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: October 30, 2024 Budget and Finance Committee Meeting

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EXECUTIVE SUMMARY

Legislative Objectives

- **File 24-0797** is an ordinance that would approve the Second Amendment to Development Agreement between the City and Laurel Heights Partners, LLC for the 3333 California Street project.
- **File 24-0816** is a resolution of intention to establish San Francisco Enhanced Infrastructure Financing (EIFD) District No. 3 to finance public infrastructure and affordable housing for 3333 & 3700 California Street.

Key Points

- The Prado Group is the property owner and developer of the 3333 and 3700 California projects. The projects will include over 1,300 units of new housing (including 125 affordable units for seniors), retail and commercial space, childcare space for 175 children, public open space, and sidewalk and streetscape improvements.
- The Second Amendment to Development Agreement for 3333 California extends the term of the agreement by eight years, modifies the affordable housing requirements, allows the project to qualify for the Temporary Fee Reduction Program, and includes a finance plan with a framework to use incremental property tax revenue to fund the Project's public infrastructure and affordable housing.
- The resolution of intention to form the EIFD provides that incremental property tax revenue generated within the area may be used to finance public infrastructure and affordable housing subject to approval of the infrastructure financing plan by the Board of Supervisors.

Fiscal Impact

- The EIFD diverts a portion of incremental property tax revenue that would otherwise accrue to the General Fund. Per City policy, the Developer could receive up to 50 percent of available tax increment revenues from the EIFD for reimbursement of eligible costs. The cost of the public improvements that could be funded by the EIFD total $280.2 million for both projects. The projects are still projected to provide net annual revenues of $1.3 million to the General Fund.

Policy Consideration

- The Board approved policy for EIFDs requires that districts must be located in areas rezoned as part of an Area Plan or development agreement and that require significant infrastructure improvements. The 3700 California project does not have a development agreement. While the Board can approve projects that don't comply with its policy, we consider approval of this proposal to be a policy matter. In addition, OEWD has not provided documentation of its assessment that the 3700 California project requires public financing to be financially feasible, but did with the 3333 California project.

Recommendation

- Approval of the proposed resolution and ordinance is a policy matter for the Board of Supervisors.

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 Chapter 56 provides for the City to enter into development agreements with private developers for housing and mixed-use developments to reduce risk for the developer while requiring public benefits that exceed existing requirements. Section 56.14 provides for Board of Supervisors approval of such development agreements.

California Government Code Section 53398.50 et seq. authorizes the Board of Supervisors to initiate the establishment of an enhanced infrastructure financing district (EIFD) and approve an infrastructure financing plan that allocates tax revenues to the EIFD. While the Board of Supervisors directly serves as the governing body for the City's IFDs and IRFDs, under state law, the Board of Supervisors must establish a public financing authority to act as legislative body of EIFDs.

BACKGROUND

3333 California Street Development Project

The Prado Group is the property owner and developer of the 3333 California project, which will redevelop a parcel comprised of approximately 10.25 acres located in the Laurel Heights neighborhood. The project site currently consists of multiple office buildings, surface and subsurface parking areas, and landscaped areas. The site was previously occupied by the University of California, San Francisco Laurel Heights campus.

The proposed project consists of up to 744 residential units, approximately 38,094 square feet of retail/restaurant/commercial use, four below-grade parking garages with ten car share spaces and no more than 820 parking spaces, and approximately 233,676 square feet of open space.

Original Development Agreement

The original Development Agreement between the City and the Laurel Heights Partners, LLC, an affiliate of the Prado Group, was approved by the Board of Supervisors (File 19-0845) and executed in September 2020. The agreement grants the developer entitlement to develop the project in exchange for providing public benefits that exceed those required under existing City policies and regulations, consistent with Chapter 56 of the City's Administrative Code. According to the original agreement, these benefits include:

(a) publicly accessible open space,

(b) streetscape improvements,

(c) 185 units of affordable housing for seniors

(d) workforce obligations,

(e) transportation demand management measures, and

(f) a 175 seat childcare facility.

In June 2024, the original agreement was amended (Amendment No. 1). After the project received its initial approvals, a California Environmental Quality Act (CEQA) lawsuit was filed against the developer. The parties subsequently reached a settlement agreement that necessitated certain changes to the project. Amendment No. 1 to the Development Agreement incorporates these modifications. The modifications include: (a) a two-month extension of the term to expire in November 2035 and the construction commencement deadline to November 2025, (b) modification of the construction plans for expanded green space at Euclid Green and the Pine Street Stairs, removal of certain planned Street Trees, removal of one planned Laurel Duplex Townhome in order to expand Euclid Green, and (c) complimentary revision of terms regarding public access of private improvements. There were no changes to the overall housing, public benefits, or commercial square footage. The amendment did not require Board of Supervisors approval because the changes were considered 'Minor Modifications,' as defined in the development agreement. This means there were no material changes or reductions to the community benefits, obligations, or legal conditions.

