

**CITY AND COUNTY OF SAN FRANCISCO**

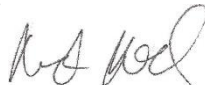
**BOARD OF SUPERVISORS**

**BUDGET AND LEGISLATIVE ANALYST**

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June 21, 2024

**TO:** Budget and Finance Committee

**FROM:** Budget and Legislative Analyst 

**SUBJECT:** June 26, 2024 Budget and Finance Committee Meeting

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<p><b>Item 4</b> <b>File 24-0566</b></p>	<p><b>Department:</b> Human Rights Commission (HRC), Real Estate Division (RED)</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>The proposed resolution would authorize the Director of Property, on behalf of the Human Rights Commission (HRC), to execute a lease with Greater Calvary Hill Missionary Baptist Church as landlord for approximately 13,000 square feet of space at 141 Industrial Street, for a term of approximately two years and 11 months, with no option to extend, and annual base rent of \$351,000 with no escalation, and authorize the Director of Property to enter into further immaterial amendments to the lease.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>HRC is interested in opening a community facility and job training location to support the Dream Keeper Initiative, Opportunities for All, the community reading project, and seasonal cultural events. HRC requested the Real Estate Division (RED) to negotiate a three-year lease for space at the Greater Calvary Hill Missionary Baptist Church at 141 Industrial Street for this facility. HRC determined that this site would be desirable because it had used the space for programming in the past, the site was close to its service population, the church’s community ties, and the on-site parking available.</li> <li>RED reviewed four comparable leases in the area and determined that the proposed annual rent of \$27 per square foot is at or below fair market rent. No tenant improvements are needed for the space. The lease would commence after Board of Supervisors and Mayor approval, in approximately mid-July 2024.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>The proposed lease would have annual rent of \$351,000, with no escalation. Assuming a two-year and 11-month term of the lease, the total rent paid by HRC would be \$1,023,750. The lease would be funded by the City’s General Fund. Utilities and janitorial costs would be paid by the landlord.</li> </ul> <p style="text-align: center;"><b>Policy Consideration</b></p> <ul style="list-style-type: none"> <li>The site was selected by the Human Rights Commission following a community input process and because it was rented in the past for HRC events. However, according to the Executive Director of the Human Rights Commission, there has been no analysis of the space use, so we do not have any analytical justification for the ongoing need of 13,000 square feet of space. Before leasing or acquiring new property, City Departments should conduct a test fit of the space to ensure it can accommodate programming needs and to justify the size of their request for additional property.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>Due to the lack of details from HRC about the need for this space, we consider approval of the proposed resolution to be a policy matter for the Board of Supervisors.</li> </ul>	

**MANDATE STATEMENT**

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

**BACKGROUND**

The Human Rights Commission (HRC) is interested in opening a community facility and job training location to support the Dream Keeper Initiative, Opportunities for All, the community reading project, and seasonal cultural events. HRC requested the Real Estate Division (RED) to negotiate a lease for space at the Greater Calvary Hill Missionary Baptist Church at 141 Industrial Street for this facility. According to Jeff Suess, RED Transaction Team Manager, HRC determined that this site would be desirable because it had used the space for programming in the past, the site was close to its service population, the church’s community ties, and the on-site parking available. RED has negotiated a three-year lease with the landlord at 141 Industrial Street.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would authorize the Director of Property, on behalf of HRC, to execute a lease with Greater Calvary Hill Missionary Baptist Church as landlord for approximately 13,000 square feet of space at 141 Industrial Street, for a term of approximately two years and 11 months, with no option to extend, and annual base rent of \$351,000 with no escalation, and authorize the Director of Property to enter into further immaterial amendments to the lease.

