CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: March 27, 2024 Budget and Finance Committee Meeting

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Item 3 File 24-0192	Department: Department of Public Health

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves (1) a Repayment Agreement between Baker Places, Inc. (Baker Places) and the Department of Public Health for Baker Places to repay debt of $7.7 million, and (2) a Purchase and Sale Agreement for the Department of Public Health to acquire 333 7th Street for $3 million.

Key Points

- Baker Places provides residential and behavioral health services through contracts with the Department of Public Health. Positive Resource Center acquired Baker Places in 2017.
- Since FY 2021-22, Baker Places has exceeded its allocated budget, incurring debt to the Department of Public Health of $7.7 million. Under the proposed resolution, Baker Places would make annual debt payments to the Department totaling $4.7 million over 22 years and transfer to the Department ownership of the residential facility at 333 7th Street with an appraised value of $3 million.

Fiscal Impact

- Total costs for the purchase of 333 7th Street are $9.97 million, including $3 million credited to the debt owed by Baker Places to the Department of Public Health and $6.97 million in renovation costs, including installation of an elevator. Although the total estimated cost for purchase and renovation of 333 7th Street is $9.97 million, we recommend approval of the Purchase and Sale Agreement because it meets the Department's objectives of preserving residential care beds and providing debt repayment.

Policy Consideration

- According to the Financial Sustainability Plan for Baker Places, the nine program sites owned by Positive Resource Center/Baker Places have long-term capital needs for which a revenue source has not been identified. 2153-2157 Grove Street and 214 Dolores Street are two of the nine sites, for which Baker Places has outstanding loans from the Mayor's Office of Housing and Community Development with loan payments deferred until 2050 and 2051 respectively.

Recommendations

- Approve the proposed resolution.
- Because Positive Resource Center/Baker Places have insufficient real estate and asset management capacity and lack revenue sources for long-term capital needs, we recommend that the Board of Supervisor request a plan from the Mayor's Office of Housing and Community Development and the Department of Public Health by September 30, 2024, for the City to assume ownership of 214 Dolores Street and 2153-2157 Grove Street and place these properties under the jurisdiction of the Department of Public Health.

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 23.3 states that the Board of Supervisors must approve acquisitions and conveyances of real property by resolution. An appraisal of the property is required if the Real Estate Division determines that the fair market value is greater than $10,000.

BACKGROUND

The Department of Public Health (Public Health) has four contracts with Baker Places, Inc. (Baker Places), a nonprofit organization, to provide mental health and substance use disorder services. These four contracts provide 203 residential treatment beds, shown in the Attachment. The FY 2023-24 contract budgets total $18.0 million.

Exhibit 1: Public Health Contracts with Baker Places

Program	FY 2021-22	FY 2022-23	FY 2023-24
Hummingbird Potrero	$3,261,247	$3,698,436	$3,848,281
Hummingbird Valencia	2,515,316	2,855,017	2,990,630
Ferguson Place	1,600,674	2,212,046	2,010,013
Baker Regular (Residential & Housing)	12,839,463	12,971,463	9,173,338
Total	$20,216,700	$21,736,962	$18,022,262

Source: Department of Public Health

Positive Resource Center, a nonprofit organization, purchased Baker Places in 2017 and entered into an Affiliation Agreement in which Positive Resource Center is the sole corporate member of Baker Places, Inc. Positive Resource Center and Baker Places remain legally separate but report their finances in a consolidated financial statement, discussed in more detail below.

In FY 2021-22, Baker Places and Positive Resource Center exceeded the allocated budget for several programs. In June 2022, the Board of Supervisors approved one-time, limited-term grants of $1.2 million through June 2023 to ensure Positive Resource Center and Baker Places financial solvency. In November 2022, the Department of Public Health presented to the Board of Supervisors a plan to stabilize the financial condition of and programs provided by Positive Resource Center/Baker Places, including transferring some programs to other nonprofit providers.

The Controller's Citywide Nonprofit Monitoring Report for FY 2022-23 identified Positive Resource Center/Baker Places as "elevated concern" based on FY 2022-23 monitoring results.[1] Positive Resource Center/Baker Places were to develop an action plan to address fiscal and

[1] Positive Resource Center/Baker Places had been on "red flag" status based on FY 2021-22 monitoring results, indicating that the organizations had been at imminent risk of being unable to provide contracted services.

organizational concerns in FY 2023-24. In February 2023, the Controller's Office funded preparation of a long term sustainability plan for Positive Resource Center/Baker Places, prepared by the nonprofit Community Visions, which is discussed in more detail below.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would:

- Approve a Repayment Agreement for Baker Places Inc. (Baker Places) to repay the Department of Public Health (Public Health) $7,669,814 over approximately 22 years from April 1, 2024 through January 31, 2046;
- Approve a Purchase and Sale Agreement between the City and Baker Places in which the City would purchase property owned by Baker Places located at 333 7th Street for a purchase price of $3,000,000, and authorize the Director of Property to accept the property on behalf of the Department of Public Health; and
- Approve the Planning Department's determination under the California Environmental Quality Act (CEQA) and conformance of the Purchase and Sale Agreement to the City's General Plan.

Debt Owed by Baker Places/Positive Resource Center to Department of Public Health

The Department of Public Health calculated that Positive Resource Center/Baker Places owes the Department $7,850,815. This amount includes (a) advances made by Public Health to Baker Places in FY 2021-22 and FY 2022-23 that were not repaid and (b) findings from a compliance audit in FY 2015-16.

Repayment Agreement

The proposed Repayment Agreement is for a term of nearly 22 years from April 2024 through January 2046 and provides for Baker Places to pay the debt owed to the Department of Public Health through transfer of ownership of 333 7th Street to the City and through monthly cash payments.

333 7th Street Transfer

Baker Places and the City entered into a Letter of Intent in July 2023 to transfer 333 7th Street to the City. The City's payment of $3 million for 333 7th Street would be credited against the outstanding debt of $7,850,715, reducing the balance to $4,850,715.

Debt Payment

According to the Department of Public Health, Baker Places made debt payments of $180,900 between July 2023 and March 2024, reducing the debt balance from $4,850,715 to $4,669,815 The Repayment Agreement provides for Baker Places to make monthly debt payments of $20,100 for 262 months between April 2024 and January 2046. Interest would accrue on the unpaid balance at an annual rate of 1.12 percent.[2]

Other Terms

Other major Repayment Agreement terms include:

- Baker Places may accelerate debt repayment without renegotiating the terms of the Agreement. If Baker Places' available unrestricted cash exceeds the six-month operating reserve target each year as of August 31, fifty percent of the excess cash will be applied toward debt repayment.
- Advance payments made by Public Health to Baker Places under existing or future contracts will be eliminated.
- Two properties owned by Baker Places – Robertson Place at 921-923 Lincoln Way and San Jose Place at 673 San Jose Avenue – serve as collateral for the debt repayment. The existing mortgages on these two properties are due to terminate in June 2024, and at termination, Baker Places is to record deed restrictions to assign the City as the first lien on each property.