Project Status

Increases in construction and labor costs, the COVID-19 pandemic, rising interest rates, and a slowing of the real estate market have delayed the initiation of the Project. The developer has advanced pre-development tasks by enhancing the design of the residential buildings and open spaces, but they have not yet broken ground or obtained permits. Over the past year, the project sponsor, Prado Group, and the City have worked to identify modifications to the terms of the Development Agreement to improve financial feasibility and expedite delivery of the project. The Office of Economic and Workforce Development (OEWD) is proposing modifications to the Development Agreement and a City commitment to form an Enhanced Infrastructure Financing District (EIFD) to enable the Project to advance. The changes also include the City committing to form a Mello-Roos Community Facilities District.

3700 California

The Prado Group is also developing the nearby 3700 California project, which is not under a development agreement. This site is currently a closed hospital campus that will be turned into a residential development. The Project includes the construction of up to 19 new residential buildings with up to 567 residential units. This includes one senior building consisting of up to 157 residential senior units, 15 single-family homes, and three multi-family residential buildings. The project also offers 75 assisted living and memory care units. Currently, the project sponsor is engaging in entitlement, community outreach, and pre-financing tasks.

DETAILS OF PROPOSED LEGISLATION

File 24-0797 is an ordinance that would approve the Second Amendment to the development agreement between the City and Laurel Heights Partners, LLC, an affiliate of the Prado Group, for the 3333 California Street project, to extend the term of the agreement by eight years, modify the affordable housing requirements, allow the project to qualify for the Temporary Fee Reduction Program, and include a finance plan with a framework to use incremental property tax revenue to

fund the Project's public capital facilities and affordable housing.

File 24-0816 is a resolution of intention to establish San Francisco Enhanced Infrastructure Financing District No. 3 to finance public infrastructure and affordable housing for the 3333/3700 California Street projects.

Second Amendment to Development Agreement (File 24-0797)

The proposed Second Amendment to the Development Agreement between the City and the Developer (Laurel Heights Partners, LLC) modifies the terms of the Development Agreement to improve financial feasibility and expedite delivery of the project. Those modifications include: (i) extending the term of the Development Agreement by eight years, extending the deadline to complete affordable housing units by four years, (ii) reducing the required number of affordable units from 185 to 125, extending the timing for escrow deposits to fund the development of the affordable units, and authorizing the Director of the Mayor's Office of Housing and Community Development to make certain changes to the affordable unit requirements, (iii) allowing the project to qualify for the Temporary Fee Reduction Program under Planning Code Section 403, and (iv) including a new financing plan relating to the formation of an Enhanced Infrastructure Financing District No. 3 (3333/3700 California Street) and Community Facilities District.

Term Deadline

The proposed amended Development Agreement extends the term of the agreement by eight years from the existing 15-year term to a new 23-year term, now ending in September 2043. The deadline for the Developer to commence construction is extended by three years to September 2028. The deadline to complete affordable housing units is also extended by four years to a new deadline of September 2036. The deadline to complete the child care center to warm shell condition is the earlier of the completion of the senior affordable building or as a condition to proceeding with the 482nd housing unit in the project.

Housing Plan (Exhibit D)

The proposed Housing Plan specifies the Developer's obligations to provide affordable housing. The proposed amendments reduce the number of affordable housing units for senior households from 185 to 125 units (including one manager's unit), resulting in a loss of 60 units. The project will construct a corresponding increase of 60 market rate units in a building adjacent to the affordable building. This change decreases the percentage of below market rate units from 25 percent to 16.87 percent, which is slightly less than the 18 percent that would have been required under City requirements according to the original Development Agreement. Under both the original and amended agreement the developer is responsible for funding the affordable housing building without City gap funding and dedicating the affordable parcel to a nonprofit affordable housing owner, and the City would not own the land upon which the affordable housing building and childcare center would be. The development agreement does not provide any operating subsidies for the senior affordable housing or childcare center.

Under the revised plan, the developer may not start construction on more than 481 market rate units until the affordable housing building has secured full financing and reached construction closing. This allows the developer to develop market rate housing before development of affordable housing is required. Under the original agreement, the Developer could not obtain a certificate of occupancy for more than 386 market rate units until a certificate of occupancy was issued for the affordable housing

units.

The amended housing plan gives the Mayor's Office of Housing and Community Development (MOHCD) Director the discretion to adjust the allowable income level and target population for the affordable senior housing building upon the developer's request if the developer has not received an allocation of LIHTC after submitting three complete applications. Income levels for the affordable housing units remain unchanged with units restricted to senior households with incomes below 80 percent of MOHCD Area Median Income (AMI), with an overall average not exceeding 59 percent of MOHCD AMI.

