. The prior agreement expired in November 2020, and the Golden Gate Park Golf Foundation has been operating on a month-to-month basis until REC could issue a new RFP.
- In June 2022, REC issued an RFP to identify an operator for the Golden Gate Park Golf Course. REC selected Golden Gate Park Golf Foundation, which was the only organization that submitted a proposal, to continue operating the golf course.
- The proposed lease and operating agreement provides for an initial term of six-years with one option to extend for an additional nine years and annual base rent of $275,000 plus a share of revenues. REC is currently rebuilding the clubhouse, which was damaged by fire in 2018.

Fiscal Impact

- REC projects lease revenues of $484,200 in Year 2 of the proposed agreement once the clubhouse reopens, resulting in a net loss of approximately $20,000 after accounting for REC maintenance costs. REC would incur an estimated net loss of approximately $88,000 over the five-year period following clubhouse reopening with additional losses anticipated in Year 1 due to expected golf course closure during capital improvements.
- The operator must complete $2 million of capital improvements prior to lease extension.

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.

City Charter Section 9.118(c) states that any sale of real property owned by the City and County of San Francisco is subject to Board of Supervisors approval.

Administrative Code Section 23.30 states that Recreation and Park leases of City property that require Board of Supervisors approval may be awarded for less than market rent if the Board of Supervisors finds that doing so would serve a public purpose.

BACKGROUND

Golden Gate Park Golf Course

The Golden Gate Park Golf Course is a nine-hole course located in Golden Gate Park near 47th Avenue and Fulton Street. The Recreation and Parks Department (REC) contracts with a third-party operator to manage and operate the golf course. Management of the operations includes taking reservations, registering players, collecting greens fees, providing golf instruction, operating a golf shop and driving range, providing building maintenance, providing food and beverage services and developing an annual Management Plan. REC is responsible for maintenance of the Golden Gate Park Golf Course.

Existing Management Agreement

Based on a Request for Proposals (RFP) process, REC entered into a management agreement with the Golden Gate Park Golf Foundation (the operator) to manage and operate the Golden Gate Park Golf Course, for the seven-year term (including one two-year option to extend) from December 1, 2013 through November 30, 2020 (File 13-0776). The agreement provided for a five-year term and one two-year option to extend, conditioned upon the operator's completion of $150,000 in capital improvements. Under the agreement, Golden Gate Park Golf Foundation paid REC $225,000 annually in base rent and greens fee revenues were shared between the operator and REC as follows:

- The operator received the first $350,000 in revenues (of which $225,000 was used to pay rent)
- REC received revenues between $350,000 and $500,000
- The operator and REC each received half of all revenues greater than $500,000.

In addition to base rent and a share of greens fee revenues, the City also receives maintenance fees, which are collected by the operator and deposited by REC into a Maintenance Fund for course improvements or special maintenance repairs according to the Parks Code Section 12.12(f). Currently, the maintenance fee is $2 per player per nine holes of golf.

Since December 2020, the Golden Gate Park Golf Foundation has been operating on a month-to-month basis because conducting an RFP was infeasible at the time due to the pandemic according to Dana Ketcham, REC Director of Property Management, Permits and Reservations. REC changed the payment structure over the month-to-month period because the operator was operating at a loss. The operator is currently paying REC: (a) base rent of $242,476; (b) $50,000 of greens fee revenues below $525,000 and half of revenues greater than $525,000; and (c) 20 percent of concessions revenue above $650,000.

Procurement

In June 2022, REC issued an RFP to identify an operator for the Golden Gate Park Golf Course. The Golden Gate Park Golf Foundation was the only organization that submitted a proposal to REC. According to Director Ketcham, REC did not score the proposals because there was only one respondent. Director Ketcham also reports that the RFP pre-submittal meeting was attended by more than 10 people, including representatives from nearby and nationwide golf management companies.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a lease and operating agreement between the City and the Golden Gate Park Golf Development Foundation, a non-profit, for the management and operations of Golden Gate Park Golf Course for an initial term of six-years with one option to extend for an additional nine years. The proposed agreement provides for an annual base rent of $275,000 plus a share of revenues. The proposed resolution would also: (i) determine that the rental rate is appropriate and that the agreement will serve a public purpose in accordance with Administrative Code 23.30 and 23.33; (ii) adopt findings declaring that the property is "exempt surplus land" under the California Surplus Lands Act; and (iii) authorize the REC General Manager to modify the agreement as needed to effectuate the purposes of the lease, in consultation with the City Attorney, provided that modifications do not materially increase the obligations or liabilities to the City.

Under the proposed agreement, REC would continue to perform maintenance of the golf course, and the Golden Gate Park Golf Development Foundation (the operator) would operate and manage the golf course. Exhibit 1 below shows the proposed lease and operating agreement terms.

Exhibit 1: Proposed Lease and Operating Agreement Terms

Leased Premises	Clubhouse, patio around the clubhouse, driving range, practice area, and a portion of the parking lot, and access over the Golf Course as needed to allow tenant to meet lease obligations
Initial Term	Six Years (Estimated January 15, 2023 to December 31, 2028)
Options to Extend	One nine-year option to extend conditioned on operator completing $2 million of capital improvements
Utilities	City pays utilities
Annual Adjustments to Rent	Base rent, equipment subsidy, and thresholds for shared greens fee receipts and concessions revenue to be increased by CPI annually.
Base Rent, Equipment Subsidy, and Shared Revenues Years Following Clubhouse Reopening*	
Base Rent	$275,000
Shared Greens Fee Receipts	City receives revenues between $450,000 and $500,000 and half of revenues above $700,000. Remaining revenues accrue to the Operator.
Equipment Subsidy	$53,000
Shared Concessions Revenue	City receives 33% of concessions revenues in excess of $300,000 of the calendar year; Remaining revenues accrue to the operator.

Source: Draft Lease and Operating Agreement
*Year 1 of the proposed lease would continue the existing base rent and revenue sharing amounts and thresholds with the operator

Clubhouse Renovations

REC is currently rebuilding the clubhouse, which was damaged by fire in 2018. The new 1,560 square foot clubhouse will provide a food and beverage concession, a golf pro shop, a public restroom, and storage and is expected to be completed in Fall 2023. Base rent and shared revenues paid to the City are adjusted to lower amounts under the proposed lease until the clubhouse is completed due to the construction impact and limited facilities.

Base Rent, Equipment Subsidy, and Shared Revenues

The operator is required to pay annual base rent of $242,000 in the first year plus a share of green fee receipts, and a share of concessions revenue to the City based on the existing revenue sharing amounts and thresholds. Once the clubhouse reopens, the operator will also pay an equipment subsidy to REC, and annual base rent will increase to $275,000 and will increase in subsequent years by the Consumer Price Index (CPI), as advertised in the solicitation. REC did not conduct an appraisal to determine base rent because the agreement is an operating agreement and lease with a share of greens fees split between the parties to cover the costs, and because the Real Estate Division determined that the rent was less than $45 per square foot (i.e., an appraisal was not required by Administrative Code Section 23.30). As discussed below, base rent to the extent it is less than market rent furthers the public purpose of keeping access fees below market rate.