Purchase & Sale Agreement

The Purchase & Sale Agreement provides for the City to acquire the property at 333 7th Street, which consists of a 7,600 square foot, two-story building. The property is licensed by the State of California as a 16-bed residential care facility. Baker Places previously operated the facility as the Jo Ruffin residential care under a contract with the Department of Public Health, but the facility is currently closed.

The City is purchasing the property "as is" for a purchase price of $3 million. The appraised fair market value in the existing condition, which the appraisal report defines as fair-to-average, is consistent with the purchase price of $3 million.

According to discussions with Department of Public Health staff, the Department would contract with a private provider to operate the residential care facility.

Repayment Agreement and Purchase & Sale Agreement

According to the Purchase & Sale Agreement, the City would pay Positive Resource Center/Baker Places $3 million at the close of sale. According to the Repayment Agreement, upon closing of the 333 7th Street sale, the City will credit the sale proceeds against the debt owed by Positive Resource Center/Baker Places to the City.

Property Condition Assessment

The Department of Public Works conducted a general condition assessment of 333 7th Street in February 2023. According to the assessment report, the building would require major renovation.

[2] Monthly payments of $20,100 over 262 months, totaling $5,266,500, would equal principal of $4,669,715 and interest of $596,377.

According to Department of Public Health facilities staff, the estimated costs to make necessary repairs to 333 7th Street would be $6.97 million. Of this amount, $5.8 million is for installation of an elevator to the second floor and bathroom renovations. The balance is for roof repairs, window repairs, painting, and other work. According to Drew Murrell, Public Health Controller, one-time general fund allocations for residential treatment beds would be used for the costs of repairs.

FISCAL IMPACT

Repayment Agreement

The Repayment Agreement provides for Positive Resource Center/Baker Places to repay $4,669,815 over 262 months. The unpaid balance accrues interest of 1.12 percent annually. Payments are $20,100 per month or $241,200 per year. According to the audited financial statement for Baker Places for FY 2020-21, the most recent year in which an audited financial statement was available, more than 95 percent of Baker Places revenues come from its contracts with the Department of Public Health. In FY 2021-22, the audited financial statements for Positive Resource Center and Baker Places were consolidated. According to the FY 2021-22 consolidated financial statement, Positive Resource Center/Baker Places reported approximately 23 percent of revenues from sources other than Department of Public Health contracts.

According to discussions with Department of Public Health staff, although City contracts are Baker Places' main revenue source, repayment of the debt to the Department is not included in contract budgets. The Department's contracts have two forms of payment: cost reimbursement and fee-for-service. Reimbursement of contractor costs is based on detailed pre-approved budgets and do not include debt repayment. Payment of fees for services are based on pre-approved rates for units of service, which are intended to be consistent with rates paid to other contractors for comparable services. According to Department staff, debt repayment by Baker Places to the Department of Public Health will need to be sourced from non-City revenues or from cost savings in fee-for-service contracts.

Purchase and Sale Agreement

The appraised fair market value for 333 7th Street of $3 million is based on the building's existing condition, deemed by the appraisal report to be fair to average. Estimated costs of required repairs are $6.97 million. Therefore, the total cost to the City to purchase 333 7th Street from Positive Resource Center/Baker Places would be $9.97 million. Of this amount $3 million would be a credit against the debt owed by Baker Places to the Department of Public Health and $6.97 million would be General Fund.

Costs to Acquire 333 7th Street

The cost to the City of $9.97 million to acquire and renovate 333 7th Street equals $1,312 per square foot. The cost of $1,312 per square foot for acquisition and renovation of 333 7th Street is approximately 25 percent more than the $1,053 cost for per square foot for acquisition and renovation of the 9-bed residential facility at 2153-2157 Grove Street and approximately 40 percent less than the $2,214 cost per square foot for acquisition and renovation of 822 Geary

Boulevard. According to the Department of Public Health staff, renovation and use of 822 Geary Boulevard differs from 333 7th Street in that 822 Geary Boulevard provides acute diversion beds for limited stay and has a broader scope of renovation than 333 7th Street, which provides residential care for longer stays and for which the major renovation cost is installation of an elevator.

Although the total estimated cost for purchase and renovation of 333 7th Street is $9.97 million, we recommend approval of the Purchase and Sale Agreement because it meets the Department's objectives of preserving residential care beds and providing debt repayment.

POLICY CONSIDERATION

Financial Sustainability Plan

According to the February 2023 Financial Sustainability Plan prepared by Community Visions, Baker Places showed financial deficits beginning in 2011. The Plan identified insufficient Department of Public Health contract funding to cover indirect costs and lack of financial staff and systems as sources of the financial deficit. Baker Places' FY 2020-21 audited financial statement identified specific internal control weaknesses contributing to the financial deficit, including insufficient practices for payroll and journal entries and insufficient segregation of duties. Baker Places' deficit as of June 30, 2021 was $6.6 million.[3]

The Plan's objectives include: (1) residential programs will be scaled to streamline operations and focus on well-utilized programs; (2) operating reserves will be set at 30 days, increasing to 60 days; (3) overhead and administrative expenses will be reduced; (4) a process to reduce outstanding debt will be developed; and (5) processes to address financial audit findings will be developed.

Residential Programs

Four residential programs funded under the existing contracts between the Department of Public Health and Baker Places have been transferred or are not currently operating. Two programs – Acceptance Place and Jo Healey – were transferred to HealthRight 360. Two other programs are not operating. Jo Ruffin was previously operated at 333 7th Street and as noted above, is not currently operating. According to Department of Public Health staff, on purchase of 333 7th Street by the City, the Department will seek another provider for residential care services to replace Jo Ruffin. Grove Street House ceased operations in FY 2021-22 for renovation and reopening has been delayed due to delays in hiring staff.

Other Financial Sustainability Plan Recommendations

The Financial Sustainability Plan recommends other actions to ensure ongoing financial sustainability. Recommendations include:

[3] Two audited financial statements were submitted in FY 2020-21: a financial statement specific to Baker Places and a consolidated financial statement for Positive Resource Center/Baker Places. In FY 2021-22, only a consolidated financial statement for Positive Resource Center/Baker Places was submitted.

- Renegotiating contracts to fully provide for the direct cost of services, including the costs of wage increases negotiated with unions. According to the Plan, Baker Places direct costs exceed contract budgets by $1.2 million.
- Allocating costs for buildings, information systems, and administrative staff time to programs based on actual costs attributable to these programs.
- Applying fees paid by clients (approximately $326,000 in FY 2021-22) to a capital reserve to ensure funds for maintenance of facilities.
- Hiring a position to oversee real estate and asset management.

The Financial Services Plan also recommends that Positive Resource Center and Baker Places complete the merger of the two organizations to streamline banking, accounting, asset management, and other financial activities.

Our review of the financial plan for FY 2023-24 shows that revenues, especially from City contracts, would need to increase by 5 percent to fully fund direct costs for services and indirect costs.