Lastly, the Development Agreement modifies the timing of the Developer's required escrow deposits (or "Gap Fees") to fund the senior affordable housing building, which is extended to begin once the 270th market rate unit has obtained a first construction document. Under the original agreement, the escrow deposits begin prior to the first construction document for any portion of the project. The Gap Fee rate will be reduced to align with the current citywide inclusionary fee rate according to OEWD staff. However, the Developer is responsible for funding any remaining gap in the cost of constructing the affordable units. Affordable housing is an eligible cost under the EIFD program and developer may choose to seek reimbursement for this funding over time if funds are available in the EIFD.

Development Impact Fees

The following development impact fees apply to the project as a result of the retail/restaurant/commercial and market rate housing uses being constructed: Transportation Sustainability Fee (Planning Code Section 411A), Jobs Housing Linkage Fee (Planning Code Section 413), The Residential Child Care Impact Fee (Planning Code Section 414A), Affordable Housing Fee (Planning Code Section 415). In 2023, the Board of Supervisors approved amendments to Planning Code Section 403 that provided for deferrals and reductions in development impact fees for previously approved and new projects, but the reductions excluded projects subject to a development agreement (Files 23-0764 and 23-0855). The original development agreement waived the Residential Child Care and Affordable Housing Impact fees because the agreement requires the developer to construct these uses in-kind. The OEWD was not able to provide estimates of the value of these fee waivers.

The proposed amendment allows any Building that has received a site permit on or before November 1, 2026 within the 3333 California project to qualify for a 33 percent reduction in the Transportation Sustainability Fee. OEWD was not able to provide the estimated revenue loss from this provision. There are no changes to the obligation to pay for the Jobs Housing Linkage Fee.

Financing Plan (Exhibit O)

The proposed Second Amendment includes a new Financing Plan, which specifies the terms of formation of a Community Facilities District (CFD) to levy special taxes and an Enhanced Infrastructure Financing District (EIFD) to use tax increment financing to support the development of the Project. While special tax revenue generated by the CFD would only support qualified project costs of the 3333 California project, the tax increment financing under the EIFD may support public infrastructure and affordable housing for both the 3333 California and the 3700 California projects. Per City policy, the Developer could receive up to 50 percent of available tax increment revenues and vehicle license fees from the EIFD to reimburse eligible costs. The establishment of the CFD is

subject to Board of Supervisor's approval. Through a resolution of intention to establish the EIFD (described below), the Board of Supervisors will initiate establishment of the EIFD. Issuance of CFD bonds and EIFD bonds will be subject to Board of Supervisor's approval.

Phasing Plan

The development agreement provides for the right, but not the obligation, for the developer to complete the project. The community benefit linkages requirements in the development agreement ensures that the Developer delivers community benefits proportionately with development of the market-rate housing and commercial uses.

The project is anticipated to be developed in four phases according to the proposed phasing map in Attachment 1. The linkages schedule, provided in Attachment 2, specifies the delivery of open space, street improvements, the childcare facilities, affordable housing units, and impact fees based on completion of certain market-rate and commercial elements.

3333/3700 California EIFD (24-0816)

The proposed resolution is a resolution of intention to establish San Francisco Enhanced Infrastructure Financing District No. 3 (3333/3700 California). The proposed resolution would designate the EIFD Public Financing Authority No. 1 (the "PFA"), previously established by the Board of Supervisors, to act as the governing body of the 3333/3700 California Street EIFD No. 3. The PFA would establish the EIFD and initiate preparation of the infrastructure financing plan (the "IFP"), which would be subject to Board of Supervisors' approval and would specify the eligible project costs which could be reimbursed from incremental property tax revenue generated by the project areas within the EIFD.

The EIFD will be divided into 6 project areas at formation, including 3 project areas within 3333 California and 3 project areas within the 3700 California project. Each project area within the EIFD can have a different start date and extend for 45 years from the start date. Each project area can generate property tax increment and debt can be issued against the property tax increment at different times. Tax increment generated within any project area may finance qualified costs within any other project area. The infrastructure financing plan will establish a process for the public financing authority to amend the EIFD boundaries and project areas without further approval by the Board of Supervisors.

Facilities to be Financed (Exhibit A)

According to Exhibit A attached to the resolution of intention to form the EIFD, at formation, the EIFD will be authorized to finance the purchase, construction, expansion, improvement, seismic retrofit or rehabilitation of public capital facilities or "other projects of communitywide significance" as permitted under State EIFD law and required under the proposed Development Agreement. Financed facilities may be publicly or privately owned and may be located within or outside the EIFD boundaries, provided facilities located outside the boundaries have a "tangible connection" to the 3333/3700 California Street EIFD work.

EIFD financing of facilities for the 3333 California Street Project may include, but are not limited to, all hard and soft costs of the following: (a) public improvements, such as street and utility improvements, (b) public and privately-owned open space, and (c) affordable housing. Under the original development agreement, these were all responsibilities of the developer.