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

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

<b>Premises</b>	13,000 square feet
<b>Term</b>	Approximately 2 years and 11 months, from July 2024 through May 2027
<b>Options to Extend</b>	None
<b>Annual Base Rent</b>	\$351,000 (\$27 per square foot)
<b>Rent Escalation</b>	None
<b>Parking</b>	10 spaces
<b>Tenant Improvement / Moving Allowance</b>	None
<b>Utilities</b>	Paid by Landlord
<b>Janitorial Services</b>	Paid by Landlord

Source: Proposed Lease

RED reviewed four comparable leases in the area and determined that the proposed annual rent of \$27 per square foot is at or below fair market rent. An appraisal was not required under Administrative Code Section 23.27 because the proposed annual rent is less than \$45 per square foot.

According to Transaction Team Manager Sues, no tenant improvements are needed for the space. The lease would commence after Board of Supervisors and Mayor approval, in approximately mid-July 2024.

According to Sheryl Davis, HRC Executive Director, HRC staff from the different programs would rotate at the site throughout the year, although the total staffing on site is unspecified. More staff, including Opportunities for All staff and youth workers, would be on site during the summer months. HRC is looking for space to relocate the programs after the lease expires.

### **FISCAL IMPACT**

The proposed lease would have annual rent of \$351,000, with no escalation. Assuming a two-year and 11-month term of the lease, the total rent paid by HRC would be \$1,023,750. According to Executive Director Davis, the lease would be funded by the City's General Fund.

Utilities and janitorial costs would be paid by the landlord.

### **POLICY CONSIDERATION**

The Real Estate Division has completed a due diligence process of transaction, including filing an Ethics Commission Form 126 in the legislative file to detail the ownership interests in the subject property and reviewing comparable leases in the area, and has determined the proposed lease is at or below market rate.

The site was selected by the Human Rights Commission following a community input process and because it was rented in the past for HRC events. However, according to Executive Director Davis, there has been no analysis of the space use, so we do not have any analytical justification for the ongoing need of 13,000 square feet of space. Before leasing or acquiring new property, City Departments should conduct a test fit of the space to ensure it can accommodate programming needs and to justify the size of their request for additional property.

### **RECOMMENDATION**

Due to the lack of details from HRC need for this space, we consider approval of the proposed resolution to be a policy matter for the Board of Supervisors.

<p><b>Item 5 &amp; 6</b> <b>Files 24-0497, 24-0498</b></p>	<p><b>Department:</b> Public Works, Public Health, Municipal Transportation Agency, Homelessness &amp; Supportive Housing, Recreation and Parks, City Administrator, Controller</p>
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**EXECUTIVE SUMMARY**

**Legislative Objectives**

- **File 24-0497:** is an ordinance that would provide for a special election on November 5, 2024, to request voter approval for a \$390 million general obligation bond
- **File 24-0498:** is a resolution that would determine and declare that incurring the proposed debt is necessary and in the public interest.

**Key Points**

- The proposed bond would fund: \$99.1 million for community health centers, \$40 million for seismic upgrades at General Hospital, \$56 million for repairs and General Hospital and Laguna Honda, \$50 million for homeless shelters, \$68.9 million for street safety and repaving, and \$76 million for public space improvements.
- The proposed \$390 Healthy, Safe, and Vibrant San Francisco general obligation bond is higher than the amount in the ten-year capital plan because it includes the \$40 million originally planned for the March 2024 general obligation bond and \$30 million in bond capacity identified by the Controller’s Office.

**Fiscal Impact**

- According to the Office of Public Finance, the proposed bonds are projected to have an annual interest rate of 7.0 percent over approximately 20 years, with estimated total debt service payments of \$737 million, including approximately \$347 million in interest and \$390 million in principal. Because the bonds will be sold in tranches, the Office of Public Finance estimates average annual debt service payments of \$31 million.

**Policy Consideration**

- The proposed bonds are different in amount and scope from the ten-year capital plan the Board of Supervisors approved in May 2023. That capital plan does not include operating costs resulting from capital spending. The list of projects is not fully known at this time but includes work to address life safety and less urgent work to beautify public space.