Positive Resource Center/Baker Places Properties

The Positive Resource Center/Baker Places owns nine program sites, six of which were purchased or renovated with government financing.[4] Two properties owned by Positive Resource Center/Baker Places have outstanding City loans.

- 214 Dolores Street, an 8-bed residential facility, was purchased in 2001 with a $1,122,520 loan from the former Redevelopment Agency, funded by federal Housing Opportunities for People With AIDS (HOPWA) funds. The loan restricts use of the facility to individuals living with HIV/AIDS. The loan accrues simple interest of 3 percent per year. Loan payments are deferred unless the project generates surplus cash; all surplus cash generated in the year are applied to loan payments. The current loan balance is $1,082,209 (in the 21 years since Baker Places obtained the loan, Baker Places has paid $40,311 in principal). Outstanding principal and interest are due when the loan matures in 2051.[5]
- 2153-2157 Grove Street, a 9-bed residential facility was purchased in 2020 with a $3,940,000 loan from the Mayor's Office of Housing and Community Development, funded by the Small Sites Program. The loan accrues simple interest of 3 percent per year. Loan payments are deferred. Outstanding principal and interest are due when the loan matures in 2050.

According to the Financial Sustainability Plan, the nine program sites owned by Positive Resource Center/Baker Places have long-term capital needs for which a revenue source has not been

[4] Positive Resource Center/Baker Places also leases administrative offices at 190 9th Street. According to the Department of Public Health staff, Positive Resource Center/Baker Places negotiated a rent reduction for the administrative office lease.

[5] In addition, Baker Places received a $300,000 forgivable loan for 214 Dolores Street from the Redevelopment Agency to pay predevelopment costs.

identified. The Plan also notes that Positive Resource Center/Baker Places needs to develop real estate and asset management capacity to effectively manage its residential properties. Because Positive Resource Center/Baker Places have insufficient real estate and asset management capacity and lack revenue sources for long-term capital needs, we recommend that the Board of Supervisor request a plan from the Mayor's Office of Housing and Community Development and the Department of Public Health for the City to assume ownership of 214 Dolores Street and 2153-2157 Grove Street and place these properties under the jurisdiction of the Department of Public Health. The Department could lease the properties to Positive Resource Center/Baker Places to provide residential services. This would allow Positive Resource Center/Baker Places to direct its resources to providing services to clients, ensure preservation of residential beds, and provide the Department of Public Health flexibility to contract with another service provider if Positive Resource Center/Baker Places were unable to continue providing services.

RECOMMENDATIONS

1. Approve the proposed resolution.
2. Request a plan from the Mayor's Office of Housing and Community Development and the Department of Public Health by September 30, 2024, for the City to assume ownership of 214 Dolores Street and 2153-2157 Grove Street and place these properties under the jurisdiction of the Department of Public Health.

Program	Contract Amount *	Expiration	Beds	Ownership	Leased
Hummingbird Potrero	$27,233,566	Jun 30, 2026	43	City	
Hummingbird Valencia	$9,540,278	Jun 30, 2024	30		Leased
Ferguson Place	$7,191,630	Dec 31, 2024	12	Baker Places	
Programs - Multiple Sites	$120,789,738	Jun 30, 2027			
Assisted Independent Living			69		Scattered Sites
Odyssey House			10	Baker Places	
Baker Street House			16	Baker Places	
Robertson Place			12	Baker Places	
San Jose Place			11	Baker Places	
Total	**$164,755,212**		**203**		

Source: Department of Public Health Contracts with Baker Places

* The contract for Baker Places Programs (multiple sites) is for $120.8 million over 8.5 years. The total contract amount originally included two programs transferred from Baker Places to HealthRight 360 (Acceptance Place (10 beds) and Jo Healey (12 beds)) and two programs not currently operating (Jo Ruffin (16 beds) and Grove Street House (9 beds)).

Item 4 File 24-0049	Department: Airport

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the COVID-19 Lease Extension Program for approximately 88 concession tenants at the San Francisco International Airport (Airport), extending the lease terms by up to three years and six months for eligible concessionaires.

Key Points

- The COVID-19 pandemic and associated Shelter-in-Place order severely impacted the aviation industry and activity at the Airport. To support concession tenants impacted by the COVID-19 pandemic, Airport staff has proposed extending concession lease terms by up to three years and six months, consistent with the period that the Airport experienced a decline of enplanements (March 2020 through August 2023). The lease extension would help concession tenants to amortize investment costs, achieve more favorable terms with lenders, and recoup business losses.
- The Airport has identified 88 concession leases that qualify for the program, including 53 food and beverage concessions, 33 retail concessions, and two service concessions. 70 of the 88 leases would receive extensions for the full three years and six months allowed by the program.

Fiscal Impact

- Airport concession tenants pay the greater of Minimum Annual Guaranteed (MAG) rent or percentage rent based on gross revenues. Of the 88 leases that would be extended, 38 leases currently have a MAG rent that has been reinstated, and 50 leases do not have a MAG rent due to holdover status or weaker enplanement recovery in gates near the lease locations. If MAG rents were reinstated for all leases, the total value of the MAG rent for the leases in the COVID-19 Lease Extension Program would be approximately $49.3 million, excluding the Smarte Carte lease.
- The Smarte Carte lease includes both a fee paid to Smarte Carte for free cart service in the international arrivals area and rent paid to the Airport. The net difference between the Annual Service Fee and MAG rent is an annual cost of $1.5 million to the Airport

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(c) states that (1) any lease of real property for ten or more years, including options to renew, (2) have anticipated revenues to the City of $1,000,000, or (3) the modification, amendment or termination of these leases is subject to Board of Supervisors approval.

BACKGROUND

The COVID-19 pandemic and associated Shelter-in-Place order severely impacted the aviation industry and activity at San Francisco International Airport (Airport). Due to reduced passenger activity and required closures, the number of operational food and beverage, retail, and passenger service businesses at the Airport declined from 149 locations to 27 in March 2020. In January 2021, the Board of Supervisors approved an ordinance delegating authority to the Airport to modify leases without further Board of Supervisors' approval, consistent with the Airport's COVID-19 Emergency Rent Relief Program, which allowed the Airport to waive certain rents and fees for eligible concession tenants (File 20-1278). The Airport has received approximately $51.5 million in Federal COVID-19 stimulus funding to offset revenue losses from these waivers.

Airport enplanement activity has recovered but remained approximately 18.2 percent below FY 2018-19 levels in FY 2022-23. Airport concession leases typically contain a standard provision that suspends Minimum Annual Guaranteed (MAG) rents when enplanements drop below 80 percent of base year enplanements for three consecutive months, defined as a "severe decline in enplanements." Some MAGs are still suspended due to the severe decline in enplanements lease language. The language is specific to the boarding area where the concession is located and comparison periods vary by lease MAG rents are then reinstated when enplanements recover to at least 80 percent of base year enplanements for two consecutive months. To support concession tenants impacted by the COVID-19 pandemic, Airport staff has proposed extending concession lease terms by up to three years and six months, consistent with the period that the Airport as a whole experienced a "severe decline of enplanements" (March 2020 through August 2023). The lease extension would help concession tenants to amortize investment costs, achieve more favorable terms with lenders, and recoup business losses. In September 2023, the Airport Commission approved the COVID-19 Lease Extension Program.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the COVID-19 Lease Extension Program for certain Airport food and beverage, retain, and service concession tenants, extending the lease terms by up to three years and six months.