EIFD financing of facilities for the 3700 California Street Project include, but are not limited to, all hard and soft costs of the following: (a) public improvements, and (b) affordable housing, including in-lieu fees.

Deposit and Reimbursement Agreement

The proposed resolution also approves a deposit and reimbursement agreement between the City and the Developer that allows the Developer to deposit funds to pay for the City's costs for forming and managing the 3333/3700 California Street EIFD and for the formation of any CFD for the 3333 California Street Project. The Developer may be reimbursed for these advances from CFD bond proceeds and tax increment from the EIFD for costs associated with the respective districts, provided EIFD formation costs are eligible for reimbursement under the EIFD infrastructure financing plan.

3333 California Need for Public Financing

To assess need for public financing for the 3333 California project and other potential changes to the project, the developer engaged Century Urban, a financial consultant. Century Urban provided a high-level summary of their analysis to OEWD, which was shared with our office, based on Century Urban's review of the developer's pro forma and proposed changes to the project to improve financial feasibility. OEWD did not hire their own financial consultant, and instead reviewed Century Urban's analysis to ensure assumptions and estimates were reasonable.

Based on estimates from Prado's consultant, Development Planning and Financing Group (DPFG), formation of the EIFD for 3333 California only is expected to generate $26.8 million on a present value basis in tax increment bond proceeds towards eligible costs. According to the Century Urban memo, these proceeds would increase the developer's return-on-costs (ROC) from 4.6 percent to 4.7 percent. The memo notes that inclusion of 3700 California in the EIFD formation would improve financial feasibility for both projects, but did not assess the impact of doing so.

The effect of formation of the EIFD together with the other proposed changes to the project, including the reduction in affordable housing units and increase in market rate units and other fee reductions and deferrals, would be to increase the ROC from 4.6 percent to 5.1 percent, which is still less than the developer's target of 6.0 percent to achieve financial feasibility.

FISCAL IMPACT

Diversion of Incremental Property Tax Revenues to 3333/3700 California EIFD

The resolution of intention to form the EIFD provides that incremental property tax revenue generated within the EIFD may be used to finance public infrastructure and affordable housing subject to establishment of the EIFD by the public financing authority and approval of the infrastructure financing plan by the Board of Supervisors. The EIFD diverts a portion of incremental property tax revenue that would otherwise accrue to the General Fund. However, if the project does not proceed, the areas may remain underused, which would not generate any additional property tax revenue to the General Fund. Exhibit 1 provides the cost estimates of the public improvements that could be funded by the EIFD or CFD, which total $280.2 million for both projects. These estimates are as of October 21, 2024. The Infrastructure Financing Plan will provide the final costs and financing sources, which is estimated to be submitted for separate Board of Supervisors approval in roughly the spring/summer of 2025.

Exhibit 1: Estimated Infrastructure Costs

3333 California	Amount	Timing
Parks/Open Space	$11,524,522	2026-2032
Streets	19,899,430	2026-2032
Site Work	59,520,747	2025-2032
Utilities	25,629,597	2026-2032
Affordable Housing	105,000,000	2026-2032
Total 3333 California	**$221,574,296**	
3700 California	**Amount**	**Timing**
Block A Streets, Sidewalks, & Utilities	$6,900,000	2027-2032
Block B Streets, Sidewalks, & Utilities	11,040,000	2027-2032
Block C Streets, Sidewalks, & Utilities	9,660,000	2027-2032
Affordable Housing Fee	31,000,000	2027-2032
Total, 3700 California	**$58,600,000**	
Total, Both Projects	**$280,174,296**	

Source: OEWD

Note: This does not include the costs for child care or transportation demand management. The AWSS is embedded under site work.

OEWD stated that the property tax increment from both projects will likely not be sufficient to pay for all of the public infrastructure costs, however, the proposed public financing would increase each project's financial feasibility and therefore contribution to housing production.

As noted above, OEWD was not able to provide an estimate for the value of the impact fee waivers.

City policy limits the amount of incremental property tax revenue that can be allocated to infrastructure financing districts to no more than 50 percent of the City share and require that the district have a projected positive net fiscal benefit to the General Fund net of baseline allocations and additional spending for services.

Net Fiscal Impact

A draft analysis prepared by Economic & Planning Systems (dated October 9, 2024), which was hired by the developer, and peer-reviewed by City fiscal consultant Keyser Marston Associates, indicates that the net General Fund impact of the both proposed projects at build-out is estimated to be $1,288,000 per year (in 2024 dollars). The report also indicated the proposed project to have an estimated $285,000 in net impact on the MTA Fund at build-out. This results in a total fiscal benefit estimate of $1,573,000. The projected impact on the General Fund and MTA Fund is subject to change as the analysis is finalized.

