

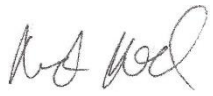
**CITY AND COUNTY OF SAN FRANCISCO**

**BOARD OF SUPERVISORS**

**BUDGET AND LEGISLATIVE ANALYST**

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September 8, 2023

**TO:** Budget and Finance Committee  
**FROM:** Budget and Legislative Analyst   
**SUBJECT:** September 13, 2023 Budget and Finance Committee Meeting

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<b>Item 1</b> <b>File 23-0879</b>	<b>Department:</b> Office of Economic and Workforce Development, Real Estate Division
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**EXECUTIVE SUMMARY**

**Legislative Objectives**

- The proposed resolution would approve the first amendment to the amended and restated lease with the San Francisco Market Corporation for the San Francisco Wholesale Produce Market to establish the terms for disbursement of \$3.0 million in previously allocated City funds to the reinvestment project.

**Key Points**

- The San Francisco Wholesale Produce Market is located on 23 acres of City-owned land in the Bayview. In July 2012, the Board of Supervisors approved a 60-year ground lease with the San Francisco Market Corporation that provided for a phased development that replaces four existing warehouses and improves the surrounding public streets. The Market subleases warehouse space to wholesale produce businesses and net rental revenues are dedicated to fund the capital improvements. Once the project is complete, rent will be paid to the City.
- In September 2022, the Board of Supervisors approved an amended and restated lease for the Market. Objectives of the lease amendment were to: (a) allow the San Francisco Market Corporation to obtain conventional mortgage financing for the project; and (b) change the schedule of performance.
- The proposed amended lease provides for disbursement of \$3.0 million in City funds, including \$1,810,000 to fund street, marshalling yard, and sidewalk improvements between the four warehouse buildings and \$1,190,000 to fund predevelopment and design work associated with construction of a new 70,000 square foot warehouse at 1900 Kirkwood Avenue, the first of the four warehouses on the Main Site to be constructed.
- Future financing actions (i.e., obtaining commercial debt to finance construction of warehouses), will require entering into separate parcel leases, which are subject to Board of Supervisors’ approval.

**Fiscal Impact**

- City funding comes from a \$3.0 million allocation of FY 2021-22 Certificates of Participation, previously approved by the Board of Supervisors.

**Recommendation**

- Approve the proposed resolution.

**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.

**BACKGROUND****San Francisco Wholesale Produce Market**

The San Francisco Wholesale Produce Market (the Market) is located on 23 acres of City-owned land bounded by Toland Street, Innes Avenue, Rankin Street, and Kirkwood Avenue in the Bayview, which provides a central distribution center for approximately 30 wholesale produce businesses and produce distributors.

The Market has operated at its current location since 1963 and currently consists of three subareas, the Main Site (which consist of four buildings<sup>1</sup> and truck loading/unloading space adjacent to Jerrold Avenue between Toland, Innes, Rankin, and Kirkwood Avenues), 2101 Jerrold Avenue, 455 Toland Street, 2095 Jerrold Avenue, and 901 Rankin Street with 357,764 square feet of warehouse, dock, and office space. The Market is operated by the non-profit San Francisco Market Corporation<sup>2</sup> under the terms of an existing ground lease described below. To meet evolving food industry standards, the age of the Market facilities, and the demand for more space at the Market, the San Francisco Market Corporation is renovating and expanding the existing site according to the terms of the lease.

**Original Lease**

In July 2012, the Board of Supervisors approved a 60-year ground lease, which expires January 31, 2073, between the City and the San Francisco Market Corporation for the lease of the Market property (File 12-0530). The 2012 ground lease provided for the rehabilitation and expansion of the Market through a phased development that replaces four existing warehouses located at the Main Site, demolishes several small structures, adds new buildings, and improves the surrounding public streets.

Under the lease, the San Francisco Market Corporation leases the property from the City and subleases warehouse space to wholesale produce businesses and distributors. The San Francisco Market Corporation is required to deposit net revenues, or remaining revenues from rents received under subleases after subtracting operating expenses, debt service payments, and capital investments, for the previous month into a dedicated account to fund the planned tenant

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<sup>1</sup> The four buildings on the main market site are: 2001 Innes Avenue, 1901 Innes Avenue, 2000 Kirkwood Avenue, and 1900 Kirkwood Avenue.

<sup>2</sup> The San Francisco Market Corporation is a non-profit organization that was formed in 2012 to operate the Market under the existing lease.

capital improvements. No rent is paid directly to the City until all phases of development are complete and net income is positive for three months.

The City's Real Estate Division is the property owner and landlord for the Market, and the Office of Economic and Workforce Development (OEWD) leads the City's active partnership with the Market. In addition to operating the market, the San Francisco Market Corporation is responsible for managing and financing the development project, with engagement from the City.

#### *Amended and Restated Lease*

In September 2022, the Board of Supervisors approved an amended and restated lease for the Market (File 22-0900). Objectives of the lease amendment were to: (a) allow the San Francisco Market Corporation to obtain conventional mortgage financing for the project; and (b) change the schedule of performance to allow the City to vacate public streets bisecting the Market before completion of the street improvements, and delay the commencement and completion deadlines of the street improvements in recognition of the City having absorbed this aspect of the project.<sup>3</sup>

#### **Project Status and Total Cost**

In 2015, the tenant completed Phase I of the development plan, which included demolition of the existing structures at 901 Rankin Street and construction of a new 82,000 square foot distribution warehouse. Since September 2022 (when the Board of Supervisors approved the amended lease), the Market has completed lighting upgrades and has begun improvements to the Marshalling Yard and predevelopment work for 1900 Kirkwood Avenue (as described below). Under the lease's schedule of performance, all phases of the project are to be completed by June 2041.