Under the proposed agreement, the City would continue to receive a share of greens fee receipts but at a lower rate than under the existing agreement. This would be at least partially offset by the new equipment subsidy and new concessions revenue. Once the clubhouse reopens, the operator would pay the City revenues received between $450,000 and $500,000 and half of revenues above $700,000 provided the City meets maintenance standards.[1] To receive a share of revenues above $700,000, the City must meet the following conditions of the Maintenance Standard Incentive: (a) the City submits the Minimum Maintenance Standards Report to the operator and maintenance standards have been reasonably met; (b) the operator meeting has occurred; and (c) a meeting between the operator and REC General Manager has occurred, if requested by the operator.

Concessions Revenue

The operator would also pay the City a share of concessions revenue, including revenues from food and beverage, merchandise, practice and rentals, events, and percentage of lessons paid to the operator. Once the clubhouse reopens, the operator would pay the City 33 percent of concessions revenues in excess of $300,000 of the calendar year.[2]

Equipment Subsidy

The operator would pay the City an equipment subsidy annually for course maintenance once the clubhouse reopens. According to the proposed resolution, the subsidy would be $53,000 in the first year after reopening and would be adjusted annually by CPI.

Minimum Required Capital Improvements

To exercise the nine-year option to extend the lease, the operator would have to complete at least $2 million in capital improvements within three years of commencement of the lease. Improvements would address the irrigation system, which was installed in 1998 and frequently breaks according to REC staff, as well as drainage, pathways, and other course elements with changes approved by the REC General Manager. The tenant intends to raise private funds to pay for these improvements.

Sole Right to Provide Golf Instruction

The operator would have the sole right to provide golf instruction at the Golden Gate Park Golf Course. The operator must offer instruction to the general public at reasonable rates and provide reduced rates or scholarship programs to include economically disadvantaged youth in junior golf programs and camps.

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[1] In the first year, the operator would pay the City revenues received between $475,000 and $525,000 and half of all revenues in excess of $525,000.

[2] In the first year, the operator would pay the City 20 percent of concessions revenue above $650,000.

Maintenance

Under the proposed agreement, REC would provide 100 hours of weekly course maintenance labor, including two full-time gardeners (80 hours), one part-time Teamster (16 hours), and one part-time lead Agronomy manager (4 hours). This amount of time is covered by current budgeted staff. The agreement also specifies initial minimum maintenance standards for REC staff. For example, REC staff must mow tees and fairways two to three times per week. According to REC staff, weekly maintenance requirements in the agreement are subject to incidences of employee leave (vacation, sick, workers compensation, etc.) and subject to the City's applicable policies and procedures and the budget and fiscal provisions of the City Charter.

The agronomy manager is responsible for creating and implementing an annual maintenance plan in support of the minimum maintenance standards and must review the plan each calendar year with the operator.

Performance of the Golden Gate Park Golf Foundation

The existing lease does not have performance metrics. Director Ketcham reports that REC maintenance staff monitor operator performance through weekly site visits but do not formally document performance.

FISCAL IMPACT

Estimated Revenues

Over the most recent year of the existing lease (December 2021 to November 2022), residents and non-residents played a total of 40,134 rounds of golf, and the operator paid a total of $407,427 in rent and shared revenues to REC, including base rent ($242,476), greens fee revenue ($147,670), and concessions revenue ($17,280). Based on an estimated 40,000 rounds of golf, REC projects lease revenues of $484,200 in Year 2 of the proposed agreement once the clubhouse reopens, as shown in Exhibit 2 below.

Exhibit 2: Estimated REC Lease Revenues and Maintenance Costs in Year 2 after Reopening

	Year 2 (2024)
REC Revenues	
Annual Base Rent	$275,000
Equipment Subsidy	53,000
Greens Fee Revenue	110,000
Concessions Revenue	46,200
Total Revenue to RPD	**$484,200**
REC Expenditures [a]	
Salaries & Benefits	$455,196
Utilities	6,877
Non-Personnel Services	585
Materials & Supplies	41,000
Total Costs	**$503,659**
RPD Net (Cost)/Revenue	**($19,459)**

Source: REC

[a] Annual costs are based on FY 2022-23 projected costs, increased annually by 3%

Parks & Recreation Maintenance Costs

Approximately 90 percent of costs support salaries and benefits for 3.05 full-time equivalent (FTE) positions. Remaining maintenance costs include the cost of utilities, non-personnel services, and materials and supplies. Assuming an average increase of three percent per year in REC maintenance costs and estimated revenues shown in Exhibit 2 above, REC would incur a net loss of approximately $20,000 in Year 2 of the agreement and an estimated net loss of approximately $88,000 over the five-year period following clubhouse reopening with additional losses anticipated in Year 1 due to expected golf course closure during capital improvements. According to REC staff, using a non-profit to deliver services to Golden Gate Park golf course as well as REC's subsidy to operations allows the City to keep rates lower for residents and non-residents compared to private golf courses.[3] REC maintenance costs that exceed golf revenues are supported by the General Fund.

Golf Course Revenues & Expenditures

Based on projected revenues and operator expenses, the operator would generate $56,750 in net income after making payments to REC in Year 2 and a total of approximately $234,000 over the five-year period following clubhouse reopening with potential reduced net income or a net loss in Year 1 due to an expected golf course closure. However, the lease also requires the operator to make at least $2 million in capital improvements within three years of

[3] For example, weekday Golden Gate Park Gold Course green fees are $18 for adult residents, compared to $70 at the Presidio Golf Course, another public golf course. Rates for the Olympic Club, a private membership-only golf course, are not published.

commencement of the lease in order to be eligible for the lease extension. Exhibit 3 below shows operator net income in Year 2.

Exhibit 3: Golden Gate Park Golf Course Revenues & Expenditures in Year 2 after Reopening

	Year 2 (2024)
Revenue	
Greens Fee Revenue	820,000
Food & Beverage Revenue	240,000
Other Revenue	200,000
Total Revenue	**1,260,000**
Expenditures	
Cost of Goods Sold	123,750
Labor Expenses	455,080
Insurance Expenses	63,500
Other Expenses	76,720
Total Expenditures	**719,050**
Income Before Payments to REC	**540,950**
Payments to REC (Exhibit 2)	**$484,200**
Net Operator Income	**$56,750**

Source: REC

According to REC staff, the expenses for the golf course have increased due to additional staff and insurance costs. REC reports that the operator added 1.0 FTE staff to serve the new clubhouse when it opens, and the operator is increasing insurance coverage to reduce the possibility of losses in the event of another fire.

Operator labor expenses funded by the proposed agreement support approximately 6.92 FTEs annually, including 4.0 FTE full-time staff (General Manager, Clubhouse Manager, Chef, Kitchen staff) and 2.92 FTE part-time staff (additional Kitchen staff and Pro Shop staff). Part-time staffing levels are approximately 1.0 FTE higher in the Spring and Summer (April through October) compared to the Fall and Winter (November through March). The Operator is required to have the facility open 365 days per year from sunrise to sunset.

RECOMMENDATION

Approve the proposed resolution.

Item 4 **File 23-0065**	**Department:** Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize the Mayor's Office of Housing and Community Development (MOHCD) to spend $2 million from the SoMa Community Stabilization Fund.