**Recommendations**

(1) Approve File 24-0498. (2) Amend File 24-0497 to correctly state the amount of bond funding for public realm improvement projects: replace \$46 million with \$76 million on page 7, 8. (3) Approve File 24-0497, as amended. (4) Work with Work with the City Administrator and Chief Resilience Officer and Director to develop and approve a resolution to amend the FY 2024-2033 Capital Plan. (5) Request City Departments to report on operating cost impacts of capital projects when requesting Board approval of issuances from the proposed bond authorization. (6) Request City Departments report to the Board of Supervisors the criteria on how projects will be prioritized for bond funding, either at the June 26, 2024 Budget & Finance meeting or in a letter to be included in the legislative files for these items.

**MANDATE STATEMENT**

City Administrative Code Section 2.34 requires that a resolution determining the public interest and necessity for the acquisition, construction or completion of any municipal improvement funded by property taxes be adopted by the Board of Supervisors not less than 141 days before the election at which such proposal will be submitted to the voters. Approval of such resolutions requires a 2/3 vote by the Board of Supervisors.

City Charter Section 9.106 states that the Board of Supervisors is authorized to provide for the issuance of general obligation bonds in accordance with the Constitution of the State of California. There shall be a limit on outstanding general obligation bond indebtedness of three percent of the assessed value of all taxable real and personal property, located within the City and County.

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

**BACKGROUND**

The FY 2024-2033 Capital Plan includes a schedule of planned debt and other capital financing and was approved by the Board of Supervisors in May 2023 (File 23-0265). The schedule shows a \$340 million general obligation bond for Affordable Housing & Shelters in March 2024, a \$320 million Public Health & Shelters general obligation bond in November 2024, and a \$300 million Transportation general obligation bond in November 2026.

In November 2023, the Board of Supervisors approved legislation to add a \$300 million Affordable Housing general obligation bond to the March 2024 ballot (Files 23-0971, 23-0972), which was approved by voters. The \$300 million Affordable Housing bond spending plan did not include a shelter component, as originally intended in the ten-year capital plan.

In May 2024, the Controller’s Office revised its general obligation bond model to incorporate more recent assessed valuations, recent bond sales, and the \$300 million bond approved by voters in March 2024. The analysis determined that the City had an additional \$30 million in general obligation bond debt capacity relative to the City’s debt management policies.

The proposed \$390 Healthy, Safe, and Vibrant San Francisco general obligation bond is higher than the \$320 million amount in the FY 2024 – 2033 Ten Year Capital Plan because it includes the \$40 million originally planned for the March 2024 general obligation bond and the additional \$30 million in bond capacity identified by the Controller’s Office. It includes funding for public health facilities, homeless shelters, and street improvement projects – elements that were originally planned for the March 2024, November 2024, and November 2026 general obligation bonds.

## DETAILS OF PROPOSED LEGISLATION

**File 24-0497:** is an ordinance that would provide for a special election on November 5, 2024, to request voter approval for a \$390 million general obligation bond to fund six programs listed below.

- (1) \$99.1 million for community health centers,
- (2) \$56 million for General Hospital and Laguna Honda repair projects,
- (3) \$40 million for seismic upgrades at General Hospital,
- (4) \$68.9 million for street safety improvements,
- (5) \$76 million for public space improvements
- (6) \$50 million for homeless shelters.

The program amounts listed above are taken from bond report included in the legislative file. However, the proposed ordinance appears to have an error on page 7, which states that \$46 million will be allocated to public space improvements, rather than the \$76 million stated in the bond report. We recommend this language, which will be submitted to voters, be amended to reflect the \$76 million bond spending plan.