Lease Extensions

The Airport has proposed the concession lease extensions as follows:

- Eligible concessionaires that were in operation at the start of the pandemic in March 2020 would receive an extension of three years and six months;

- Eligible concessionaires that were not in operation at the start of the pandemic but subsequently commenced operation would receive an extension equal to the number of months they operated in the pandemic period (March 2020 through August 2023) and
- Clear Channel Outdoor, LLC is required to install its permanent equipment in Terminal 1, as specified in its lease, to be eligible for a lease extension.

Leases that have already been extended would have the extension term added to the end of the existing term. Leases in holdover status would have the extension term begin the first day of the first month following approval of the COVID-19 Lease Extension Program. If the Airport must terminate a lease early, the extension term would not be used to calculate any buyout of unamortized construction costs.

The following concessionaires and permittees would not be eligible for lease extensions:

- Concessionaires or permittees operating under short-term leases or permits, such as retail pop-up tenants, the espresso vending machine operator, and food trucks;
- Concessionaires within the footprint of the Terminal 3 West and International Terminal Arrivals area renovation projects, as those spaces will be impacted over the next two to three years;
- The Terminal 2 News, Coffee, and Specialty Store lease with World Duty Free Group North America, LLP, because another lease has been awarded to provide most of the services offered under the lease;
- The luxury and duty free retail lease in the International Terminal and in Terminal 1 with Duty Free Group, because the Airport is seeking to amend the lease to provide rent relief
- American Express Travel Related Services, Inc. (AMEX), because it was extended by seven years in 2020 related to a sizable premises expansion;
- Service concessionaires, including Airport Mailers, Airport Terminal Services, Bank of America, Alclear, Grab SFO, New Cingular Wireless, SFO Shoeshine, and Wells Fargo;
- Rental Car Concessions; and
- Concessionaires who are not current with deposits, insurance, and accounts receivable obligations under their lease.

Airport staff reports that two food and beverage concessionaires (Joe & the Juice New York, LLC and Rylo Management, LLC) were also excluded due to concerns raised regarding the Airport's Labor Peace/Card Check Rule. If the Airport finds that these tenants are in compliance, it will include them in the program and request approval of lease extensions.

Out of 133 concession leases, the Airport has determined that 88 leases qualify for the COVID-19 Lease Extension Program, as follows:

- 53 food and beverage concessions;
- 33 retail concessions; and
- Two service concessions for advertising and luggage carts.

Attachments A, B, and C to the proposed resolution are included in the file and list the 88 qualifying leases. Of the 88 leases, 70 would receive extensions for the full three years and six months allowed by the program. Only the 88 leases that are included in the attachments to the proposed resolution may be extended.

FISCAL IMPACT

Airport concession tenants pay the greater of MAG rent or percentage rent based on gross revenues. As noted above, Airport concession leases typically contain a standard provision that suspends MAG rents when enplanements drop below 80 percent of base year enplanements for three consecutive months. MAG rents are then reinstated when enplanements in the boarding area where the concession lease is located recover to at least 80 percent of base year enplanements for two consecutive months. Due to the COVID-19 pandemic's impact on air travel, MAG rents were suspended from March 2020 through August 2023. When MAG rents are suspended, tenants still pay percentage rent, which may be less than the MAG.

Of the 88 leases that would be extended under the COVID-19 Lease Extension Program, 38 leases currently have a MAG rent that has been reinstated, 21 leases are currently in holdover status and do not have a MAG rent, and 29 leases have not had MAG rents reinstated due to weaker enplanement recovery in gates nearby the lease locations. For leases on holdover, the proposed extension would reactive the MAG, assuming the associated boarding area is not still experiencing a severe decline in enplanements. If MAG rents were reinstated for all leases, the total value of the MAG rent for the leases in the COVID-19 Lease Extension Program would be approximately $49.3 million.[1] This amount excludes the Smarte Carte lease, which is noted below.

Smarte Carte

The Smarte Carte lease is unique in that it typically has greater costs than revenues for the airport. Under the lease, Smarte Carte provides at least 2,000 luggage carts in the Federal Inspection Service (FIS) area free of charge for arriving international passengers. As compensation, the Airport pays Smarte Carte an Annual Service Fee, which is the lesser of per cart fee used in the FIS area or $4,174,960, subject to annual adjustment.[2] In addition, Smarte Carte pays the Airport the greater of MAG rent, which is $1,114,747, or 19 percent of gross revenues for luggage carts in areas where they are charged for use. As of this writing, the net difference between the Annual Service Fee and MAG rent is an annual cost of $1.5 million to the Airport.

[1] This amount relies on the original MAG amounts and does not include escalation for leases in holdover or under MAG suspension.

[2] From approximately June 2021 through June 2023, the Airport suspended free cart service in the FIS area as a way to reduce costs and increase revenues. During this time, the Annual Service Fee paid to Smarte Carte was suspended and the Airport received greater rents due to sales in the FIS area. Due to improving business conditions, the Airport reinstated free FIS cart service in June 2023 (File 23-0434).

RECOMMENDATION

Approve the proposed resolution.

Item 5 File 24-0051	Department: San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve Modification No. 11 to the project management support services contract for the Courtyard 3 Connector Project between the San Francisco International Airport (Airport) and PGH Wong & Partners JV (PGH Wong), increasing the not-to-exceed amount by $20,400,000, for a total not to exceed $45,400,000, and extending the term by two years through January 25, 2027, and make findings under the California Environmental Quality Act (CEQA).

Key Points

- The Airport's Courtyard 3 Connector Project includes a pre-security and post-security connector between Terminals 2 and 3, as well as an adjacent five-story building for office space (including the Airport Integrated Operations Center, or AIOC), tenant lease space, passenger amenities, and lounges. The terminal connector and building shell are complete, as well as the design update for the building functionality refinements. Construction on the building interior has begun. The anticipated substantial completion date of July 2025 has not changed since the previous contract modification, but phased office staffing and technology relocations are anticipated to continue through January 2027. The Airport proposes extending the contract term through January 25, 2027 to support this transition.
- PGH Wong's support services include project and construction management, quality assurance oversight, building code compliance, safety policy, procedure oversight, project controls, scheduling, contract administration, cost estimating services, and field inspections.
- The contract increase is largely due to an increase in the number of subject matter experts from 2.5 full-time equivalent (FTE) employees to approximately 12.75 FTE employees. The Airport requested more subject matter experts to advise on resource planning, processes, operations, technology, and data processing.