According to OEWD staff, the total spending to date for the project is \$21.8 million, which was the cost of construction of 901 Rankin Street plus the cost of a lighting upgrades completed in 2023. The total project cost has increased nearly four-fold from \$107.8 million in 2012 to \$400.3 million estimated in 2022.<sup>4</sup>

#### **City Funding for Improvements**

The tenant is responsible for financing tenant improvements under the existing lease. The City is not obligated to fund improvements, but the City has provided \$8.0 million in funding to the project to date. The project received a \$3.0 million allocation of FY 2021-22 Certificates of Participation for Marshalling Yard improvements and predevelopment and a \$5.0 million allocation of FY 2022-23 Certificates of Participation to Public Works to rebuild Innes Avenue.

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<sup>3</sup> According to OEWD, the Department of Public Works has taken on the construction of the most critical of these street connections, Innes Avenue between Toland and Rankin Streets. When completed, this new street will provide a continuous east-west connection between Third Street and Bayshore Boulevard.

<sup>4</sup> According to OEWD, increases since 2012 are due to escalations in construction costs, which have increased over 40 percent since 2012, overall inflation, which has increased 30 percent in the past 10 years, and clarification to the scope of work to demolish and rebuild all four buildings at the Market's Main Site (rather than rehabilitate them).

Street improvements (including rebuild of Innes Avenue) will be undertaken and funded by the City (though the San Francisco Market Corporation remains responsible for managing and financing street improvements under the lease).<sup>5</sup>

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the first amendment to the amended and restated lease with the San Francisco Market Corporation for the San Francisco Wholesale Produce Market to establish the terms for disbursement of \$3.0 million in previously allocated City funds to the reinvestment project. The resolution would also:

- Affirm the Planning Department’s determination under the California Environmental Quality Act (CEQA);
- Adopt findings that these actions are consistent with the General Plan and the eight priority policies of Planning Code Section 101.1;
- Authorize the Director of Property to execute the first amendment to the lease, make certain modifications, and take other necessary actions;
- Authorize the Director of Property to amend the lease, provided modifications do not increase the obligations or liabilities of the City.

According to Exhibit P of the proposed amended lease, the City would disburse a total of \$3.0 million in City Funding, including:

- \$1,810,000 to fund **street, marshalling yard, and sidewalk** improvements between the four warehouse buildings on the Main Site (excluding the area in front of 1900 Kirkwood Avenue)<sup>6</sup> to improve the area for truck loading and unloading. Improvements include demolition of concrete and asphalt surface, repaving, construction of concrete curbs and gutters, parking bumper and pavement markings, and sealant application.
- \$1,190,000 to fund **predevelopment and design work** associated with construction of a new 70,000 square foot warehouse at 1900 Kirkwood Avenue, the first of the four warehouses on the Main Site to be constructed. The building is expected to house two to five subtenants (i.e., merchants) and will also include space for a food recovery center to centralize and improve the experience for community organizations that pickup surplus produce and redistribute to those in need, a specialized refuse management area to collect unique waste products (e.g., shrink film) and ensure they are disposed of properly (via recycling, trash, etc.), and an operations office for the Market.

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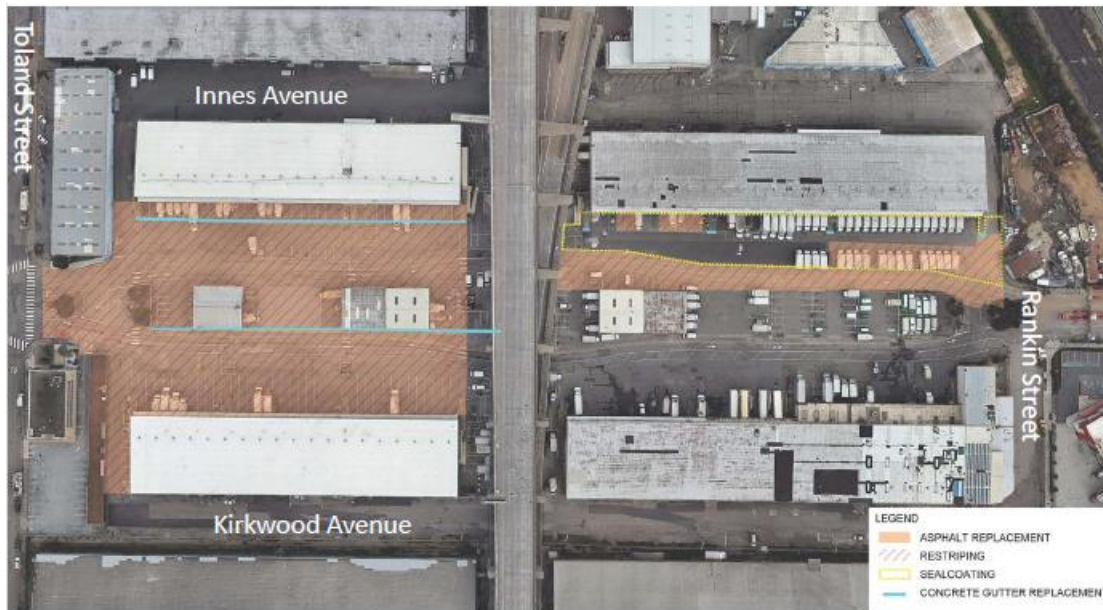
<sup>5</sup> The Innes Avenue improvement work is projected to cost \$18 million and is expected to be complete before 2028. The cost of the Kirkwood Avenue street improvements is not yet known.

<sup>6</sup> Street and marshalling yard improvements to the area in front of 1900 Kirkwood Avenue (one of the four warehouses) is not part of this project’s scope of work, as these improvements are part of the scope of work for the 1900 Kirkwood Avenue construction project.

Exhibit P also allows the tenant to seek additional reimbursement from the City for predevelopment and design work for 1900 Kirkwood Avenue if actual costs for the street and marshalling yard improvements are less than \$1,810,000. However, City funding to the two projects may not exceed \$3.0 million.