**File 24-0498:** is a resolution that would determine and declare that the public interest and necessity demand acquisition or improvement of real property, including: facilities to deliver primary healthcare services, emergency medical services, skilled nursing services, services for persons experiencing mental health challenges, and persons experiencing substance use disorders; acquire, improve, and seismically upgrade critical medical care and mental health facilities; emergency shelter facilities; and improvements for certain transportation, pedestrian, and street safety-related capital improvements, streetscape enhancements, and other public space improvements

The proposed legislation would also:

- Find that the estimated cost of \$390 million for such proposed projects will be too great to be paid out of the ordinary annual income and revenue of the City and will require expenditures greater than the amount allowed by the annual tax levy;
- Find that the bond proposal is not subject to review under the California Environmental Quality Act (CEQA);
- Find that the proposed bonds are in conformity with the General Plan, and the eight priority policies of Planning Code, Section 101.1(b);
- Waive the time requirements for approving the resolution specified in Administrative Code Section 2.34;
- Authorize landlords to pass-through 50 percent of the resulting property tax increase to residential tenants under Administrative Code, Chapter 37; and,

- Declare the City’s intention to use bond proceeds to reimburse capital expenses incurred prior to the issuance of the proposed bonds.

Proposed uses of the bond proceeds are shown in Exhibit 1 below, including projects that have been identified in the bond report associated with this request and projects that could be funded within each program.

**Exhibit 1: Uses of Bond Funds**

Project	Amount	Potential Projects
Community Health Centers (DPH)	\$99,100,000	Chinatown Public Health Center renovation, new site for City Clinic (both confirmed)
General Hospital Seismic Upgrades (DPH)	\$40,000,000	Building 3 retrofit (confirmed)
Critical Repairs at General Hospital and Laguna Honda (DPH)	\$56,000,000	Replacing windows, HVAC systems, plumbing and waste systems, power systems
Homeless Shelters (HSH)	\$50,000,000	Renovate seismically unsafe existing homeless shelters and/or acquire new shelter sites
Street Safety & Repaving (MTA, DPW)	\$68,900,000	Sloat Boulevard improvements, other street projects to improve traffic flow, pedestrian and bicycle safety and accessibility, traffic signal upgrades, and street repaving.
Public Space Improvements (DPW, REC, MTA)	\$76,000,000	Harvey Milk Plaza (confirmed), Powell Street enhancements, Hallidie Plaza improvements, and potentially others.

Sources: File 24-0497, 24-0498, 2024 Healthy, Safe and Vibrant San Francisco Bond Report

Approval of the proposed \$390 general obligation bond would require approval by at least two-thirds of San Francisco voters. All issuances of the bonds and appropriations of the bond fund proceeds would be subject to Board of Supervisors approval. At that time, CEQA review and approval of the specific projects may be required, and the project costs would be identified.

**FISCAL IMPACT**

**Debt Service**

According to Vishal Trivedi, Financial Analyst in the Office of Public Finance, the proposed bonds are projected to have an annual interest rate of 7.0 percent over approximately 20 years, with estimated total debt service payments of \$737 million, including approximately \$347 million in interest and \$390 million in principal. Because the bonds will be sold in tranches, the Office of Public Finance estimates average annual debt service payments of \$31 million.



**Property Taxes**

Property tax revenue would be used to secure and pay for the proposed debt service. According to the Office of Public Finance, the average property tax rate for the proposed bonds would be \$6.90 per \$100,000 of assessed valuation, half of which could be passed through to tenants.

**Debt Limit**

According to the Controller’s Office of Public Finance, the proposed bonds are consistent with the City’s current debt management policy to maintain the property tax rate for City general obligation bonds below the FY 2005-06 rate of \$0.12 per \$100 of assessed value and is also consistent with the City Charter limit for outstanding general obligation bond indebtedness to stay below three percent of assessed property values.