Fiscal Impact

- The proposed Modification No. 11 would increase the not-to-exceed amount of the contract by $20,400,000, for a total not to exceed $45,400,000. The contract is funded by Airport capital funds.

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

The San Francisco International Airport's (Airport) Courtyard 3 Connector Project includes a pre-security and post-security connector between Terminals 2 and 3, as well as an adjacent five-story building for office space, tenant lease space, passenger amenities, and lounges. In December 2017, after conducting a Request for Proposals (RFP) process, the Airport Commission awarded a project management support services contract to PGH Wong & Partners JV (PGH Wong), a joint venture then consisting of PGH Wong Engineering, Inc., CFWright Consulting, LLC, and Avila Associates Consulting Engineers, Inc. for an initial one-year term from March 12, 2018 through March 12, 2019 and an amount not to exceed $3,250,000. The contract has since been modified 10 times, as shown in Exhibit 1 below.

Exhibit 1: Previous Contract Amendments

No.	Date	Approval	Description
1	9/1/2018	Administrative	Amended overhead rates
2	2/19/2019	Airport Commission	Extended term by 1 year through March 12, 2020 and increased not-to-exceed amount to $8,250,000
3	10/18/2019	Administrative	Amended base labor rates
4	2/18/2020	Airport Commission	Extended term by approximately 2 years and 3 months through June 30, 2022, increased the not-to-exceed amount to $9,750,000, and removed CFWright as a joint venture member
5	6/23/2020	Board of Supervisors	Increased not-to-exceed amount to $17,250,000 (File 20-0418) to accommodate the increased scope of work of Courtyard 3 project
6	11/23/2020	Administrative	Amended base labor rates
7	4/5/2022	Airport Commission	Extended term by 1 year and 6 months through December 31, 2023, added subconsultant STOK LLC, and amended labor rates
8	11/21/2022	Administrative	Added subconsultant Helton Ventures
9	2/7/2023	Board of Supervisors	Extended term by approximately 1 year and 1 month through January 25, 2025 and increased not-to-exceed amount to $25,000,000 (File 23-0010)
10	7/7/2023	Administrative	Amended base labor rates and added subconsultant M2P Consulting[1]

Source: Airport, Previous Contract Modifications

In January 2024, the Airport Commission approved Modification No. 11 to the contract.

[1] As of Modification No. 10 to the contract, PGH Wong's subcontractors are Chaves & Associates, Helton Ventures LLC, M2P Consulting, Montez Group, Saylor Consulting Group, Stok LLC, Studio 151, and UDC Pros.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Modification No. 11 to the Airport's project management support services contract with PGH Wong, increasing the not-to-exceed amount by $20,400,000, for a total not to exceed $45,400,000, and make findings under the California Environmental Quality Act (CEQA).

The resolution incorrectly states that Modification No. 11 would not change the contract term. According to Victor Madrigal, Airport Principal Administrative Analyst, this was an oversight in the drafting of the resolution. The Airport will request an amendment to the proposed resolution to state that Modification No. 11 would extend the contract term by two years through January 25, 2027.

Under the proposed Modification No. 11, PGH Wong would continue to provide project management support services for the Courtyard 3 Connector Project. Support services include project and construction management, quality assurance oversight, building code compliance, safety policy, procedure oversight, project controls, scheduling, contract administration, cost estimating services, and field inspections.

Contract Term

The total contract term from December 2017 through January 2027 is approximately 5.5 years longer than the 40-month term specified in the original RFP because the Courtyard 3 Connector Project and associated design-build contract scope and timeline increased, requiring continued project management and support services. According to Principal Administrative Analyst Madrigal, the anticipated substantial completion date of July 2025 has not changed since the previous contract modification (File 23-0010) but phased office staffing and technology relocations are anticipated to continue through January 2027. The Airport proposes extending the contract term through January 25, 2027 to support this transition.

Project Status

In February 2023, the Budget and Legislative Analyst noted that the terminal connectors and building shell were complete and that the remaining scope of the Courtyard 3 Connector Project was the building interior, including the buildout of the Airport Integrated Operations Center (AIOC) on the fourth floor of the building. The AIOC will integrate the Airport's Communication Center, Security Operations Center, and Emergency Operations Center into one location and also house staff from the Airport Operations and Facilities Departments, which, according to Airport staff, is intended to improve operational performance. According to Principal Administrative Analyst Madrigal, the design update for the building functionality refinements has been completed, and construction on the interior has begun. Construction on the AIOC is scheduled to begin in March 2024. The design-build project budget has increased by approximately $28 million from $322 million to $350 million since February 2023 due to revised cost estimates and improvements in building functionality. Including Airport internal costs, professional services, and construction, the total project budget is approximately $412.5 million.

Performance Monitoring

The contract is subject to compliance with standard report and monitoring requirements. Annual performance requirements for the contract include reporting on the following criteria categories: (1) general issues (management, technical expertise, responsiveness to requests, follow-up to tasks, dependability and trust, and independent action); (2) project controls; (3) data entry; (4) change order preparation; (5) quality control; (6) contract administration; (7) teamwork and communication; (8) management of the project cost and schedule; (9) team resources management; and (10) safety and security. In the two most recent performance evaluations, dated March 31, 2023 and September 14, 2023, PGH Wong met or exceeded expectations in all 31 measures.

FISCAL IMPACT

The proposed Modification No. 11 would increase the not-to-exceed amount of the contract by $20,400,000, for a total not to exceed $45,400,000. Contract costs are primarily labor costs ranging from $21 to $131 per hour. Actual contract expenditures through December 2023 total $21,129,819.

When Contract Modification 9 was approved by the Board of Supervisors in February 2023, the contract's annual costs were approximately $4 million, excluding project initiation, pauses, and wind-down periods. The proposed Contract Modification No. 11 increases annual costs to approximately $10.68 million in FY 2023-24 and $9.94 million in FY 2024-25. According to Principal Administrative Analyst Madrigal, the contract increase is largely due to an increase in the number of subject matter experts from 2.5 full-time equivalent (FTE) employees to approximately 12.75 FTE employees, the need for which was not anticipated at the time of the prior contract amendment. The Airport requested more subject matter experts to advise on resource planning, processes, operations, technology, and data processing. Contract expenditures are also higher in FY 2023-24 and FY 2024-25 due to higher staffing to complete the project construction closeout. In addition, the proposed modification would extend the contract's term from January 2025 through January 2027 to support phased staffing relocations and ensure a smooth transition of critical operations to the AIOC. Projected expenditures for the remainder of the contract term and proposed extension are shown in Exhibit 2 below.