Key Points

- Under the City's Planning Code, developers constructing new residential development in the Rincon Hill Downtown Residential District pay a SoMa Community Stabilization Fee to be used to mitigate the impacts of destabilization on residents and businesses in SoMa. MOHCD administers the Fund, and the Community Stabilization Fund Community Advisory Committee (CAC) advises on the use of funds, subject to Board of Supervisors' approval.
- In May 2022 and August 2022, MOHCD issued a Request for Proposals (RFP) for non-profit organizations to apply for funding from the SoMa Community Stabilization Fund and General Fund to fund capital projects of non-profits serving SoMA. An evaluation panel reviewed and scored the proposals and the CAC recommended funding four projects being undertaken by Kultivate Labs, United Playaz, and Renaissance Entrepreneurship Center. $884,530 will be provided to Kultivate Labs and Renaissance for tenant improvement projects. $1,115,470 of SoMA Community Stabilization funding will be provided to United Playaz to acquire and renovate a property at 1044 Howard Street.

Fiscal Impact

- The proposed resolution would authorize MOHCD to expend $2 million from the SoMa Community Stabilization Fund. After the grant expenditures, the fund balance will be reduced from $4.3 million to $2.3 million.

Recommendations

- Amend the proposed resolution to request a report from MOHCD no later than 30 days following the completion of the 1044 Howard Street acquisition that includes: (1) the appraised value of the 1044 Howard Site, (2) the final cost of purchase and amount of City funding, (3) confirmation that a Declaration of Restrictions has been recorded on the site restricting the property to community serving uses, and (4) an updated renovation pro-forma that includes a line-item account of all sources and uses.
- Approve the resolution, as amended.

MANDATE STATEMENT

In accordance with Planning Code Section 418.7, all funds in the South of Market Area (SoMa) Community Stabilization Fund are to be expended to address the effects of destabilization on residents and businesses in SOMA due to new residential development in the Rincon Hill Area. SoMa Community Stabilization Fund expenditures are administered by the Mayor's Office of Housing and Community Development (MOHCD), subject to approval by resolution of the Board of Supervisors.

BACKGROUND

SoMa Community Stabilization Fund

In August 2005, the Board of Supervisors approved a new Section 418 to the City Planning Code which, among other provisions, (a) established the Rincon Hill Downtown Residential District,[1] (b) imposed a Rincon Hill Community Infrastructure Impact Fee ($14.94 per gross square foot of new residential development in the District[2]), (c) created a Rincon Hill Community Improvement Fund for the deposit of the Rincon Hill Community Infrastructure Fees collected, (d) imposed a SoMa Community Stabilization Fee ($19.01 per gross square foot on new residential development within the District[2]), (e) created the SoMa Community Stabilization Fund for the deposit of SoMa Community Stabilization Fees collected, and (f) established a SoMa Community Stabilization Fund Community Advisory Committee (CAC) to advise the MOHCD and the Board of Supervisors on the uses of the SoMa Community Stabilization Fund (Ordinance 217-05).

The legislation specifies that all funds collected in the SoMa Community Stabilization Fund are to be used to mitigate the impacts of destabilization on residents and businesses in SoMa.

Legislative History

On May 6, 2008, the Board of Supervisors approved a resolution (File 08-0544): (a) approving the SoMa Community Stabilization Fund Strategic Plan, (b) authorizing MOHCD to administer the SoMa Community Stabilization Fund in accordance with this Strategic Plan, and (c) authorizing MOHCD to work with the SoMa Stabilization Fund Community Advisory Committee (CAC) to issue RFPs for non-profit agencies to provide services addressing the effects of destabilization on residents and businesses in SoMa, consistent with the Community Stabilization Fund Strategic Plan.

RFP Process

MOHCD completed two Requests for Proposals (RFP) to solicit grant proposals to fund capital project needs of non-profits in SoMA. In May 2022, MOHCD issued an RFP to allocate a grant of

[1] The Rincon Hill Downtown Residential District is defined as the area bounded by Folsom Street, the Bay Bridge, the Embarcadero, and Essex Street.

[2] San Francisco Citywide Development Impact Fee Register, effective January 1, 2022

up to $500,000 SoMA Community Stabilization Funds to improve a facility that provides business incubation services to SoMA businesses. Proposals were evaluated based on the following factors: Project Design (20 points), Target Population (15 points), Experience (10 points), Staffing (5 points), Advancing Racial Equity (10 points), Impact (10 points), Financial Condition (10 points), and Project Budget (20 points). Kultivate Labs was the only organization to submit a proposal and received an average score of 89 points.

In August 2022, MOCHD issued another RFP to allocation up to $1.5 million of SoMA Community Stabilization Funds and up to $2 million of General Fund monies to capital improvement projects that ensure safe environments for non-profit staff and clients. Proposals were evaluated based on the following factors: Project Design (20 points), Organizational Capacity (20 points), Advancing Racial Equity (10 points), Populations Served (15 points), Project Budget (20 points), and Matching Funds (15 points). Five organizations submitted proposals and the top three, Kultivate Labs (81 points), United Playaz (91 points), and Renaissance Entrepreneurship Center (89 points), were awarded grants.

Proposals from both RFPs were reviewed by a scoring panel that consisted of three reviewers from the MOHCD Capital Team. According to MOHCD, the CAC recommended funding for all four projects on October 20, 2022.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution authorizes MOHCD to spend $2 million from the SoMa Community Stabilization Fund.

Exhibit 1 below summarizes the projects and the grant awards for each. The General Fund portions of the award are included in MOHCD's FY 2022-23 – FY 2023-24 General Fund budget and do not require further Board of Supervisors' approval.

Exhibit 1: Proposed Allocations for Capital Projects

Organization	Project	SOMA Community Stabilization Amount	General Fund Amount	Total City Funding
Kultivate Labs	Design of tenant improvements to the organization's business incubator site to improve the space for its uses as a retail space, art gallery and café.	500,000	n/a	500,000
Kultivate Labs	Electrical, safety and operational upgrades to the organization's outdoor community space, Kapwa Gardens	200,000	n/a	200,000
United Playaz	Acquisition of a new community facility at 1044 Howard expanding program needs	1,115,470	2,000,000	3,115,470
Renaissance Entrepreneurship Center	Fire and Safety and accessibility compliance upgrades to the organization's existing building	184,530	n/a	184,530
Total Allocation from Proposed Resolution		**2,000,000**		

Source: MOHCD

As shown above, $1,115,470 of the proposed $2,000,000 of SoMA Community Stabilization Funds will go to United Playaz to partially fund their acquisition of a space at 1044 Howard Street. MOHCD also intends to award the organization $2 million in General Funds for acquisition and renovation costs. According to Claudine Del Rosario, Senior Community Development Specialist at MOHCD, the building is adjacent to the United Playaz existing facility at 1038 Howard Street, for which SoMA Community Stabilization Funds were used to purchase. United Playaz provides violence prevention and youth development services. This project will allow the non-profit to expand their family literacy and adult re-entry program.[3]

According to MOHCD, the expected cost of the purchase is $2.16 million and United Playaz has identified matching funds to cover the remaining costs of the purchase and renovation. The renovation budget, which include adding space to the existing site, is currently estimated to be $10 million. Acquisition is expected to be completed in June 2023 and construction is expected to be complete in 2024.