POLICY CONSIDERATION

3700 California

OEWD provided analysis from Century Urban, the developer's financial consultant, that indicates that the proposed changes to the development agreement for 3333 California increase the project's

financial feasibility but also stating that the project would still not generate market returns. OEWD is proposing an EIFD that comprises both the 3700 California project and the 3333 California project to enhance feasibility and provide public financing for eligible facilities in both projects. The inclusion of both 3700 California and 3333 California will allow the EIFD to provide funding for both project's public infrastructure costs. The 3333 California project areas have more eligible costs and are likely to utilize more property tax increment than the 3700 California project areas.

OEWD did not provide analysis justifying the need for public financing for 3700 California. Staff at OEWD reported that they reviewed the developer's pro forma for 3700 California to assess its reasonableness and determined that the project is not currently financially feasible but would be with a planned rezoning of the area and the proposed public financing. The review did not result in any work product or other documentation.

EIFD Policy

In March 2024, the Board of Supervisors approved an Interpretive Supplement to the Capital Plan's Guidelines for the Establishment and Use of Infrastructure Financing Districts in San Francisco (File 24-0139). One of the minimum threshold criteria is that use of infrastructure financing districts are limited to areas that are rezoned as part of an Area Plan or Development Agreement with extensive need for infrastructure and public facility improvements. The inclusion of the 3700 California does not meet that criterion. The Guidelines allow the Board of Supervisors to approve projects that do not meet minimum criteria. However, because the proposed EIFD does not meet the criteria of the financial policy that was approved by the Board less than one year ago, we consider approval of the resolution and ordinance to be a policy matter for the Board of Supervisors.

OEWD stated that inclusion of 3700 California in the proposed EIFD will further advance housing production (744 housing units at 3333 California and 567 units at 3700 California) and provide additional financing for 3333 California, which has greater public facilities' cost.

RECOMMENDATION

Approval of the proposed ordinance and resolution is a policy matter for the Board of Supervisors.

Attachment 1: Proposed Project Phasing Map

Attachment 2: Proposed Development Agreement Linkages Schedule

In the event of a conflict between this Linkages Schedule and the Phasing Plan or applicable Plan Document, the Phasing Plan and the applicable Plan Document shall prevail.

Community Benefits Linkages and Impact Fee Schedule	
Community Benefit/Impact Fee	**Schedule of Performance**
3333 California	
Publicly Accessible Private Improvements (Parks-Open Space)	
California Plaza	With completion of Plaza A Building
Cypress Square	With the completion of Plaza B Building
Cypress Stairs	With the later completion of Plaza A or Plaza B Building
Mayfair Walk	Completion required in segments with adjacent buildings
Presidio Overlook	With the completion of Center B Building
Pine Street Steps	With the completion of Center B Building
Walnut Walk	Completion required in segments with adjacent buildings
Walnut Drive and Walnut Court	With the later completion of Plaza B or Senior Affordable
Euclid Green	With completion of the final building or by end of term
Streetscape and Utilities	Condition of C of O of adjacent building
Senior Affordable Housing Building	Construction closing and escrow funds disbursed for Senior Affordable Building is a condition of C of O for 482nd unit
Auxiliary Water Supply System Community Benefit Fee	Condition of C of O for each building, pro rata per unit
Child Care Program	Constructed to warm shell condition, provided by the earlier of C of O for Senior Affordable Building or 482nd unit
Impact Fees	Condition of C of O for each building, pro rata per unit
3700 California	
Streetscape and Utilities	Condition of C of O of buildings in Block A, B, C
Affordable Housing Fee	Condition of C of O of buildings in Block A, B, C
Impact Fees	Condition of C of O of buildings in Block A, B, C

Source: Development Agreement
"C of O" means certificate of occupancy

Item 6 File 24-0897	Department: San Francisco Public Utilities Commission

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would increase the aggregate principal amount of San Francisco Public Utility Commission (SFPUC) Interim Funding Programs to finance various capital projects on a short-term basis, as follows: (a) an increase of $500 million to a not to exceed amount of $1.25 billion for the Wastewater Enterprise's Interim Funding Program; (b) an increase of $250 million to a not to exceed amount of $750 million for the Water Enterprise Interim-Funding Program; and (c) an increase of $200 million to a not to exceed amount of $450 million for the Power Enterprise Interim-Funding Program.

Key Points

- The SFPUC can issue commercial paper (or other forms of short-term debt) under its Interim-Funding Programs in advance of an anticipated longer-term revenue bond sale in order to provide short-term funding (no more than 270 days) to finance capital projects. Proceeds from the sale of revenue bonds are then used to pay off the shorter-term debt. The Board of Supervisors previously authorized separate Interim-Funding Programs for the Wastewater Enterprise, Water Enterprise, and Power Enterprise and approved subsequent increases to the not to exceed amount of the interim financing for each enterprise.
- The SFPUC seeks to expand interim-funding programs given increases in the SFPUC capital plan and projected revenue bond issuances. The proposed expanded programs will allow the SFPUC to spend the equivalent of approximately two years of capital appropriations within each capital program. The additional proposed authorizations of the interim funding programs do not increase the total indebtedness authorized by the Board of Supervisors.