Exhibit 2: Projected Contract Expenditures

Task	FY 2023-24 (6 Months)	FY 2024-25	FY 2025-26	FY 2026-27 (7 Months)	Total
Construction Management	$4,096,262	$7,165,660	$5,534,326	$2,025,766	$18,822,015
Project Controls	334,553	635,212	364,401	63,909	1,398,075
Architectural Support	245,002	431,548	152,084	-	828,634
Contract Administration	491,450	1,413,652	548,724	85,212	2,539,038
Inspection	30,000	85,000	31,000	-	146,000
Other Direct Costs	143,470	205,800	127,150	60,000	536,420
Total Projected Expenditures	**$5,340,737**	**$9,936,872**	**$6,757,685**	**$2,234,887**	**$24,270,181**
Actual Expenditures (Through December 2023)					21,129,819
Total Not-to-Exceed					**$45,400,000**

Source: Airport

The contract is funded by Airport capital funds.

RECOMMENDATION

Approve the proposed resolution.

Item 6 **File 24-0234**	**Department:** Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a loan of $13 million to 249 Pennsylvania Associates, L.P. to acquire property located at 249 and 201 Pennsylvania Avenue and 935 Mariposa Street for affordable housing development and pay for predevelopment costs.

Key Points

- In May 2023, the Mayor's Office of Housing and Community Development (MOHCD) issued a revised Notice of Funding Availability (NOFA) for $66.5 million for acquisition and predevelopment financing of affordable housing. In response to the NOFA, MOHCD awarded financing to a project sponsored by Tenderloin Neighborhood Development Corporation (TNDC) and Young Community Developers at 249 Pennsylvania Avenue and four other projects. The project is anticipated to provide 120 housing units for formerly homeless households and households at or below 80 percent Area Median Income (AMI).
- The site has been acquired by TNDC using an acquisition loan from the Corporation for Supportive Housing (CSH). Of the proposed $13 million loan, $11,964,119 will be used to refund the CSH loan and for associated fees and interest costs. The remaining $1,035,881 will be used for predevelopment costs such as architecture and design, geotechnical studies, and developer fees.
- Repayment of the acquisition loan is due in when construction financing closes for the project but will be considered repaid upon transfer of the land to the City. The loan agreement also includes a 55-year term for the predevelopment loan, repaid with any residual project income, and which may be consolidated with permanent financing.

Fiscal Impact

- The MOHCD predevelopment and acquisition loan of $13 million will be funded by Certificates of Participation (20 percent), previously approved by the Board of Supervisors, and Community Development Block Grant (CDBG) funding (80 percent).

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

In 2022, the Board of Supervisors appropriated $112 million in Certificates of Participation proceeds for FY 2022-2023 intended to develop and repair the City's affordable housing stock in line with the General Plan's housing element. This funding, administered by the Mayor's Office of Housing and Community Development (MOHCD), allocates $40 million for acquisition of 100 percent affordable housing projects in California Debt Limit Allocation Committee (CDLAC)-designated high-resource areas.[1]

Project Selection for Acquisition and Predevelopment Financing

MOHCD issued a Notice of Funding Availability (NOFA) in January 2023 for $40 million in designated City funding for site acquisition and predevelopment financing of affordable housing, including projects for formerly homeless households. The NOFA stated that MOHCD intended to provide 25 to 50 percent of total funding to sites located in CDLAC-defined "High/Highest-resource" areas and provide remaining funding to sites in Priority Equity Geographies[2] as defined in the Housing Element. Additionally, the following goals were established in conjunction with the NOFA:

- Construction to start in December 2026
- Interim Use of the site through construction start in December 2026
- Maximized density
- City subsidy of no more than $350,000 per unit including acquisition costs
- At least 25 percent of units for households experiencing homelessness, subsidized by the City's Local Operating Subsidy Program (LOSP)
- At least 30 percent of units for extremely low-income households, which may include homeless households
- Alignment with MOHCD racial equity goals

[1] CDLAC incorporates the California Tax Credit Allocation Committee (CTCAC) and California Department of Housing and Community Development's (HCD) Opportunity Map designations into their application process. High Resource Areas are those that have been shown by research to be associated with positive socioeconomic outcomes for low-income households.

[2] The Department of Public Health (DPH) defines Priority Equity Geographies as areas with a higher density of vulnerable populations, including but not limited to seniors, people of color, youth linguistically isolated households, people with disabilities, and people who are unemployed or living in poverty.

Proposals were due April 7, 2023, and were evaluated by four MOHCD staff and one staff person from the Department of Homelessness and Supportive housing (HSH) on experience (40 points) and project attributes, which include program, community engagement strategy, service delivery, financing and cost containment, and racial equity strategy (together 60 points).

On May 30, 2023, the NOFA was amended to add $26.5 million in other, unspecified, MOHCD funds, for a total amount of $66.6 million in funding availability.[3] Proposals were due a week later on June 7, 2023, and were evaluated by the same panel using the same criteria as the original NOFA. In response to the NOFA, MOHCD awarded financing to five projects[4] including the 249 Pennsylvania project, jointly sponsored by Tenderloin Neighborhood Development Corporation (TNDC) and Young Community Developers. Exhibit 1 below summarizes the results of the developer procurement.

Exhibit 1: Sites Awarded Funds and Scoring Under 2023 Acquisition and Predevelopment NOFA

Project	Developer	NOFA Score (out of 100)	Estimated Number of Units	Funding Award
250 Laguna Honda	Mission Housing Development Corporation	83.2	115	$8,000,000
3300 Mission	Bernal Heights Housing	82.4	40	$6,500,000
650 Divisadero	Jonathan Rose Co & Young Community Developers	80.0	95	$15,000,000
249 Pennsylvania	Tenderloin Neighborhood Development Corporation & Young Community Developers	79.0	120	$13,000,000
1234 Great Highway	Tenderloin Neighborhood Development Corporation	75.0	216	$24,000,000
Total			**586**	**$66,500,000**

Source: MOHCD Memo for 2023 Acquisition NOFA Recommendations
In December 2023, the Board of Supervisors approved resolutions authorizing the loans for 1234 Great Highway (File 23-1198) and 650 Divisadero (File 23-1199).

According to MOHCD staff, acquisition and predevelopment loans have closed for 3300 Mission, 650 Divisadero, and 1234 Great Highway, and the loan for 250 Laguna Honda is expected to close in April 2024.

[3] The MOHCD Memo for 2023 Acquisition NOFA Recommendations indicates that the scoring panel requested $2,500,000 in additional funds to satisfy the full acquisition and predevelopment costs for the 249 Pennsylvania project. Neither the $24,000,000 funding request amount nor explanation of when 1234 Great Highway was added to applicant pool was discussed in MOHCD's memo. According to MOHCD, additional funding was identified before the NOFA process was complete and the evaluation panel had already been assembled, so it was more efficient to solicit new proposals under the open solicitation rather than devise a new one.

[4] Three other proposals were submitted but disqualified because they did not meet minimum qualifications.