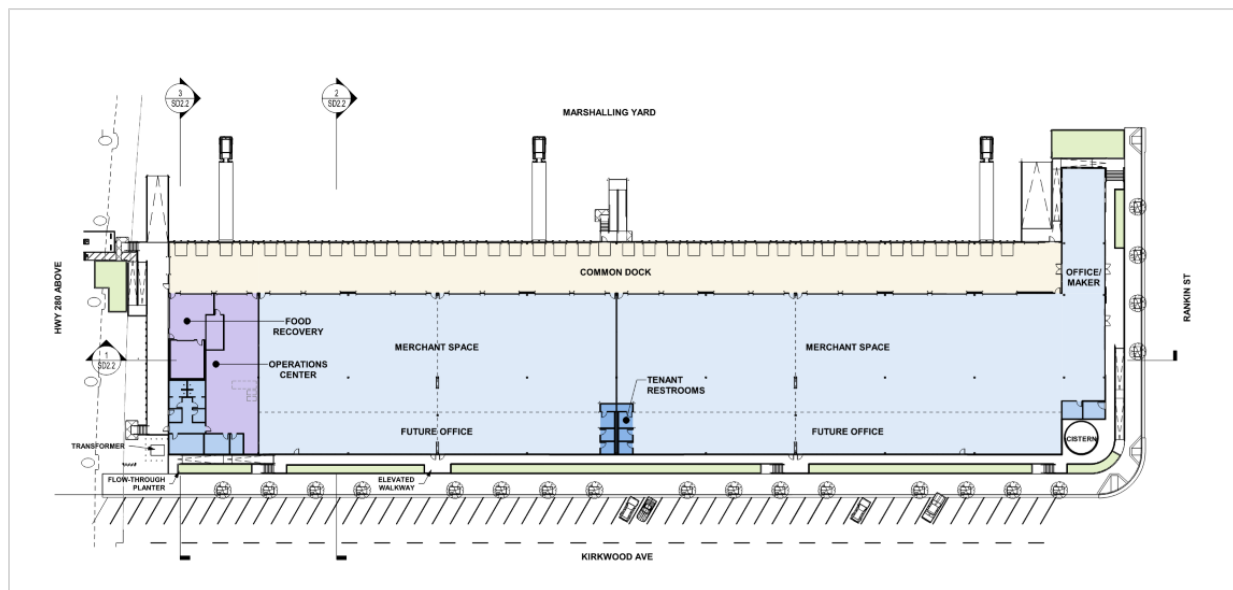
Exhibit 1 shows the street and marshalling yard planned improvements, and Exhibit 2 shows the proposed design for 1900 Kirkwood Avenue.

**Exhibit 1: Marshalling Yard Paving Work**



Source: Exhibit P Attachment 1 from Proposed Amended Lease

**Exhibit 2: 1900 Kirkwood Avenue Design Overview**



Source: Jackson Liles Architecture, Exhibit P Attachment 5 from Proposed Amended Lease

**Project Status**

According to OEWD staff, work has begun for both projects. Marshalling Yard improvements are expected to be completed by the end of October 2023, and predevelopment work for 1900 Kirkwood Avenue is expected to continue through development of the new building. According to the schedule of performance in the amended lease, development of 1900 Kirkwood Avenue will be completed by July 2025. OEWD staff plan to bring a financing package and proposed separate parcel lease<sup>7</sup> for development of 1900 Kirkwood Avenue to the Board of Supervisors for approval per the terms of the amended lease.

**Selection of Contractor and Architect**

Disbursing of City funds does not require typical City procurement processes, such as issuing a request for proposals or checking conflicts of interest. Marshalling Yard improvements will be completed by American Asphalt Repair & Resurfacing Inc's, which was selected through a competitive process according to OEWD staff, however, we did not review solicitation materials and scoring. The Market selected Jackson Liles Architecture as the lead architect for 1900 Kirkwood Avenue predevelopment work because the firm has previously provided services for the Produce Market and understands the Market's campus needs. Sub-consultants under the design contract include KPFF Consulting Engineers (structural engineering services), Interface Engineering (mechanical, electrical, and plumbing engineering services), and BKF Engineers (civil engineering services).

**Project Budgets**

The Marshalling Yard improvements are fully funded by \$1,810,000 in City funds. The 1900 Kirkwood Avenue predevelopment budget of \$1.7 million includes \$1,190,000 in City funding and \$510,000 in other sources, including Market equity, debt financing, and other potential grant awards. Cost estimates for the Marshalling Yard Improvements are based on American Asphalt Repair & Resurfacing Inc's proposal from March 2023. Cost estimates for 1900 Kirkwood Avenue predevelopment are based on Jackson Liles Architecture's proposal from April 2023, which is based on a construction budget of \$35.0 million to \$40.0 million.

The budgets for the two projects are shown in Exhibits 3 and 4 below.

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<sup>7</sup> A separate parcel lease structure allows the tenant to borrow against each building separately, so that the bank could only foreclose on the leasehold interest in the specific parcels that are identified as collateral for each loan, rather than the entire leased premises, if the tenant failed to make required loan payments and the City elected not to exercise its step in and cure rights. The amended and restated lease also includes a "back-up" fair market rent structure to be used only in the unlikely event of a leasehold foreclosure to facilitate the use of the buildings as collateral in a traditional bank loan.

**Exhibit 3: Marshalling Yard Paving Work Budget**

<b>Sources and Uses</b>	<b>Amount</b>
<u>Sources</u>	
<b>City Funds</b>	<b>\$1,810,000</b>
<u>Uses</u>	
Demolition of concrete and asphalt surface	353,500
Base prep and sealcoat	26,000
Repaving	697,150
Concrete curbs and gutters	172,550
Parking bumper and pavement markings	117,650
Overhead & Profit	235,650
Other*	41,000
Market Contingency (10%)	166,500
<b>Total Uses</b>	<b>\$1,810,000</b>

Source: Exhibit P from Proposed Amended Lease

\*Other expenses include costs associated with traffic control measures, sub-grade scanning & testing, erosion control, insurance, and bollard light replacements.