[3] United Playaz was assessed by the Controller’s Citywide Non-Profit Monitoring Program in FY 2021-22. The assessment contained no findings.

MOHCD reports that an appraisal to support the cost of the purchase will be completed prior to the City disbursing the acquisition funds. Other documentation supporting the cost of the purchase and renovation was not available for our review.

We recommend the proposed resolution be amended to request a report from MOHCD no later than 30 days following the completion of the 1044 Howard Street acquisition that includes: (1) the appraised value of the 1044 Howard Site, (2) the final cost of purchase and amount of City funding, (3) confirmation that a Declaration of Restrictions has been recorded on the site restricting the property to community serving uses, and (4) an updated renovation pro-forma that includes a line-item account of all sources and uses.

FISCAL IMPACT

Exhibit 2 below summarizes the current and projected balance of the SoMa Community Stabilization Fund if the proposed spending resolution is approved.

Exhibit 2: SoMa Community Stabilization Fund, Current and Projected Balance

	Amount
Unallocated Balance as of January 2023	$4,276,150
Proposed Resolution	(2,000,000)
Remaining Balance	**$2,276,150**

Source: MOHCD

As shown above, if the proposed resolution is approved, the SoMa Community Stabilization Fund balance will be reduced from $4.3 million to $2.3 million.

RECOMMENDATIONS

1. Amend the proposed resolution to request a report from MOHCD no later than 30 days following the completion of the 1044 Howard Street acquisition that includes: (1) the appraised value of the 1044 Howard Site, (2) the final cost of purchase and amount of City funding, (3) confirmation that a Declaration of Restrictions has been recorded on the site restricting the property to community serving uses, and (4) an updated renovation pro-forma that includes a line-item account of all sources and uses.
2. Approve the resolution, as amended.

Item 6 File 23-0063	Department: Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a ground lease with The Kelsey Civic Center, L.P. for a term of 75 years, with a 24-year option to extend and an annual base rent of $15,000 in order to construct affordable housing; and approve a not-to-exceed $24,684,459 amended and restated loan agreement for a term of 57 years between the City and The Kelsey Civic Center, L.P.

Key Points

- The Kelsey Civic Center Project (Project) will be an eight-story building with 112 units built on three combined City-owned lots on Van Ness Avenue, bordered by Grove Street and Dr. Tom Waddell Place, now known as 240 Van Ness Avenue. Of the 112 units, 28 units will be reserved for people with disabilities who receive home and community-based services with incomes between 20 percent and 30 percent of area median income (AMI), 82 units will be for households with incomes between 50 percent and 80 percent AMI, and two will be units for on-site staff.
- In 2019, the City selected The Kelsey, a non-profit focused on inclusion and access for people with disabilities, and Mercy Housing California to develop the Project through C40 Reinventing Cities, an international design competition run through the Real Estate Division.
- In March 2021, the Board of Supervisors approved a land exchange with a private property owner to allow the Project to be built in an "L" shape, rather than a less efficient "T" shape, resulting in cost savings to the Project.
- The proposed ground lease is for a term of 75 years with an option to extend for an additional 24 years and restricts the lessee to operating the housing development as affordable housing only.

Fiscal Impact

- Total development costs for the 112 housing units are $88.5 million or $790,392 per unit. The City's total subsidy is $24.7 million, or $220,397 per unit.
- Sources of the loan include the Housing Trust Fund, Affordable Housing Fund Inclusionary Fees, and Affordable Housing Fund Jobs Housing Linkage Fees.
- The proposed ground lease includes a base rent of $15,000 per year plus residual rent if there are sufficient net operating revenues. However, the Project is not expected to generate sufficient net revenues to make residual rent payments under the ground lease.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

Administrative Code Section 23.30 states that the Board of Supervisors shall approve all leases on behalf of the City as landlord by resolution for which the term is longer than a year and costs over $15,000 per month. Leases of City property that require Board of Supervisors approval may be less than market rate if the Board of Supervisors finds that doing so would serve a public purpose.

BACKGROUND

Kelsey Civic Center Project

The Kelsey Civic Center Project (Project) will be an eight-story building with 112 units built on three combined City-owned lots on Van Ness Avenue, bordered by Grove Street and Dr. Tom Waddell Place, now known as 240 Van Ness Avenue. The 112 units include 80 studios and 32 two-bedroom units, including two on-site staff units. Of the 110 affordable units, 28 units will be reserved for people with disabilities who receive home and community-based services through In-Home Supportive Services (IHSS) with incomes between 20 percent and 30 percent of area median income (AMI) and 82 units will be for households with incomes between 50 percent and 80 percent AMI.[1] The project also includes a Disability Community Cultural Center (DCCC), which is being developed in partnership with the Department of Disability and Aging Services (DAS), to be located on the ground floor.[2] Construction is expected to be complete by November 2024 and the building will be fully occupied by April 2025.

Developer Selection & Predevelopment Funding

The City offered the project site, consisting of underutilized, irregular-shaped parcels, for disposition through C40[3] Reinventing Cities, an international design competition. The competition was run through the Real Estate Division with support from the Department of

[1] According to the December 2022 MOHCD loan evaluation memo (MOHCD loan evaluation) for the proposed gap loan, there is insufficient independent living options for individuals with disabilities according to research conducted by the Kelsey, and MOHCD's 2020-2024 Consolidated Plan identified households with physical and developmental disabilities as at the most vulnerable end of the housing spectrum.

[2] DAS will lease the space from The Kelsey for the DCCC according to terms established in a Letter of Intent (LOI) between The Kelsey and DAS, and a community-based provider will operate the space. In Fall 2022, DAS issued an Request for Proposal (RFP) to select a provider but plans to reissue in early 2023 because there was only one respondent to the RFP according to the MOHCD loan evaluation memo for the proposed gap loan.

[3] C40 is an organization representing more than 90 cities focused on addressing climate change.

Environment. In 2019, the City selected The Kelsey, a non-profit focused on inclusion and access for people with disabilities, and Mercy Housing California as the best all-around applicant out of 10 development teams participating in the competition. In 2019, the Board approved an Exclusive Negotiating Agreement with Mercy Housing California for a future ground lease at the proposed project site (File 19-1111).