249 Pennsylvania Project

The proposed 249 Pennsylvania project (the Project) will provide 120 affordable housing units, half of which will serve previously homeless households supported by rental subsidies from the Local Operating Subsidy Program. The site is located in a High Resource Neighborhood within Potrero Hill. According to the October 2023 MOHCD Loan Evaluation to the Citywide Affordable Housing Loan Committee (MOHCD Loan Evaluation), the TNDC executed a Purchase and Sale Agreement with the previous site owner in December 2022 with a closing date in October 2023. The Project Sponsor obtained a loan from the Corporation for Supportive Housing (CSH) for up to $14 million to acquire the site and for predevelopment activities related to the Project. MOHCD intends to provide an acquisition and predevelopment loan to the sponsor in order to pay down the CSH loan.

Construction is anticipated to begin in June 2026 and to be substantially complete by December 2028. Although the NOFA required interim use of the site prior to construction start, opportunities for interim use of the site are limited because of the site's lack of infrastructure and zoning according to the MOHCD Loan Evaluation. For example, use of the site for public parking, which does not require significant infrastructure, is not permitted as of right. Expanding use of the site may require approval by the Board of Supervisors and could take six months. According to MOHCD staff, the sponsor is still pursuing leads as of March 2024, but so far there is limited interest in the site for interim uses.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a loan of $13 million to 249 Pennsylvania Associates, L.P., a joint venture of TNDC and Young Community Developers, to acquire property located at 249 and 201 Pennsylvania Avenue and 935 Mariposa Street for affordable housing development and pay for predevelopment costs. The proposed resolution also (1) approves the form of the loan agreement and related documents; (2) ratifies and approves actions previously taken in connection to the project; (3) authorizes actions to be taken to implement the proposed resolution, including to acquire the property in a foreclosure proceeding; and (4) finds that the loan is consistent the City's General Plan and the priority policies of Planning Code Section 101.1.

Loan Agreement

Under the proposed loan agreement, the City would lend 249 Pennsylvania Associates, L.P. a maximum principal amount of $13 million, including an acquisition loan of $11,964,119 and a predevelopment loan of $1,035,881 to repay the CSH loan and accrued interest. The loan agreement assumes the construction will start no later than December 31, 2028.

Acquisition Loan

The acquisition loan of $11,964,119 will not accrue interest. The loan is repaid to the City on the date when construction financing closes for the project or by December 31, 2028, whichever is earlier. The City intends to enter into a purchase and sale agreement with the sponsor to purchase the site at construction closing. At that time, the acquisition loan will be considered paid in full. MOHCD would then enter into a 75-year initial ground lease agreement with the sponsor.

Predevelopment Loan

The predevelopment loan of $1,035,881 will accrue simple interest at a rate of three percent per year. MOHCD may reduce the interest rate to zero percent before December 31, 2028 to make the project financially feasible. The loan is repaid to the City 55 years after the permanent financing conversion date.

Land Banking

According to Section 3.8 of the proposed loan agreement, if the City determines by December 31, 2028 that the Project is unlikely to be developed within a reasonable time period for any reason, including inability of the Project Sponsor to obtain necessary financing, the City may require that the Project Sponsor transfer the fee title of the property either to another nonprofit corporation or affordable housing developer or to the City for an amount equal to the outstanding principal balance of the loan, plus accrued and unpaid interest.

Developer Fee

The proposed loan agreement provides for payment of a developer fee to the Project Sponsor of $550,000 for predevelopment activities, which reflects 50 percent of the Project Management Fee, consistent with MOHCD policies. According to the MOHCD loan evaluation, 75 percent of the fee will go to TNDC and 25 percent of the fee will go to Young Community Developers. The developer fee payment schedule for predevelopment is shown below in Exhibit 2.

Exhibit 2: Predevelopment Developer Fee Schedule

Milestone	% of Project Management Fee	Amount
Acquisition / Predevelopment Closing	15%	165,000
Entitlement Approval	15%	165,000
HCD Funding Application Submission	10%	110,000
CDLAC and TCAC Application Submission	10%	110,000
Total	**50%**	**550,000**

Source: Draft Loan Agreement

Loan Documents

The proposed resolution also approves the following associated loan documents:

- Declaration of Restrictions, which requires the Project Sponsor to maintain the housing affordability levels defined in the loan agreement for the life of the project, even after the loan is paid in full or otherwise satisfied;
- The predevelopment and acquisition promissory notes for the loans; and

- The Deed of Trust between 249 Pennsylvania Associates L.P. and Old Republic Title Company, on behalf of the City as lender.

Unit Mix and Income Levels

The Declaration of Restrictions outlines the maximum unit levels by unit size and rent requirements for the Project. The unit mix by maximum income level is shown in Exhibit 3 below. Fifty percent of units must be rented to homeless households or those at risk of homelessness as long as the City provides rental subsidies to the project through the Local Operating Subsidy Program (LOSP). Rents may not exceed 30 percent of the maximum income level for the unit. The affordability restrictions are in place for the life of the project.

Exhibit 3: Unit Mix and Maximum Income Level for 249 Pennsylvania Project

Maximum Income Level	Studio	2-Bedroom	3-Bedroom	Total
50% of AMI	45	16	17	78
60% of AMI	6	15	6	27
80% of AMI		7	7	14
Unrestricted (Manager's Unit)		1		1
Total	**51**	**39**	**30**	**120**

Source: Draft Declaration of Restrictions

Sponsor Performance

According to the MOHCD loan evaluation, there are no outstanding performance issues with TNDC or Young Community Developers.

FISCAL IMPACT

The MOHCD predevelopment and acquisition loan of $13 million will be funded by Certificates of Participation (20 percent), previously approved by the Board of Supervisors, and Community Development Block Grant (CDBG) funding (80 percent). An environmental review is required to use CDBG funding for the project. According to MOHCD staff the review is still in process as of March 2024 and is anticipated to be complete by mid-April 2024.

Exhibit 4: Sources and Uses of Proposed Loan

Sources & Uses	Amount
Sources	
Community Development Block Grant	$10,400,000
2023 Certificates of Participation	2,600,000
Total Sources	**$13,000,000**
Uses	
Acquisition	11,964,119
Soft Costs	485,881
Developer Fee	550,000
Total Uses	**$13,000,000**

Source: Draft Loan Agreement

Acquisition costs of $11,964,119 include purchase costs of $11,350,000 and interest on the CSH loan. The purchase price, which was negotiated prior to the appraisal, is slightly lower than the as-is market value ($11,460,000) based on an appraisal by Integra Realty Resources in February 2023. According to the MOHCD loan evaluation, the sponsor was able to negotiate a lower purchase price by reducing the seller's transfer tax by approximately $600,000 in return for restricting the site through the Community Opportunity to Purchase Act (COPA). According to the MOHCD Predevelopment costs of $1,035,881 funded by the proposed loan include soft costs of architecture and design, geotechnical studies, legal, entitlement fees, construction management, and predevelopment period developer fee. The CSH predevelopment loan is funding other soft costs totaling $4.0 million.