**Exhibit 4: 1900 Kirkwood Avenue Design & Predevelopment Budget**

<b>Sources and Uses</b>	<b>Amount</b>
<u>Sources</u>	
<b>City Funds</b>	<b>\$1,190,000</b>
Private Sources	510,000
<b>Total Sources</b>	<b>\$1,700,000</b>
<u>Uses</u>	
Schematic design	75,600
Design development	453,700
Construction documents	667,000
Permit/bid	37,500
Construction administration	466,200
<b>Total Uses</b>	<b>\$1,700,000</b>

Source: Exhibit P from Proposed Amended Lease

**FISCAL IMPACT**

The proposed amended lease provides for disbursement of \$3.0 million in City funds for street and marshalling yard work (\$1,810,000) and predevelopment and design work associated with 1900 Kirkwood Avenue (\$1,190,000). City funding comes from a \$3.0 million allocation of FY 2021-22 Certificates of Participation, previously approved by the Board of Supervisors (File 21-0645).



**Financing for Future Phases of the Project**

As reported in our prior report on the amended and restated lease, funding sources have not been identified for future phases of the project. Financing sources for future phases would include project equity<sup>8</sup> and commercial debt and may also include New Market Tax Credits or other State and Federal sources. However, to obtain commercial debt for future phases, the Market must provide a Financing Notice to the City and enter into a separate parcel lease for each building to be constructed. According to Section 2.9 of the amended and restated lease, the Market must submit the following to the City under a Financing Notice: terms of the proposed debt, the status of design work and cost estimates for the new building, and any other information or documents requested by the City related to the proposed financing. Separate parcel leases are subject to Board of Supervisors' approval.

Because the proposed resolution is consistent with prior actions by the Board of Supervisors, including approval of the amended and restated lease and approval of the \$3.0 million allocation of Certificates of Participation, and future financing actions will require Board of Supervisors' approval, we recommend approval of the proposed resolution.

**RECOMMENDATION**

Approve the proposed resolution.

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<sup>8</sup> According to 2021 Audited Financial Statement for the San Francisco Produce Market the current balance of the Project Development Account is \$12.6 million.

<p><b>Item 2</b> <b>File 23-0958</b></p>	<p><b>Department:</b> Mayor’s Office of Housing and Community Development (MOHCD)</p>
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**EXECUTIVE SUMMARY**

**Legislative Objectives**

- The Department seeks authority from the Board of Supervisors to release up to \$2,900,000 from a Budget and Finance Committee Reserve of \$10 million funded by the SoMa Community Stabilization Fund. The funds will enable a Small Sites Program (SSP) loan to Mission Economic Development Agency for a five-unit residential property located at 566 Natoma, which aligns with the allowable uses of the SoMa Community Stabilization Fund.

**Key Points**

- The three-story, five-unit residential property at 566 Natoma, which includes four one-bedrooms and one two-bedroom unit, was selected for funding in 2019, pursuant to a 2014 Notice of Funding Availability for SSP.
- The SoMa Community Stabilization Fund portion of the SSP loan will be offered at a 3 percent simple annual interest rate for a term of 40 years, repaid by residual project income.

**Fiscal Impact**

- The SoMa Community Stabilization Fund has a current balance of \$10,270,756. If a companion proposed spending resolution (File 23-0812) is approved, as amended, and the requested release of reserves is approved, then the SoMa Community Stabilization Fund balance would be \$4,786,331.
- The Department plans to use \$2,804,004 in SoMa Community Stabilization funds to permanently finance the 566 Natoma project, which is \$95,996 less than the \$2,900,000 sought. The \$95,996 is needed to pay for accrued interest and closing costs, according to MOHCD.

**Policy Consideration**

- The average subsidy per unit from SSP for 566 Natoma would be \$580,000—an amount that is \$108,460 above the maximum average subsidy allowable for 566 Natoma under updated program guidelines, which is permissible with approval from the director of MOHCD. This subsidy amount is high relative to other affordable housing programs.

**Recommendation**

- Approval of the requested release of \$2,900,000 in reserve funds is a policy matter for the Board of Supervisors.

**MANDATE STATEMENT**

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

**BACKGROUND**

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<sup>1</sup>, (b) imposed a Rincon Hill Community Infrastructure Impact Fee (currently \$15.84 per square foot of new residential development in the District<sup>2</sup>), (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 (currently \$20.15 per square foot on new residential development within the District), (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 MOHCD and the Board of Supervisors on 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.<sup>3</sup>

**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 Requests for Proposals (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 (updated as of February 9, 2021). The strategic plan lists the following allowable uses: affordable housing and community asset building; small business rental assistance; housing stability for low-income households, including development of new affordable homes for rent, rent subsidies, and down payment assistance; eviction prevention; employment development and capacity building for SoMa residents; job growth and job

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<sup>1</sup> The Rincon Hill Downtown Residential District is defined as the area bounded by Folsom Street (to the north), Bryant Street and the north side of the Bay Bridge (to the south), the Embarcadero (to the east), and Essex Street (to the west).

<sup>2</sup> San Francisco Citywide Development Impact Fee Register, effective January 1, 2023

<sup>3</sup> SoMa is defined as the area bounded by Market Street (to the north), King Street (to the south), the Embarcadero (to the east), and South Van Ness and Division (to the west).

placement; small business assistance; leadership development; community cohesion; civic participation; and community-based programs and economic development.

### **Small Sites Program (SSP)**

The Small Sites Program (SSP), created in 2014 and administered by MOHCD, provides loans for acquiring and rehabilitating multi-family rental buildings of five to 40 units to meet the goals of community stabilization and housing affordability—an allowable expenditure under the SoMa Community Stabilization Fund Strategic Plan. The Program has issued two Notices of Funding Availability (NOFAs), one in 2014 and an updated one in 2019, with sites selected on a rolling basis. SSP funding is provided by a variety of sources, generally including General Obligation (GO) Bonds, the Housing Trust Fund, Inclusionary Housing Fees, Eastern Neighborhoods Impact Fees, General Fund, certain Development Agreements, along with the SoMa Community Stabilization Fund, according to MOHCD. The department’s updated SSP guidelines (published in September 2022) establish a maximum city subsidy per unit, depending on the size of the unit. Consistent with the program’s mission to stabilize at-risk communities, SSP aims to achieve an average of 80 percent Area Median Income (AMI) rents.