Fiscal Impact

- Commercial paper interest rates and fees (4.05 percent) are modeled to be significantly lower than long-term revenue bond interest rates and fees (6 percent). Increasing the interim-funding authorization for the three programs will allow the SFPUC to issue bonds at a later date, thereby lowering interest expense and debt service costs. Reducing SFPUC debt service costs should result in lower cost increases rate payers.
- Estimated maximum annual bank fees, dealer fees, and interest payments total $38.48 million for the increased interim-funding authorizations across the three programs. However, interest and dealer fees accrue only when commercial paper is outstanding.

Recommendation

- Approve the proposed ordinance.

MANDATE STATEMENT

Charter Section 9.107(6, 8) states that the Board of Supervisors is authorized to provide for the issuance of revenue bonds for the purpose of the reconstruction or replacement of existing water facilities or electric power facilities under the jurisdiction of the Public Utilities Commission, when authorized by resolution adopted by a three-fourths affirmative vote of all members of the Board of Supervisors; and issued to finance or refinance the acquisition, construction, installation, equipping, improvement or rehabilitation of equipment or facilities for renewable energy and energy conservation.

City Charter Section 8B.124 states that the San Francisco Public Utilities Commission (SFPUC) may issue revenue bonds, including notes, commercial paper or other forms of indebtedness in order to reconstruct, replace, expand, repair or improve SFPUC water facilities, clean water facilities, or power facilities and that such debt issuances are subject to two-thirds approval by ordinance by the Board of Supervisors. The SFPUC may not finance construction of an electricity generating power plant that uses fossil fuels or nuclear energy.

The Board of Supervisors authority under Charter Section 8B.124 is subject to receipt of a certification from (1) an independent engineer that (i) the projects to be financed by such debt meet utility standards and (ii) estimated net revenue will be sufficient to meet operating, maintenance, debt service coverage and other indenture or resolution requirements and (2) the San Francisco Planning Department that facilities financed with such debt will comply with applicable requirements of the California Environmental Quality Act (CEQA).

BACKGROUND

SFPUC Capital Plan

The San Francisco Public Utilities Commission (SFPUC) updates its 10-year Capital Plan annually. The adopted 10-Year Capital Plan for FY 2024-25 through FY 2033-34 was $11.8 billion in aggregate, reflecting an increase of $3.0 billion (34 percent) from the previous year's approved capital plan. According to the FY 2024-25 to FY 2033-34 adopted plan, the increase is driven by increases for projects to address regulatory mandates, climate change, and aging infrastructure. SFPUC capital projects are primarily funded by revenue bonds and operating revenue. Exhibit 1 below shows the change in the adopted capital plan by enterprise.

Exhibit 1: Change in SFPUC 10-Year Capital Plan

10-Year Capital Plan	FY 2023-24 to FY 2032-33	FY 2024-25 to FY 2033-34	One-Year Change	Percent Change
Wastewater	$4,879,378,510	$6,039,735,049	$1,160,356,539	23.8%
Water	2,263,905,780	2,954,803,945	690,898,165	30.5%
Hetch Hetchy Water	976,897,145	1,533,671,239	556,774,094	57.0%
Hetch Hetchy Power	595,522,989	1,234,856,298	639,333,309	107.4%
CleanPowerSF	73,035,928	48,538,563	(24,497,365)	-33.5%
Total	**$8,788,740,352**	**$11,811,605,094**	**$3,022,864,742**	**34.4%**

Source: SFPUC Adopted FY 2024-25 to FY 2033-34 10-Year Capital Plan

In June 2024, the Board of Supervisors approved the SFPUC two-year FY 2024-25 and FY 2025-26 capital budget with more than $3.0 billion in total placed on Controller's reserve pending the availability of funds (File 24-0452).

Wastewater, Water, and Power Revenue Bonds

San Francisco voters approved Proposition E in 2002 and Proposition A in 2018, providing for the Board of Supervisors to authorize issuance of Wastewater, Water, and Power Revenue Bonds and other forms of debt with two-thirds approval of the Board members. The Board of Supervisors previously authorized: (a) wastewater revenue bonds up to $4,030,588,703; (b) water revenue bonds up to $1,887,552,493; and (c) power revenue bonds up to $836,960,525.