Land Exchange to Form Developable Parcel

The project site consists of three City-owned parcels, including 155 Grove Street, 165 Grove Street, and 240 Van Ness Avenue. The Project sponsor facilitated an agreement between the Real Estate Division and owners of 234 Van Ness to exchange a portion of the City-owned parcel located at 240 Van Ness Avenue for the entirety of the privately-owned parcel located at 234 Van Ness Avenue.[4] The exchange will allow the Project to be built in an "L" shape, rather than a less efficient "T" shape, resulting in cost-savings to the Project. The Board of Supervisors approved the land exchange in March 2021 (File 21-0118), and the land exchange was completed in October 2022.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would:

1) approve a ground lease with The Kelsey Civic Center, L.P. for a term of 75 years, with a 24-year option to extend and an annual base rent of $15,000 in order to construct affordable housing;
2) approve a not-to-exceed $24,684,459 amended and restated loan agreement for a term of 57 years between the City and The Kelsey Civic Center, L.P.;
3) find that the property is exempt from the California Surplus Lands Act because it is being developed as affordable housing;
4) determine that the below market rate rent of the ground lease serves a public purpose by providing affordable housing for low-income households in need;
5) find that the loan and ground lease are consistent with the City's General Plan and policy priorities in the Planning Code;
6) authorize the Director of Property to execute the Ground Lease and the Director of MOHCD to execute the Loan Agreement; and

[4] Prior to the land exchange, 234 Van Ness Avenue was a commercial building with two commercial office tenants according to the MOHCD loan evaluation memo for the proposed gap loan. The commercial building (and two other buildings on the Project site) were demolished in early 2022, and the two tenants were offered relocation benefits in conformance with State law.

7) authorize and Director of Property and the Director of MOHCD to amend the Ground Lease and Loan Agreement, respectively, provided amendments do not increase the obligations or liabilities to the City.

Ground Lease & Affordability Restrictions

The proposed ground lease is for a term of 75 years with an option to extend for an additional 24 years and restricts the lessee to operating the housing development as affordable housing only. The ground lease includes a base rent of $15,000 per year, plus residual rent up to 10 percent of the site's appraised value, which will be paid by residual receipts – that is, up to two-thirds of net income after operating costs, ground lease base rent, and replenishing operating reserves, consistent with MOHCD's Residual Receipts policy.

Affordability restrictions to preserve the affordability of the housing units in the proposed development are included in the loan agreement between the City and the affordable housing operator and a declaration of restrictions. These agreements specify the affordability levels for each unit and require the non-profit housing operator to maintain these for the duration of the agreements unless agreed to by the City. Of the 28 units reserved for people with disabilities, 14 will be set aside for people who are eligible for the U.S. Department of Housing and Urban Development (HUD) Section 811 Public Rental Assistance (PRA) Program.[5] According to a Memorandum of Understanding between the project sponsor and the Golden Gate Regional Center (GGCR), referrals for Section 811 units will come from the GGRC.[6] The remaining 14 units reserved for people with disabilities will be entered into the San Francisco DAHLIA lottery.

Loan Agreement

The original loan agreement provided by MOHCD in 2021 was for $2 million for predevelopment costs. MOHCD proposes to amend the loan agreement to increase the loan amount by $22.7 million to complete development and construction, including permanent financing. Under the proposed amended loan agreement, the total loan amount to The Kelsey Civic Center, L.P. would increase up to $24,684,459.

The Kelsey Civic Center, L.P. must repay the loan by the later of: (a) the 57th anniversary date of the deed of trust or (b) the 55th anniversary of the date on which construction financing is converted into permanent financing. Simple interest will accrue to the loan principal balance at a rate of three percent per year according to the Amended and Restated Secured Promissory Note.

[5] The HUD Section 811 PRA Program provides project-based rental assistance for extremely low-income (at or below 30% AMI) people with disabilities who are eligible for community-based long-term services. According to program eligibility requirements, no more than 25% of the total units in eligible multifamily projects can have occupancy preference for persons with disabilities to ensure community integration of PRA units. For the Kelsey Project, 28 of the 112 units (25%) are reserved for people with disabilities.

[6] The GGRC is a nonprofit organization that serves individuals with developmental disabilities in San Francisco, Marin, and San Mateo counties.

Bridge Loan

Under the proposed loan agreement, $1 million of the funding provided by the City is a bridge loan, pending receipt of expected loan funds from the Federal Home Loan Bank Affordable Housing Loan Program (AHP). The sponsors will apply for a AHP loan in calendar year 2023 according to MOHCD.

Sponsor Performance

The Kelsey is a newly formed organization and has not developed or managed an affordable housing project in San Francisco. There are no performance or fiscal reviews of the organization on file with the City. The Kelsey brings experience working with people with disabilities and supporting other disability organizations to develop inclusive and accessible affordable housing.

Co-sponsor Mercy has been developing and managing affordable housing in San Francisco for over 30 years according to the MOHCD loan evaluation. According to MOHCD, Mercy has no outstanding performance issues. In addition, results from the City's fiscal and compliance monitoring of Mercy Housing in December 2021 identified no findings according to MOHCD.

FISCAL IMPACT

Total Development Costs

The total development cost for the 112 units of housing is $88.5 million, as shown in Exhibit 1 below. Of the approximate $88.5 million, $25.6 million (28.9%) are City funds (including $868,044 in accrued deferred interest), $57.3 million (64.8%) are State funds, and $5.6 million (6.4%) are private funds.

Exhibit 1: Total Development Sources and Uses of Funds

	City	State	Private	Total
Sources				
MOHCD Loans	$24,684,459			$24,684,459
Affordable Housing & Sustainable Communities (AHSC) Loan		20,000,000		20,000,000
HCD Accelerator Loan		37,334,401		37,334,401
Sponsor Loan			2,942,391	2,942,391
Golden Gate Regional Center Loan			1,000,000	1,000,000
Permanent Loan			1,551,000	1,551,000
Accrued Deferred Interest	868,044		143,559	1,011,603
Total Sources	**$25,552,503**	**$57,334,401**	**$5,636,950**	**$88,523,854**
Uses				
Acquisition	24,590			24,590
Hard Costs	5,156,441	57,334,401	5,493,391	67,984,233
Soft Costs	16,360,569			16,360,569
Accrued Deferred Interest	868,044		143,559	1,011,603
Reserves	978,940			978,940
Developer Fees	2,163,919			2,163,919
Total Uses	**$25,552,503**	**$57,334,401**	**$5,636,950**	**$88,523,854**

Source: MOHCD

The development budget shown above does not include costs associated with the creation of a shell of commercial space for the Disability Community Cultural Center. These costs are being funded by an additional loan of $1,357,609 from the Project Sponsor.

Companion resolutions subject to Board of Supervisors' approval would allow MOHCD to execute standard agreements with the California Department of Housing and Community Development (HCD) for the following loan awards for the construction of the Kelsey Project (also shown in Exhibit 1 above):

- HCD Accelerator loan totaling $37,334,401 (File 23-0060)
- Affordable Housing & Sustainable Communities (AHSC) loan totaling $20,000,000 (File 23-0064)

Funding Sources for City Loan

Sources of funds for the proposed amended and restated loan of up to $24,684,459 include:

- $10,000,000 in Housing Trust Fund funds;[7]
- $8,000,000 in Affordable Housing Fund Inclusionary Fees, paid by developers of market rate housing, including $2,000,000 for predevelopment costs; and

[7] In November 2012, San Francisco voters approved Proposition C which established the Housing Trust Fund and requires annual appropriation of General Fund revenues to the fund.

- $6,684,459 in Affordable Housing Fund Jobs Housing Linkage Fees, paid by developers of new commercial space.

The City's Subsidy per Housing Unit

Total development costs are $88.5 million or $790,392 per unit. The City's total subsidy for the housing development costs is $24.7 million, or $220,397 per unit, as shown in Exhibit 2 below.