### **Reserve of SoMa Community Stabilization Funds**

A Budget and Finance Committee Reserve of \$10 million from the SoMa Community Stabilization Fund was established in 2017 to fund SSP loans within the boundaries of SoMa, as appropriate sites were identified—consistent with SSP Program Guidelines and the Community Stabilization Fund Strategic Plan objective to increase affordable housing opportunities for existing residents (File 17-0489). In 2018, the Board released \$5 million of the \$10 million reserved funds to fund Mission Housing’s acquisition of the Gran Oriente Filipino Hotel at 106 South Park Street in SoMa. The Department seeks authority from the Board of Supervisors to release up to \$2,900,000 from this reserve to fund an SSP loan to Mission Economic Development Agency (MEDA) for a five-unit residential property located at 566 Natoma.

## **DETAILS OF PROPOSED LEGISLATION**

The requested release of reserves authorizes MOHCD to spend up to \$2,900,000 from the SoMa Community Stabilization Fund to fund an SSP loan for 566 Natoma. The Small Sites loan for the 566 Natoma acquisition will be subject to future Board of Supervisors’ approval because its duration will be more than 10 years.

The three-story, five-unit residential property at 566 Natoma, which includes four one-bedrooms and one two-bedroom unit, was selected for funding in 2019, pursuant to the 2014 NOFA for SSP. In May 2020, the SoMa CAC recommended approval of the financing of 566 Natoma under SSP to prevent the displacement of long-term San Francisco residents. While the current SSP scoring criteria was not in use in 2019, the project would receive a score of 84 points out of 100, according to the Loan Committee report dated May 12, 2022. Specifically, the project would receive:

- 35 points out of 35 for housing affordability;
- 35 points out of 35 for community stabilization; and
- 14 points out of 30 for geographic equity.

The total score of 84 points exceeds the minimum threshold of 70 points out of 100, indicating that the Project meets the core goals of the Small Sites Program.<sup>4</sup>

*Population Served*

The existing residents are long-term low-income tenants described as multi-generational Filipino or Latinx households that include families, seniors, and a person with disabilities—with an average AMI of 64 percent across all five households, which complies with SSP guidelines. Exhibit 1 below displays the 2023 rent levels and affordability for current residents, who have undergone income certification and received relocation assistance. Since acquisition in 2020, three of the households have agreed to phased rent increases (with rent increasing from an average of \$715 per month in 2020 to \$1,682 monthly in 2023), which will set their rent burden to at least 20 percent of household income, in compliance with SSP guidelines.

**Exhibit 1: 2023 Rent Levels and Affordability for 566 Natoma**

Unit Size	2023 Rent Level	Rent Burden (Based on Household Income)
One Bedroom	\$1,144	28.7%
One Bedroom	\$1,305	29.2%
One Bedroom	\$1,725	25.9%
One Bedroom	\$2,218	42.9%
Two Bedroom	\$2,017	22%
<b>Average</b>	<b>\$1,682</b>	<b>30%</b>

Source: Citywide Affordable Housing Loan Committee Report (May 12, 2022)

**SSP Loan Agreement and Repayment**

The SoMa Community Stabilization Fund portion of the SSP loan will be offered at a 3 percent simple annual interest rate for a term of 40 years and repaid by residual project income, as shown in Exhibit 2. Refinancing is expected to occur no sooner than 20 years after the loan issuance because adequate operating and replacement reserves are budgeted.

**Exhibit 2: SSP Loan Terms for 566 Natoma**

Loan Term	Description
Amount	Up to \$2,900,000
Term	40 years
Annual Interest Rate	3%
Interest Type	Simple
Repayment	Annual payments equal to 2/3 of residual receipts

Source: MOHCD

<sup>4</sup> An adjacent property, 568-570 Natoma, is also in the Small Sites portfolio and managed by the Community Land Trust. In May 2023, the Board approved a \$3.2 million loan to refinance that site (File 23-0508).

In addition, MOCHD will use up to \$1,075,000 in 2016 General Obligation Preservation and Seismic Safety Bond proceeds to fund a portion of the pending SSP loan for 566 Natoma.

According to MOHCD, MEDA will record an Amendment to the current Declaration of Restrictions that will permanently restrict the rents for at least 99 years at 566 Natoma.

**FISCAL IMPACT**

The SoMa Community Stabilization Fund has a current balance of \$10,270,756. A companion resolution File 23-0812 is also on the September 13, 2023 Budget & Finance Committee agenda that would release \$3,014,800 in funds from the SoMa Community Stabilization Fund. Based on conversations with MOCHD staff, we are recommending a reduction in that resolution’s not to exceed amount by \$2,900,000 because those funds will instead be made available from the requested release of reserves. If the proposed spending resolution and requested release of reserves, as amended, are approved, then the SoMa Community Stabilization Fund balance would be \$4,786,331, as shown in Exhibit 3.

**Exhibit 3: SoMa Community Stabilization Fund**

<b>Current Balance</b>	\$10,270,756
FY 2022-23 Unspent Encumbered Funds	(369,625)
FY 2022-23 Expenditures Approved by BoS but Unencumbered	(2,100,000)
<b>Balance Available</b>	<b>\$7,801,131</b>
<hr/>	
<b>Pending Budget &amp; Finance Committee Action</b>	
Release of Reserves (this File 23-0958) <sup>1</sup>	(2,900,000)
Two projects, File 23-0812	(114,800)
<b>Remaining Balance</b>	<b>\$4,786,331</b>

<sup>1</sup>A total of \$5,000,000 of the \$10,000,000 reserve established in 2017 for SSP loans within SoMa remains unspent, and MOHCD seeks to spend up to \$2,900,000 of this reserved balance for the Small Sites loan for 566 Natoma. Source: MOHCD

**Small Sites Loan for 566 Natoma**

In 2020, the 566 Natoma site was acquired and rehabilitated using temporary financing provided by the San Francisco Housing Accelerator Fund (SFHAF)<sup>5</sup>, with additional funding provided by MEDA. A total of \$3,602,923 was provided in 2020 to finance the acquisition and rehabilitation of 566 Natoma; and in May 2020, MOHCD issued the first of three soft commitment letters to permanently finance the project. As shown below in Exhibit 4, project costs to be funded by the SoMa Community Stabilization Fund total \$2,804,004, or \$95,996 less than the \$2,900,000

<sup>5</sup> The SFHAF, established in 2014, is a non-profit organization that provides public, private, and philanthropic funding sources for building and preserving affordable housing, according to the organization’s website.

requested in the proposed resolution. The \$95,996 is needed to pay for accrued interest and closing costs, according to MOHCD.