Interim-Funding Programs

The SFPUC can issue commercial paper (or other forms of short-term debt, including draws against revolving credit lines) under its Interim-Funding Programs in advance of an anticipated longer-term revenue bond sale in order to provide short-term funding (no more than 270 days) to finance capital projects. Proceeds from the sale of revenue bonds (or state or federal loans) are then used to pay off the shorter-term debt. Once long-term financing is secured, interim funding capacity is released to provide funding for other projects in subsequent two-year budget periods. The Board of Supervisors previously authorized separate Interim-Funding Programs for the Wastewater Enterprise, Water Enterprise, and Power Enterprise and approved subsequent increases to the not to exceed amount of the interim financing for each enterprise. Currently, the not to exceed amount of interim funding is $750 million for the Wastewater Enterprise, $500 million for the Water Enterprise, and $250 million for the Power Enterprise, for a total of $1.5 billion across the three programs. Exhibit 2 below shows the initial authorization, previously approved increases in the authorization, and the current request for increased authorization for the three programs.

Exhibit 2: SFPUC Interim-Funding Programs Authorizations

Interim-Funding Program	File Number	Date Approved	Not to Exceed Amount Authorized	Increased Amount
Wastewater	06-1298	Oct 2006	$150,000,000	
	12-0354	May 2012	300,000,000	150,000,000
	14-0955	Sep 2014	500,000,000	200,000,000
	17-0470	May 2017	750,000,000	250,000,000
	24-0897 (proposed)	*Nov 2024*	*1,250,000,000*	*500,000,000*
Water	03-0630	May 2003	250,000,000	
	08-1453	Dec 2008	500,000,000	250,000,000
	24-0897 (proposed)	*Nov 2024*	*750,000,000*	*250,000,000*
Power	15-1088	Nov 2015	90,000,000	
	18-1109	Jan 2019	250,000,000	160,000,000
	24-0897 (proposed)	*Nov 2024*	*450,000,000*	*200,000,000*

Source: BLA and Proposed Ordinance

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would increase the aggregate principal amount of Interim Funding Programs for three Public Utility Commission enterprises to finance various capital projects on a short-term basis, as follows:

- An increase of $500 million from $750 million to a not to exceed amount of $1.25 billion for the Wastewater Enterprise's Interim Funding Program;
- An increase of $250 million from $500 million to a not to exceed amount of $750 million for the Water Enterprise Interim-Funding Program;
- An increase of $200 million from $250 million to a not to exceed amount of $450 million for the Power Enterprise Interim-Funding Program.

The ordinance also authorizes the SFPUC General Manager, the Treasurer, the City Attorney, the Controller, the Director of the Office of Public Finance, and other City officers to take actions and execute necessary certificates, agreements, and other documents to facilitate the issuance, sale, and delivery of the short-term debt, such as commercial paper notes and revolving lines of credit.

Proposed Expansion

According to the SFPUC staff memo to the Public Utilities Commission on the proposed expansion (SFPUC memo), the SFPUC seeks to expand interim-funding programs given the increases in the SFPUC capital plan and projected revenue bond issuance to fund the plan. The proposed expanded programs will allow the SFPUC to spend the equivalent of approximately two years of capital appropriations within each capital program. This will provide the SFPUC another funding

source for capital program spending, allowing the SFPUC to spend before issuing revenue bonds, resulting in interest savings.

Bank Credit Facilities

The existing interim-funding programs are secured by letters of credit, liquidity facilities, and revolving credit agreements from banks. The credit and liquidity facilities provide investors assurance that funds will be available to pay short-term debt at maturity and the paper is rated based on the respective bank's short-term rating. The SFPUC only draws on the credit facilities if it cannot make the required payments on short-term debt. If the proposed ordinance is approved, the SFPUC would conduct a competitive solicitation process from a pre-qualified pool of bank credit facility providers to select bank credit facilities to support the increased authorization in coordination with the renewal of existing facilities. Any new credit facility agreements would be subject to approval by the Public Utilities Commission and the Board of Supervisors if the term exceeds ten years and/or the cost is more than $10 million. Exhibit 3 below shows the bank credit facilities that support the existing authorizations.

Exhibit 3: Credit Facilities for Existing Interim-Funding Programs

Series*	Amount	Credit Facility Bank	Facility Type	Expiration Date
Wastewater ($750m)				
A-1	$150m	Sumitomo Mitsui Bank	Letter of Credit	Mar-29
A-2	$150m	Bank of America	Letter of Credit	Apr-26
A-4	$150m	TD Bank, N.A.	Liquidity Facility	Jul-28
A-6	$125m	Bank of America	Liquidity Facility	Aug-27
A-7	$100m	Sumitomo Mitsui Bank	Letter of Credit	May-27
R-1	$75m	US Bank	Revolving Credit Agreement	Jul-27
Water ($500m)				
A-1	$100m	Sumitomo Mitsui Bank	Letter of Credit	May-25
A-2	$200m	Sumitomo Mitsui Bank	Letter of Credit	Jun-27
A-3	$100m	Barclay's Bank	Letter of Credit	Jul-27
R-1	$100m	US Bank	Revolving Credit Agreement	Jul-27
Power ($250m)				
A-1	$125m	Bank of America	Letter of Credit	Mar-26
A-2	$125m	Bank of America	Letter of Credit	Mar-26

Source: SFPUC

* "A" series reflect Commercial Paper series and "R" series reflect revolving credit lines

Capital spending is anticipated to decline in subsequent years of the capital plans. According to the SFPUC memo, SFPUC would allow excess credit facilities to expire or terminate if the full authorization is not needed in later years of the capital plan. The additional proposed authorizations of the interim funding programs do not increase the total indebtedness authorized by the Board of Supervisors.