**POLICY CONSIDERATION**

**Capital Planning Process is Not Functioning as Legislatively Intended**

*Amending the Capital Plan*

Administrative Code Section 3.20 states that the Mayor and Board of Supervisors should approve a ten-year capital by May 1 of each odd-numbered year and that the Mayor and Board may update the plan as appropriate. The Board approved the current ten-year capital plan in May 2023 (File 23-0265). However, as noted above in the Background Section of this report, the general obligation bond schedule for March 2024 and November 2024 is different than what is in the plan. The Board tacitly approved a change to the plan by placing a \$300 million rather than a \$340 million bond on the March 2024 ballot. However, it has not taken formal action to amend the capital plan to reflect that change or the increase in the proposed November 2024 bond from \$320 million to \$390 million.

In the past, consistent with Administrative Code 3.20, the Board has passed resolutions to memorialize changes to the ten-year capital plan. For example, in 2020, the Board of Supervisors approved a resolution amending the FY 2020-2029 Capital Plan to reflect changes to three bonds, including changing the \$183.5 million 2020 Parks and Open Space bond to a \$438.5 million Health and Recovery bond (File 20-0487). The Board of Supervisors should consider a similar action to reflect changes to the FY 2024-2033 capital plan. Such a resolution could be introduced by the City Administrator or by the Board of Supervisors.

*Operating Costs Associated with Capital Projects*

Administrative Code 3.20 also requires that the capital plan include a summary of operating costs resulting from capital investments. However, such estimates are typically not available until projects are fully designed and therefore not included in the ten-year capital plan. City Departments should prepare estimates of operating cost impacts when they request Board of Supervisors’ approval of bond sales, which occur closer to the construction phase of capital projects.

The proposed bond may fund an expansion of the City's capital assets that adds operations costs. For example, this proposed bond includes \$50 million for shelter, which could be used to renovate existing sites or to acquire new sites for shelter. Operating costs for shelter are \$70,000 - \$90,000 per bed, so an expansion of the City's shelter capacity will create new ongoing costs. Similarly, changes to streets and public space may require additional permanent staff and maintenance spending. Operating costs may decrease as well, such as replacing old building systems with more efficient ones.

### **List of Projects to Be Funded Not Yet Final**

Because most projects that will be funded by the proposed bonds are still in the design phase and do not have environmental approval, we do not know the full set of projects that will be funded by the proposed bonds.<sup>1</sup> We also note the potential list of projects includes work to address life safety and less urgent work to beautify public space.

When departments return to the Board for approval of bond sales, the projects to be funded should be known. In the meantime, we recommend that the departments requesting approval of bond funding provide the Board of Supervisors with the criteria on how projects will be prioritized for bond funding, either at the June 26, 2024, Budget & Finance meeting or in a letter to be included in the legislative files for these items.

## **RECOMMENDATIONS**

1. Approve the proposed resolution (File 24-0498).
2. Amend the proposed ordinance (File 24-0497) to correctly state the amount of bond funding for public realm improvement projects: replace \$46 million with \$76 million on page 7, 8.
3. Approve File 24-0497, as amended.
4. Work with the City Administrator and Chief Resilience Officer and Director to develop and approve a resolution to amend the FY 2024-2033 Capital Plan.
5. Request the Departments of Public Works, Public Health, Municipal Transportation Agency, Homelessness & Supportive Housing, Recreation and Parks to report on operating cost impacts of capital projects when requesting Board approval of issuances from the proposed bond authorization.
6. Request the Departments of Public Works, Public Health, Municipal Transportation Agency, Homelessness & Supportive Housing, Recreation and Parks to report to the Board of Supervisors the criteria for how projects will be prioritized for bond funding, either at the

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<sup>1</sup> Per the bond report in the legislative file for these items, the following projects are confirmed for bond funding, up to the following amounts: \$71.1 million for Chinatown Public Health Center, \$28 million for a new building for City Clinic, \$25 million for Harvey Milk plaza, and \$40 million for General Hospital, Building 3.

June 26, 2024 Budget & Finance meeting or in a letter to be included in the legislative files for these items.