Permanent Financing

Total development costs for the proposed project are currently estimated to be $123,662,990 or $1,030,525 per unit. The total City subsidy for the project is estimated to be $32,946,355, including the acquisition and predevelopment loans, and comprise 27 percent of estimated project funding. Other funding sources for the Project are expected to be the California Department of Housing and Community Development Multifamily Housing Program, Low Income Housing Tax Credits, and general partner equity. The budget also assumes $150,000 in income from interim use of the property before construction to finance the project. However, an interim use has not yet been identified as discussed above. Prior to disbursement of the proposed loan, the sponsor must provide an interim use plan and budget and must update the MOHCD budget workbook to comply with MOHCD Underwriting Guidelines.

The total City subsidy per unit is currently estimated to be $274,553, which is below the $350,000 per unit cap established in the NOFA. However, the project budget is subject to change due to the early stage of development and other funding sources have not been committed. The City subsidy could increase if project costs increase or if the Project does not receive tax credits or State funding at current budgeted levels.

Any amendments to the proposed loan above $500,000 will be subject to Board of Supervisors' approval, as will any new loans that cost more than $10 million.

RECOMMENDATION

Approve the proposed resolution.

Items 7 - 10 Files 24-0230, 24-0231, 24-0232 and 24-0233	Department: Mayor's Office of Housing & Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolutions would approve four senior operating grant agreements for four affordable housing projects: 1296 Shotwell (File 24-0230), Transbay Block 2 West (File 24-0231), 4200 Geary (File 24-0232), and 1005 Powell (File 24-0233).

Key Points

- In July 2019, the Board of Supervisors established a Senior Operating Subsidies Program Fund (File 19-0684). The purpose of the fund is to account for monies used to subsidize affordable housing units set aside for seniors so that tenant rents in those units are between 15 and 25 percent of the area median income.
- In September 2021, the Board of Supervisors approved a resolution authorizing a grant agreement with the State Housing and Community Development that provided $52.3 million in Permanent Local Housing Allocation funding (File 21-0875).

Fiscal Impact

- The total cost for the agreements is $37.1 million, which is funded by State Permanent Local Housing Allocation (PLHA). The Department will apply the remaining $15.2 million PLHA funding to other senior operating subsidy grants and administer the program.

Recommendation

- Approve the proposed resolutions.

MANDATE STATEMENT

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

BACKGROUND

Senior Operating Subsidies Program and Funding

In July 2019, the Board of Supervisors established a Senior Operating Subsidies Program Fund (File 19-0684). The purpose of the fund is to account for monies used to subsidize affordable housing units set aside for seniors so that tenant rents in those units are between 15 and 25 percent of the area median income.

Between FY 2019-20 and FY 2023-24, the Board of Supervisors modified the Mayor's proposed budget and reallocated funding that allowed the Mayor's Office of Housing and Community Development (MOHCD) to provide senior operating subsidies. MOHCD used those funds to provide subsidies at 1296 Shotwell, subsidizing 40 of 94 units. MOHCD also funded senior operating subsidies at 735 Davis, subsidizing 13 of 53 units.[1]

In September 2021, the Board of Supervisors approved a resolution authorizing a grant agreement with the State Housing and Community Development that provided $52.3 million in Permanent Local Housing Allocation funding (File 21-0875). Funds are allocated over a five-year spending plan and each year has a five-year spending deadline.

DETAILS OF PROPOSED LEGISLATION

The proposed resolutions would approve four senior operating grant agreements for four affordable housing projects, as shown in Exhibit 1.

[1] Between FY 2019-20 and FY 2023-24, Board add-backs totaled $9.6 million for senior housing subsidies, of which $5,067,562 was available for spending following re-allocations in each budget cycle. The initial subsidy grant for 1296 Shotwell was $6.6 million and had a term December 2019 – December 2023. The subsidy grant for 735 Davis is $1,716,823 and has a term of 15 years, beginning May 2021, and did not require BOS approval, per the delegated authority in Administrative Code Chapter 120.4(a). The Shotwell grant was partially funded by Board add-backs (totaling $3.2 million and the Davis grant was funded by another portion of MOHCD's General Fund budget. MOHCD plans to use remaining add-back funds for new SOS grants.

Exhibit 1: Proposed Senior Operating Subsidy Agreements

Project	Sponsor	Units	SOS Units	Subsidy	Term (years)	Start Date
1005 Powell (File 24-0233)	CCDC	64	35	$6,209,204	15	July 2024
1296 Shotwell (File 24-0230)	CCDC/MEDA	94	40	$4,820,042	11	Contract execution
4200 Geary (File 24-0232)	TNDC	98	30	$7,795,022	15	Jan 2025
Transbay Block 2 West (File 24-0231)	CCDC	151	60	$18,290,441	15	Oct 2025
Total		**407**	**165**	**$37,114,709**		

Source: Proposed agreements and MOHCD

Notes: CCDC refers to Chinatown Community Development Corporation, MEDA refers to Mission Economic Development Agency, and TNDC refers to Tenderloin Neighborhood Community Development.

Start dates for 1005 Powel, 4200 Geary, and Transbay Block 2 West are estimated, as the contracts become effective when the first subsidized unit of each project is leased.

All units in each project are designated for seniors, however only a portion will be subsidized by the proposed grants. 4200 Geary has other subsidies for other units designated for senior veterans and formerly homeless seniors. 1296 Shotwell has other subsidies for formerly homeless senior units. Transbay Block 2 also has other subsidies for formerly homeless senior units.

Senior Operating Subsidy Program Rules

In 2023, MOHCD established policies to govern the Senior Operating Subsidy program, which include:

- Up to 40% of project units may be subsidized by Senior Operating Subsidies
- Subsidies reduce rents from 30% of 60% AMI to either 15% or 25% AMI
- Subsidized units must be restricted to tenants aged 62 and above
- Subsidies will have a term of 15 years, which allows project sponsors to obtain debt, if necessary
- Subsidies escalate by 4% per year

The proposed grants comply with these policies, with the following exceptions: (1) 54% of the 1005 Powell Street units are subsidized in order to maintain the financial condition of the project given the number of very low-income tenants there, and (2) the 1296 Shotwell agreement is 11 years rather than 15 years, in consideration of an initial subsidy agreement that had a term December 2019 – 2023.

Subsidy payments will be provided to projects sixty days after the contracts are executed and annually after that. To allow for the initial payments, the resolutions approving the Powell Street and Transbay Block 2 West grants are 15.5 and 15.25 years, respectively, as both projects are expected to begin to lease-up midway through the calendar year.

FISCAL IMPACT

The proposed agreements are funded by State Permanent Local Housing Allocation (PLHA). The agreements contain provisions that allow the City not to make subsidy payments if PLHA funding is not available and no other funds are appropriated.

PLHA state grants are provided in five-year increments. According to Mara Blitzer, MOHCD Special Projects Director, MOHCD plans to re-apply for PLHA funds once a new funding cycle is announced. As noted above, the proposed agreements total $37.1 million. The Department will apply the remaining $15.2 million PLHA funding to other senior operating subsidy grants and administer the program, as allowed under the State grant.

RECOMMENDATION

Approve the proposed resolutions.