MOHCD intends to provide a total loan of \$3,975,000 to pay off the existing SFHAF loan and accrued interest as well as funding provided by MEDA, fund replacement and operating reserves for a period of 20 years, and pay for additional closing costs, according to MOHCD and the Loan Committee report. This loan, subject to separate Board of Supervisors approval, includes \$1,075,000 from the Preservation and Seismic Safety (PASS) Program funded by 2016 General Obligation Bond funds, and \$2,900,000 for an SSP loan funded by the SoMa Community Stabilization Fund.<sup>6</sup>

**Exhibit 4: Sources and Uses of Funds for 566 Natoma**

<b>Sources and Uses</b>	<b>Amount</b>	<b>Percent of Total</b>
<u>Sources</u>		
SoMa Community Stabilization Fund Small Sites Program	\$2,804,004	72.7%
2016 General Obligation Bond Preservation and Seismic Safety (PASS) Program	1,055,000	27.3%
<b>Total Sources</b>	<b>\$3,859,004</b>	<b>100%</b>
<u>Uses</u>		
Acquisition	3,679,615	95.4%
Soft Costs	58,040	1.5%
Reserves	68,349	1.8%
Developer Costs	53,000	1.3%
<b>Total Uses</b>	<b>\$3,859,004</b>	<b>100%</b>

Source: Citywide Affordable Housing Loan Committee Report (May 12, 2022)

*Acquisition Costs*

The initial 2020 acquisition cost of \$3,602,923 includes the property purchase of \$1,800,000, which was \$120,000 above the appraised value of \$1,680,000, based on MOHCD restricted rent levels. According to the Loan Committee report, the purchase price was approved by MOHCD because the appraisal did not account for phased rent increases agreed to by three of the households (described further above under *Population Served*). According to our analysis, this

<sup>6</sup> PASS provides low-cost long-term financing for seismic retrofits as well as the acquisition, rehabilitation, and preservation of affordable multi-unit housing, according to the May 12, 2022 Citywide Affordable Housing Loan Committee report for 566 Natoma. The PASS Program loan amount of up to \$1,075,000 is inclusive of three PASS Program loans at three different interest rates, averaging 2.74%. PASS loans are considered “hard debt” with fixed annual payments and loan amounts constrained by a minimum debt service coverage ratio of 1.15, a maximum loan-to-value ratio of 90 percent, and a maximum loan-to-cost ratio of 80 percent. This differs from the gap loan funded by the SoMa Community Stabilization Fund, which will have a 3% annual interest rate and is repaid with residual project income, if available.

rent increase will yield approximately \$270,000 in additional income over the first 20 years of the loan.<sup>7</sup>

The acquisition cost also included \$1,070,471 in construction costs for rehabilitation. The work, which was completed in January 2023, included expanding the ground floor one-bedroom into a two-bedroom (by merging it with the garage), re-roofing, electrical, kitchen, and floor upgrades to the other four one-bedrooms, HVAC system replacement, bathroom and plumbing repairs, a new laundry room, soft story seismic retrofitting, and life safety system enhancements.

#### *Reserves*

Reserves total \$68,349, reflecting operating reserves of \$23,380 and replacement reserves of \$44,969. Operating reserves support unanticipated operating costs for at least 20 years, such as vacancy rates above the assumed 10 percent level. Replacement reserves support the site's capital needs over time. The SSP guidelines require an operating reserve equal to 25 percent of the first-year operating budget (described below), and a replacement reserve equal to the greater of \$2,000 per unit or the amount needed to fund replacement costs for the next 10 years (based on an approved capital needs assessment).

#### *Developer Costs*

The proposed budget includes \$53,000 in additional developer fees, beyond the \$80,000 paid at the time of acquisition by SFHAF. This reflects \$10,000 per unit for the four one-bedroom units, and \$13,000 for the one two-bedroom unit (assessed a fee level for a new accessory dwelling unit due to comparable requirements for the unit expansion).

#### **Projected Cash Flow for 566 Natoma**

Over the first 20 years of the loan, MOHCD projects that a total of \$116,391 of the residual receipts (i.e., net operating income less other debt service) will go toward SSP loan repayment. An estimated total of \$233,632 of residual receipts will go toward the replacement reserve to fund capital improvements at the site. This total of \$350,023 reflects two-thirds of the residual receipts over 20 years, with the remaining one-third (\$175,011) going to the non-profit MEDA as an incentive management fee, consistent with MOHCD's Residual Receipts policy.

### **POLICY CONSIDERATION**

The SSP guidelines updated in September 2022 establish a maximum city subsidy of \$400,000 per one-bedroom unit and \$450,000 per two-bedroom unit, plus an escalator based on how the project scores against Program guidelines. The guidelines further specify that projects "exceeding maximum base funding may be eligible subject to meeting minimum scoring criteria and/or Director approval." In the case of 566 Natoma, the project score of 84 points out of 100 enables

<sup>7</sup> The average rent for the five units increased by a total of \$11,604 annually from the time of acquisition in 2020 to 2023. If we apply the 2.5 percent annual rent increase and assume an average 10 percent vacancy rate, we arrive at the additional income of approximately \$270,000 over 20 years.



a maximum average subsidy of \$471,500 per unit. In Exhibit 5, we show that the average subsidy per unit from SSP would be \$580,000—an amount that is \$108,460 above the maximum average subsidy allowable for 566 Natoma under updated program guidelines, which is permissible with approval from the director of MOHCD.