Exhibit 2: City Subsidy for Affordable Housing Units

Number of Units	112
Total residential area (sq. ft.)	85,763
Development Cost	$88,523,854
Total City subsidy	$24,684,459
Development cost per unit	$790,392
City Subsidy per unit	$220,397
City Subsidy per sq. ft.	$288

Source: MOHCD

According to the December 2022 MOHCD loan evaluation memo for the proposed gap loan, construction costs per square foot for the Kelsey Project ($794) are 28 percent higher than comparable projects due to: (a) higher inflation and escalation and supply-chain increases compared to prior projects; and (b) the cost of special design features to incorporate the building visually within the Civic Center Historic District and neighboring City Hall.

Operating Revenues and Expenses

According to the 20-year cash flow analysis for the Kelsey Civic Center Project, the project will have sufficient revenues to cover operating expenses, operating reserves, first mortgage loan payments, and management fees. Project revenues consist of tenant rents and HUD Section 811 PRA Program funding. A portion of net income after operating expenses (residual receipts) will be used to repay the MOHCD and California Department of Housing and Community Development AHSC loans. The Project is not expected to generate sufficient net revenues to make residual rent payments under the proposed Ground Lease.

Operating expenses include some on-site supportive service costs (such as service coordination and housing navigation) for residents with disabilities, but residents with disabilities will continue to receive domestic services (such as grocery shopping and laundry) and transportation to medical and dental appointments through IHSS.

RECOMMENDATION

Approve the proposed resolution.

Item 9 **File 23-0062**	**Department:** Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a not-to-exceed $31,506,016 amended and restated loan agreement for a term of 57 years between the City and Sunnydale Block 3B Housing Partners, L.P. to construct Sunnydale Block 3B, a 90-unit affordable housing project.

Key Points

- Sunnydale HOPE SF is a 50-acre site that will provide 1,705 units of housing by replacing the 775 units of public housing on the site, adding approximately 200 affordable residential units (up to 60 percent AMI), and developing up to 730 market rate units. Mercy Housing California (Mercy) and The Related Companies of California (Related) were selected to co-develop the site through a competitive process.
- Sunnydale Block 3B is a proposed 90-unit affordable housing development within Phase 1A3, located at 1555 Sunnydale Avenue. The 90 units include 67 units of replacement units for current Sunnydale public housing residents, 22 additional affordable units, and one manager's unit. The units include four studios, 24 one-bedrooms, 36 two-bedrooms, and 26 three-bedrooms.

Fiscal Impact

- Excluding infrastructure costs, total development costs are $99.5 million or approximately $1.1 million per unit. The City's total subsidy for the housing development costs is $31.5 million, or $350,067 per unit.
- Sources of the loan include: 2019 General Obligation Bonds, HOME Investment Partnership Program funds, the HOPE SF General Fund, the Low and Moderate Income Housing Asset Fund, 2015 General Obligation Bonds, and the 75 Howard Gift Fund.

Policy Consideration

- A December 2019 MOHCD report noted that high costs to develop affordable housing are driven by design requirements and construction and material cost escalations that exceeded inflation. Since that report the City has experimented with modular building construction for three permanent supportive housing projects as well as process improvements, such as clarifying code requirements for kitchens and bathrooms through administrative bulletins, to help contain costs.

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

Sunnydale HOPE SF History

In 2007, the San Francisco Housing Authority, in partnership with the Mayor's Office of Housing and Community Development (MOHCD), launched the HOPE SF initiative to revitalize the City's most distressed public housing sites into mixed-income communities comprised of affordable housing, including replacement units for existing public housing and new affordable units, and production of market rate housing. Sunnydale is the largest of the four HOPE SF sites undergoing revitalization as part of the HOPE SF initiative. Sunnydale is located in the Visitacion Valley Neighborhood and was comprised of 775 units of public housing across 50 acres.

In 2007, the San Francisco Housing Authority and HOPE SF released a request for qualifications to develop the four large-scale target sites. The San Francisco Housing Authority selected Mercy Housing California (Mercy) and The Related Companies of California (Related), as co-developers for the Sunnydale development. Mercy and Related established a separate entity named Sunnydale Development Co., LLC (Developer) to plan and develop the project.

Development Agreement and Master Development Agreement

In January 2017, the Board of Supervisors approved a development agreement (File 16-1164) and a master development agreement (File 16-1356) between the City, the San Francisco Housing Authority, and Sunnydale Development Co., LLC, to facilitate the development of the project. The development agreement included the phasing plan and master infrastructure plan for the master development. The proposed Sunnydale development will provide 1,705 units of housing by replacing the 775 units of public housing on the site, adding approximately 200 affordable residential units (up to 60 percent AMI), and developing up to 730 market rate units. The master plan also includes developing new street and utility infrastructure, 3.6 acres of new open spaces, and an estimated 60,000 square feet of new neighborhood space.

The Sunnydale HOPE SF project is being developed across three main phases over 25 years. According to MOHCD staff, the affordable parcels are expected to be completed in 2033, subject to financing availability, compared to estimated completion in 2030 under the original schedule. To date the City has provided $9.8 million for master planning and $92.0 million for vertical and horizontal development. Sunnydale Block 3B will be the third affordable housing project to begin construction, and Sunnydale Block 3A is expected to begin construction shortly after.[1] Phase 1A3 infrastructure, which includes Blocks 3A and 3B and Community Building Block 1, began construction in May 2022 and is anticipated to reach substantial completion in summer 2023.

Sunnydale Block 3B

Sunnydale Block 3B is a proposed 90-unit affordable housing development within Phase 1A3, located at 1555 Sunnydale Avenue. The 90 units include 67 units of replacement units for current Sunnydale public housing residents, 22 additional affordable units, and one manager's unit. The units include four studios, 24 one-bedrooms, 36 two-bedrooms, and 26 three-bedrooms.