#### Exhibit 5: 566 Natoma Total Funding by Source

Source	Funding	Subsidy Per Unit
SoMa Community Stabilization Fund Small Sites Program	\$2,900,000	\$580,000
2016 General Obligation (GO) Bond Preservation and Seismic Safety (PASS) Program	\$1,075,000	\$215,000
<b>Total</b>	<b>\$3,975,000</b>	<b>\$795,000</b>

Source: Citywide Affordable Housing Loan Committee Report (May 12, 2022)

#### Local Funding Per Unit

We note that the total local subsidy<sup>8</sup> requested per unit of \$580,000 is high relative to other affordable housing programs, as shown in Exhibit 6. In our April 2023 performance audit of affordable housing financing, we noted the variation in the local subsidy per unit for projects completed from FY 2017-18 through FY 2021-22 and recommended the establishment of a performance metric, such as a not-to-exceed amount for the local public subsidy per unit, for all affordable housing programs. As noted above, this requested release of reserved funds would fund a Small Sites Acquisition loan that exceeds that Program's cost per unit guidelines. For this reason and given the relatively high cost per unit of local funding, we consider approval of the requested release of reserved funds to be a policy matter for the Board of Supervisors.

#### Exhibit 6: Local Public Subsidy Per Unit (FY 2017-18 through FY 2021-22)

Program	Total Project Units	Sum of Loans Disbursed	Local Subsidy Per Unit
Small Sites Program	238	\$144,904,832	\$608,844
Big Sites Program	86	\$27,124,000	\$315,395
Multifamily Rental Program	2,491	\$437,029,558	\$175,443
HOPE SF	642	\$89,683,040	\$139,693
Rental Assistance Demonstration Program	2,826	\$86,419,260	\$30,580
<b>TOTAL</b>	<b>6,283</b>	<b>\$785,160,689</b>	<b>\$124,966</b>

Source: MOHCD, as published in "BLA Performance Audit of Affordable Housing Financing," April 4, 2023

<sup>8</sup> The PASS program is a hard debt lending program and not considered a subsidy program.

**RECOMMENDATION**

Approval of the requested release of \$2,900,000 in reserve funds is a policy matter for the Board of Supervisors.

<b>Item 3</b> <b>File 23-0812</b>	<b>Department:</b> Mayor’s Office of Housing and Community Development (MOHCD)
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**EXECUTIVE SUMMARY**

**Legislative Objectives**

- The proposed resolution authorizes MOHCD to spend up to \$3,014,800 from the SoMa Community Stabilization Fund to address impacts of destabilization on residents and businesses in SoMa.
- In 2005, the Board of Supervisors established the SoMa Community Stabilization Fund for the deposit of SoMa Community Stabilization Fees collected from new residential development within the District for such uses as affordable housing, economic development, and community-based programs.

**Key Points**

- In January 2023, MOHCD issued an RFP for a total of up to \$1,330,000 for community-based organizations to apply for capacity building funding for the period June 1, 2023 through June 30, 2024, with a portion funded by the SoMa Community Stabilization Fund.
- Two organizations are recommended to receive funding provided by the SoMa Community Stabilization Fund, spending from which requires Board approval: Kultivate Labs, a non-profit economic development and arts organization, would receive \$74,800 for staff training and a new Customer Relationship Management system; and United Playaz, a non-profit violence prevention and youth development organization, would receive \$40,000 to restructure its operations system and donor management database.
- The proposed resolution’s spending authority amount includes \$2,900,000 to fund a Small Sites Program loan to Mission Economic Development Agency for a five-unit residential property located at 566 Natoma; however, this amount will be requested under a separate legislative action (File 23-0958). We therefore recommend amending the proposed resolution to reduce the spending authority amount from \$3,014,800 to \$114,800—the total recommended for the two non-profit organizations.

**Fiscal Impact**

- The SoMa Community Stabilization Fund has \$7,801,131 available in fund balance. If the proposed spending resolution, as amended, is approved, then the project balance would be \$7,686,331.

**Recommendations**

- Amend the proposed resolution to reduce the not-to-exceed amount from \$3,014,800 to \$114,800 and approve the proposed 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**

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<sup>1</sup>, (b) imposed a Rincon Hill Community Infrastructure Impact Fee (currently \$15.84 per square foot of new residential development in the District<sup>2</sup>), (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 (currently \$20.15 per square foot on new residential development within the District), (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 MOHCD and the Board of Supervisors on 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.<sup>3</sup>

**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 Requests for Proposals (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. The strategic plan lists the following allowable uses: affordable housing and community asset building; small business rental assistance; housing stability for low-income households, including development of new affordable homes for rent, rent subsidies, and down payment assistance; eviction prevention; employment development and capacity building

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<sup>1</sup> The Rincon Hill Downtown Residential District is defined as the area bounded by Folsom Street (to the north), Bryant Street and the north side of the Bay Bridge (to the south), the Embarcadero (to the east), and Essex Street (to the west).

<sup>2</sup> San Francisco Citywide Development Impact Fee Register, effective January 1, 2023

<sup>3</sup> SoMa is defined as the area bounded by Market Street (to the north), King Street (to the south), the Embarcadero (to the east), and South Van Ness and Division (to the west).

for SoMa residents; job growth and job placement; small business assistance; leadership development; community cohesion; civic participation; and community-based programs and economic development.