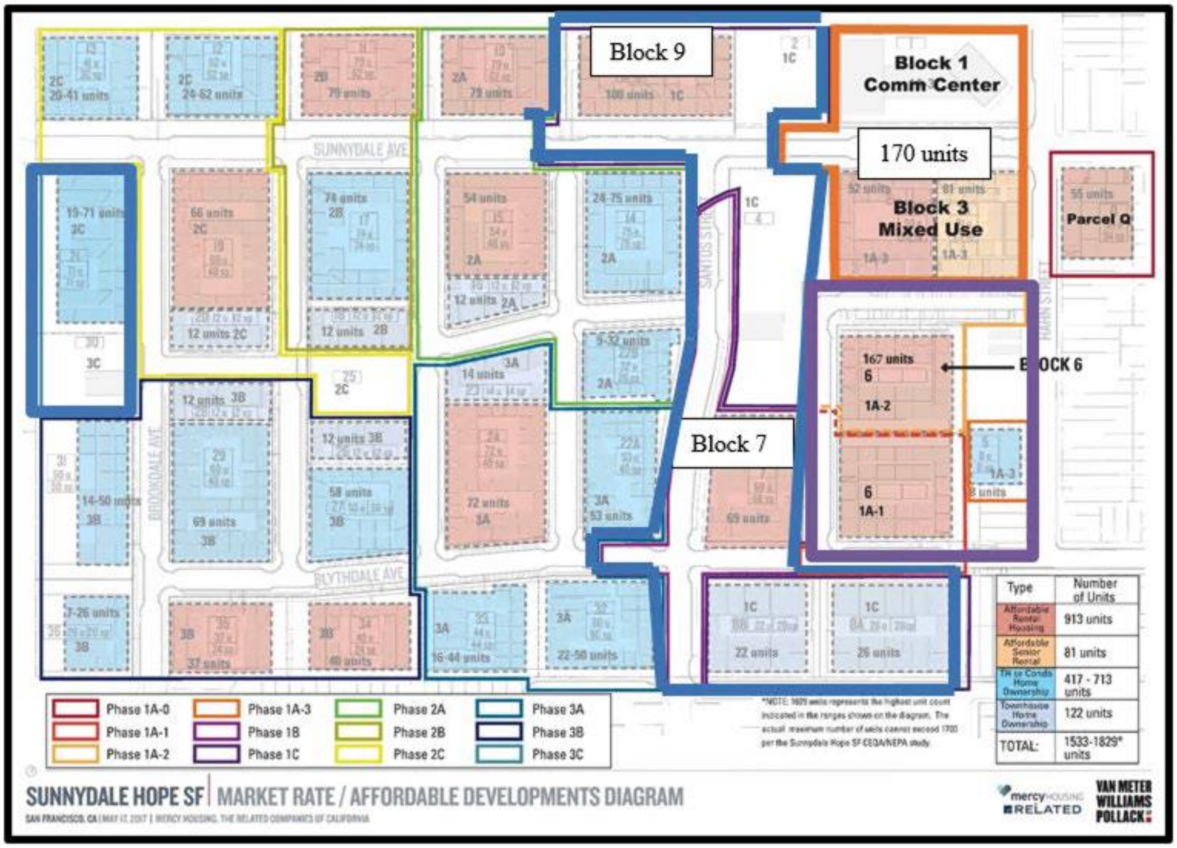
The project will also include approximately 3,775 square feet of community serving retail space to provide opportunities for local businesses, including micro-retail spaces and medium-sized enterprises. The project will share an underground parking garage with Sunnydale Block 3A.

Construction for Block 3B is scheduled to start in March 2023 and to be completed in January 2025. Construction for neighboring Block 3A is scheduled to begin in May 2023.[2] Sunnydale Blocks 3A and 3B are shown within Phase 1A3 as "Block 3" in Exhibit 1 below. Exhibit 2 shows Blocks 3A and 3B in greater detail.

[1] The first Sunnydale Hope SF development was Parcel Q, also known as Casala, and the second development was Block 6, also known as 290 Malosi.

[2] According to MOHCD staff, MOHCD is still finalizing permanent financing for Block 3A and expects to bring a gap loan request to the Board of Supervisors in April 2023.

Exhibit 1: Sunnydale HOPE SF Project Phases



Source: MOHCD

Exhibit 2: Sunnydale HOPE SF Blocks 3A and 3B

Source: MOHCD

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would:

1) approve a not-to-exceed $31,506,016 amended and restated loan agreement for a term of 57 years between the City and Sunnydale Block 3B Housing Partners, L.P.[3] to construct Sunnydale Block 3B, a 90-unit affordable housing project;

[3] The Developer established Sunnydale Block 3B Housing Partners, L.P., a separate entity, to develop Block 3B.

2) find that the loan agreement is consistent with the Mitigation Monitoring and reporting Program under the California Environmental Quality Act, as well as the City's General Plan and policy priorities in the Planning Code;
3) authorize the Director of MOHCD to amend the Loan Agreement, provided amendments do not increase the obligations or liabilities to the City.

Loan Agreement

The original loan agreement provided by MOHCD in 2020 was for $1,850,000 for predevelopment costs. MOHCD proposes to amend the loan agreement to increase the loan amount by $29.7 million to complete development and construction, including permanent financing. Under the proposed amended loan agreement, the total loan amount to Sunnydale Block 3B Housing Partners, L.P. would increase to a not-to-exceed $31,506,016.

Sunnydale Block 3B Housing Partners, L.P. must repay the loan by the later of: (a) the 57^{th} anniversary date of the recordation of the deed of trust or (b) the 55^{th} anniversary of the date on which construction financing is converted into permanent financing. Simple interest will accrue to the loan principal balance at a rate of three percent per year.

Affordability Restrictions

The proposed loan agreement includes affordability restrictions to preserve the affordability of the housing units in the proposed development. The agreement specifies the affordability levels for each unit and requires the non-profit housing operator to maintain these for the duration of the agreements unless agreed to by the City. Of the 90 units, the 67 public housing replacement units are reserved for tenants holding U.S. Department of Housing and Urban Development (HUD) Section 8 vouchers.

Sponsor Performance

According to MOHCD, Mercy, the lead service provider for Block 3B, has no outstanding performance issues, and results from the City's fiscal and compliance monitoring of Mercy Housing in December 2021 identified no findings.

FISCAL IMPACT

Total Development Costs

The total development cost for the 90 units of housing is $106.0 million, as shown in Exhibit 1 below. Of the approximate $106.0 million in costs, $33.1 million (31.2%) are supported by City funds (including $1,554,871 in accrued deferred interest), $54.3 million (51.2%) are supported by State funds, and $18.7 million (17.6%) are supported by private funds.

Exhibit 1: Total Development Sources and Uses of Funds

	City	State	Private	Total
Sources				
MOHCD Loans	$31,506,016			$31,506,016
Infill Infrastructure Grant (IIG)		6,500,000		6,500,000
HCD Accelerator Loan		47,814,455		47,814,455
Permanent Loan			18,673,294	18,673,294
Accrued Deferred Interest	1,554,871			1,554,871
Total Sources	**$33,060,887**	**$54,314,455**	**$18,673,294**	**$106,048,636**
Uses				0
Acquisition	10,001			10,001
Hard Costs	19,077,295	54,314,455	9,876,347	83,268,097
Soft Costs	8,638,467		8,796,947	17,435,414
Accrued Deferred Interest	1,554,871			1,554,871
Reserves	1,580,253			1,580,253
Developer Fees	2,200,000			2,200,000
Total Uses	**$33,060,887**	**$54,314,455**	**$18,673,294**	**$106,048,636**

Source: MOHCD

Companion resolutions subject to Board of Supervisors' approval would allow MOHCD to execute standard agreements with the California Department of Housing and Community Development (HCD) for the following loan and grant awards for the construction of Sunnydale Block 3B (also shown in Exhibit 1 above):

- HCD Accelerator loan totaling $47,814,455 (File 23-0059); and
- Infill Infrastructure Grant (IIG) totaling $6,500,000 (File 23-0061). This grant will be used to repay part of MOHCD's Sunnydale Phase 1A3 infrastructure loan.

Funding Sources for City Loan

Sources of funds for the proposed amended and restated loan of $31,506,016 include:

- $20,933,311 in 2019 General Obligation Bond Funds;[4]
- $3,650,000 in HOME Investment Partnership Program funds provided by HUD to increase the housing stock for low- and very low-income persons;
- $2,833,942 in HOPE SF General Fund funds;[5]

[4] In November 2019, San Francisco voters approved Proposition A, which provided for the issuance of up to $600 million in general obligation funds to finance the acquisition, rehabilitation, and construction of affordable housing.

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

- $2,238,763 in Low and Moderate Income Housing Asset Fund funds;[6]
- $1,800,000 in 2015 General Obligation Bond Funds for predevelopment costs;[7] and
- $50,000 in 75 Howard Gift Fund funds for predevelopment costs.[8]

The City's Subsidy per Housing Unit

Excluding the IIG grant, which will repay part of MOHCD's infrastructure loan, total development costs are $99.5 million or approximately $1.1 million per unit. The City's total subsidy for the housing development costs is $31.5 million, or $350,067 per unit, as shown in Exhibit 2 below. The City funding shown below also includes $3.0 million in funding for development of the commercial space (discussed below).

Exhibit 2: City Subsidy for Affordable Housing Units

Number of Units	90
Total residential area (sq. ft.)	119,195
Development Cost (excluding infrastructure)	$99,548,636
Total City subsidy	$31,506,016
Development cost per unit	$1,106,096
City Subsidy per unit	$350,067
City Subsidy per sq. ft.	$890

Source: MOHCD

Cost Comparison to Similar Projects

According to a cost comparison of new affordable multifamily housing projects in the MOHCD loan evaluation of the proposed gap loan, the total development cost per unit is 27 percent above average compared to similar projects. The total development cost per unit for Sunnydale Block 3B is $1,106,096 compared to $870,012 for similar projects. Projects included in the comparison are similar projects in size, unit count, target population, and construction type. Comparison projects also include other HOPE SF projects.

According to the MOHCD loan evaluation, Sunnydale Block 3B's construction costs in particular are above average due to:

[6] Upon dissolution of state redevelopment agencies, MOHCD (as the Successor Housing Agency) created the Low and Moderate Income Housing Asset Fund to collect proceeds from former redevelopment agency housing assets transferred to the City.

[7] In November 2015, San Francisco voters approved Proposition A, which provided for the issuance of up to $310 million in general obligation funds to finance the acquisition, rehabilitation, and construction of affordable housing.

[8] In 2017, the Board of Supervisors authorized MOHCD to accept and expend a gift of $6,010,047 from RDF 75 Howard LP, the developer of a residential project located at 75 Howard Street, to the Citywide Affordable Housing Fund (File 16-1073).

- A higher parking ratio (0.75 parking spaces per unit) compared to other projects (0.5 parking spaces per unit on average). Block 3B houses parking for both Block 3A and Block 3B, and Block 3B's total development costs include $4.5 million for Block 3B's portion of the parking garage.[9]
- HOPE SF projects are required to provide In-unit laundry hookups for three- and four-bedroom units, which is not a requirement for most other affordable housing projects.
- Cost estimates are higher than previously anticipated due to inflation and construction escalation. Since March 2022, hard costs have increased by nearly $5 million due to inflation according to MOHCD.
- Anticipated delays to Block 3B construction from relocating power poles along Block 3A on Hahn Street.
- Higher general conditions and overhead costs from potential delays in Block 3A's construction loan which impacts Block 3B's construction schedule.
- The cost of temporary generators ($1.2 million) to provide power to the project during construction activities, as the project may not be able to acquire temporary power from local utilities in time.

Operating Revenues and Expenses

According to the 20-year cash flow analysis for Sunnydale Block 3B, the project will have sufficient revenues to cover operating expenses, operating reserves, construction loan payments, and management fees. Project revenues consist of tenant rents and HUD Project Based Section 8 rental subsidies for 67 units. Total operating expenses for the project include ground lease base rent payments to the San Francisco Housing Authority. A portion of net income after operating expenses (residual receipts) will be used to repay the prosed MOHCD loan.

Commercial Space

The proposed loan will also fund construction of warm and cold shell[10] for 3,775 square feet of commercial space, as well as an allowance for tenant improvements and replacement and operating reserves for a total estimated cost of $3.0 million. The commercial space will be divided into seven spaces, including six smaller spaces between 412 and 694 square feet and one larger space of 955 square feet. The San Francisco Housing Authority will master lease the commercial spaces to Mercy, and Mercy will sublease the spaces to individual commercial tenants. According to the commercial pro-forma provided by MOHCD, the commercial space is not expected to contribute revenue to the residential operating budget. According to Section 7.8 of the proposed loan, leases of commercial space may be for for-profit, at market rate, or community serving purposes, at below market rate. Surplus cash generated from market-rate leases will accrue to MOHCD per the Residual Receipts policy and be used for the public benefit.

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[9] MOHCD intends to fund Block 3A's portion of the costs with an increased predevelopment loan, which will be included in the final gap loan for Block 3A, subject to Board of Supervisors' approval.

[10] A cold shell is a building without heating and plumbing. A warm shell is a building that contains those elements.

MOHCD does not normally provide funding for tenant improvements but plans to provide a total allowance of $281,275 for tenant improvements for Block 3B. The sponsor requested this allowance to facilitate leasing to local, small business owners who may not be able to cover the costs of tenant improvements. According to the MOHCD loan evaluation, MOHCD is working with OEWD to identify local tenants to occupy the spaces and to identify other sources of funding for tenant improvements. Any additional funds secured for tenant improvements would be used to reduce MOHCD's gap loan.

POLICY CONSIDERATION

As discussed above, the total development costs for Sunnydale Block 3B are approximately $1.1 million per unit. In a prior round of financing for Block 6 of the Sunnydale project, we noted that total development costs were high at $890,333 per unit (File 19-0908). At the recommendation of the Budget & Legislative Analyst, the resolution approving that loan agreement was amended to request a report from MOHCD detailing efforts to contain affordable housing development costs. That December 2019 report noted that these costs are driven by design requirements and construction and material cost escalations that exceeded inflation. The report also stated that MOHCD would enter into a Memorandum of Understanding with the Mayor's Office of Disability (MOD) "on standardized practices and clarifying code requirements for kitchens and bathrooms through administrative bulletins." According to MOHCD staff, MOHCD and MOD have not entered into a Memorandum of Understanding, but the two offices have collaborated to improve processes and code requirements to address MOD's accessibility rules while containing costs, resulting in the issuance of a series of administrative bulletins clarifying code requirements for kitchen storage, cabinets, bathroom fixtures, and doorways in October 2020. MOHCD reports that the bulletins provide efficiencies in project design and prevent changes during the development process that can lead to delays and extra costs.

In addition, the 2019 MOHCD report noted that three permanent supportive housing projects were expected to be built in 2020 using modular building methods, which may reduce the time and cost of these projects.[11] Actual results from the three modular housing projects have since shown total development costs of between $401,157 and $706,438 per unit at permanent financing, however two of the projects consisted of smaller units (studio apartments) than Sunnydale and did not have the same parking requirements.

RECOMMENDATION

Approve the proposed resolution.

[11] The three projects are: 1064 Mission Street ($401,157 per unit), Mission Bay South Block 9 ($577,018 per unit), and Maceo May Apartments ($706,438 per unit, per-storm damage).