### **RFP Process**

On January 27, 2023, MOHCD issued an RFP for a total of up to \$1,330,000 for community-based organizations to apply for capacity building funding for the period June 1, 2023 through June 30, 2024. The RFP specified two funding opportunities:

(1) General Capacity Building (up to \$330,000 awarded in amounts ranging from \$25,000 to \$75,000 per grantee, with a portion funded by the SoMa Community Stabilization Fund) to “assist nonprofits in achieving new levels of effectiveness and strengthen their systems as well as support their access to resources that will facilitate the organization’s progress in achieving their goals,” according to the RFP. The priority is for capacity building projects focusing on Board Development, Leadership Development, or Financial Systems and Management; and

(2) African American Community Stabilization Capacity Building (up to \$1 million in amounts ranging from \$25,000 to \$75,000 per grantee, funded by the General Fund) in “recognition of the oppressive history of racial injustice, especially in housing and community services and the structural inequities that remain today,” according to the RFP. Priority is for capacity building projects focusing on Board Development, Leadership Development, Financial Systems and Management, and Program Development and Operational Infrastructure.

Proposals were considered by two reviewers<sup>4</sup>, and evaluated based on the following:

- Population and Experience: Populations served and provision of services; and the organization’s current need and experience with capacity building. (20 points)
- Design: Proposed capacity building effort and the specific area selected to address and why. (20 points)
- Staffing: Staffing plan for the proposed project, including all leadership, direct service and supportive staff roles. (10 points)
- Advancing Racial Equity: How the capacity building project addresses social and racial inequities. (15 points)
- Impact: Issues to be addressed and achieved once the capacity building is completed. (20 points)
- Budget Narrative: Description of use of funds, and detailed description of how funding would ensure long-term stability. (15 points)

MOHCD received five proposals that were geographically eligible for support from the SoMa Community Stabilization Fund. All five organizations scored above the minimum score of 70 and are being recommended for funding; two organizations are recommended to receive funding provided by the SoMa Community Stabilization Fund—requiring Board approval, and three

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<sup>4</sup> The two reviewers consisted of a Senior Community Development Specialist and a Senior Community Development Specialist II.

organizations are recommended to receive funding from another source that does not require Board approval.<sup>5</sup>

**Small Sites Program (SSP)**

The Small Sites Program (SSP), created in 2014 and administered by MOHCD, provides loans for acquiring and rehabilitating multi-family rental buildings of five to 40 units to meet the goals of community stabilization and housing affordability—an allowable expenditure under the SoMa Community Stabilization Fund Strategic Plan. The Program has issued two Notices of Funding Availability, one in 2014 and an updated one in 2019, with sites selected on a rolling basis. SSP funding is provided by a variety of sources, generally including General Obligation (GO) Bonds, the Housing Trust Fund, Inclusionary Housing Fees, Eastern Neighborhoods Impact Fees, General Fund, certain Development Agreements, along with the SoMa Community Stabilization Fund, according to MOHCD. The department’s updated SSP guidelines (published in September 2022) establish a maximum city subsidy per unit, depending on the size of the unit. Consistent with the program’s mission to stabilize at-risk communities, SSP aims to achieve an average of 80 percent Area Median Income (AMI) rents.

A Budget and Finance Committee Reserve of \$10 million from the SoMa Community Stabilization Fund was established in 2017 to fund SSP loans within the boundaries of SoMa, as appropriate sites were identified—consistent with SSP Program Guidelines and the Community Stabilization Fund Strategic Plan objective to increase affordable housing opportunities for existing residents (File No. 17-0489). Under a separate legislative action, MOHCD plans to seek authority from the Board of Supervisors to release up to \$2,900,000 from this reserve to fund an SSP loan to Mission Economic Development Agency (MEDA) for a five-unit residential property located at 566 Natoma.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution authorizes MOHCD to spend up to \$3,014,800 from the SoMa Community Stabilization Fund to address impacts of destabilization on residents and businesses in SoMa from June 1, 2023 through June 30, 2024. The proposed resolution’s spending authority amount includes \$2,900,000 to fund a Small Site loan for 566 Natoma that will be requested under a separate legislative action (File 23-0958); we therefore recommend amending the proposed resolution to reduce the spending authority amount from \$3,014,800 to \$114,800.

Exhibit 1 below lists the two non-profit organizations that would be funded by the proposed resolution’s spending authorization from the Community Stabilization Fund. A total of \$114,800

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<sup>5</sup> Funding for the other three organizations comes from the Economic Advancement portion of the 5M Development Agreement with the City and County of San Francisco, which does not require Board approval per the terms of the development agreement as described in Exhibit F: “Approximately \$1,000,000 of the Workforce Job Readiness and Training Funds shall be dedicated to MOHCD’s program for economic advancement for families and individuals.”

funds general capacity building for prior SoMa Stabilization Fund grantees, Kultivate Labs (\$74,800) and United Playaz (\$40,000).

**Exhibit 1: Community Advisory Committee Funding Recommendations**

<b>Program Area</b>	<b>Organization</b>	<b>Project Description</b>	<b>Amount</b>
<b>Capacity Building</b>	Kultivate Labs (Non-profit economic development and arts organization)	Staff training and new Customer Relationship Management system	\$74,800
<b>Capacity Building</b>	United Playaz (Non-profit violence prevention and youth development organization)	Restructuring operations system and donor management database	\$40,000
			<b>\$114,800</b>

Source: MOHCD

**FISCAL IMPACT**

The SoMa Community Stabilization Fund has a current balance of \$10,270,756. If the proposed spending resolution, as amended, is approved, then the project balance would be \$7,686,331, as shown in Exhibit 2.

**Exhibit 2: SoMa Community Stabilization Fund**

<b>Current Balance</b>	\$10,270,756
FY 2022-23 Unspent Encumbered Funds	(369,625)
FY 2022-23 Expenditures Approved by BoS but Unencumbered	(2,100,000)
<b>Balance Available</b>	<b>\$7,801,131</b>
<b>Authorizing Resolution</b>	
Two projects, File 23-0812	(114,800)
<b>Remaining Balance</b>	<b>\$7,686,331</b>

Source: MOHCD

The contracts for Kultivate Labs and United Playaz will be prepared after the Board authorizes these expenditures and therefore were not available for our review.

**RECOMMENDATIONS**

1. Amend the proposed resolution to reduce the not-to-exceed amount from \$3,014,800 to \$114,800.
2. Approve the proposed resolution as amended.