Charter Required Certifications

Under Charter Section 8B.124, the Public Utilities Commission must obtain certification from (1) an independent engineer that projects funds by SFPUC debt meet utility standards, and estimated net revenue will be sufficient to meet operating, maintenance, debt service, and other requirements; and (2) from the Planning Department that these projects conform to CEQA. According to the proposed ordinance, the use of any indebtedness, including commercial paper, is subject to the receipt of these certifications for any new projects funded pursuant to Propositions A and E. While approval of the proposed ordinance does not require such certifications, issuance of future debt for projects funded pursuant to Propositions A and E and Charter Section 8B.124, including the use of commercial paper as interim financing for these projects, does require these certifications

FISCAL IMPACT

The SFPUC is requesting increased authorization of $950 million across the three interim-funding programs to provide immediate short-term funding for capital projects, including an increase of $500 million for Wastewater, an increase of $250 million for Water, and an increase of $200 million for Power. This reflects an overall increase of 63 percent in interim-funding authorization, as shown in Exhibit 4 below.

Exhibit 4: Proposed Changes to Interim-Funding Authorizations

Enterprise	Existing	Proposed	Change	% Change
Wastewater	$750,000,000	$1,250,000,000	$500,000,000	67%
Water	500,000,000	750,000,000	250,000,000	50%
Power	250,000,000	450,000,000	200,000,000	80%
Total	**$1,500,000,000**	**$2,450,000,000**	**$950,000,000**	**63%**

According to SFPUC staff, approximately $272 million of the existing $500 million authorization for the Water Interim-Funding Program is outstanding with $228 million in authorization remaining. In addition, approximately $136.6 million of the existing $250 million authorization for the Power Interim-Funding Program is outstanding with $113.4 million remaining. No interim-funding is currently outstanding against the existing $750 million authorization for the Wastewater Interim-Funding Program.

Sizing of Program Authorizations and Projects to be Funded

According to SFPUC, the proposed expansions were sized based approximately on the average projected two-year capital budgets for debt-funded wastewater and water projects and the average projected three-year capital budget for debt-funded power projects. According to SFPUC staff, the Power Interim-Funding Program is sized based on three-year capital budgets rather than two-year capital budgets because the SFPUC anticipates longer periods between appropriation release and project spending based on past spending on power projects. With an expanded interim-funding program, more project expenditures can be incurred prior to issuance

of long-term debt. Exhibit 5 below provides a summary of FY 2024-25, FY 2025-26, and FY 2026-27 projects that may be funded by the proposed interim-funding programs.

Exhibit 5: Projects to be Funded with Interim-Funding

Water Enterprise Capital Projects	**FY24-25 and FY25-26 Project Costs**
Regional Water Facilities and Infrastructure	$292,546,966
Regional Alternative Water Supplies	7,390,050
Local Water Facilities and Infrastructure	467,570,403
Hetchy Water – Water Projects	113,101,955
Hetchy Water and Power – Joint Projects (Water Portion)	60,003,902
Total	**$940,613,276**
Water CIP 2-Year Average from FY23-24 to FY28-29	$776,349,191
Proposed Interim Funding Program Size	$750,000,000

Wastewater Enterprise Capital Projects	**FY24-25 and FY25-26 Project Costs**
Sewer System Improvement Program Phase 1	$636,924,348
Sewer System Improvement Program Phase 2	595,889,815
Repair and Replacement	319,662,829
Treasure Island Capital Improvement	40,897,470
Facilities and Infrastructure	117,334,004
Total	**$1,710,708,466**
Wastewater CIP 2-Year Average, FY23-24 to FY28-29	$1,313,577,913
Proposed Interim Funding Program Size	$1,250,000,000

Power Enterprise Capital Projects	**FY24-25, FY25-26, and FY26-27 Project Costs**
Hetchy Water - Power Infrastructure	$149,422,407
Hetchy Water and Power Joint Projects (Power Portion)	104,005,426
Distribution Services Retail	189,861,364
Total	**$443,289,197**
Power CIP 3-Year Average, FY23-24 to FY28-29	$437,420,575
Proposed Interim Funding Program Size	$450,000,000

Source: SFPUC

Interest Rates and Fees

According to the SFPUC memo, the all-in borrowing rate on commercial paper is currently modeled to be approximately 4.05 percent annually, including bank credit facility fees, dealer fees, and interest payments. In addition to the commercial paper interest rate of 3.5 percent, there are bank credit facility fees and dealer fees, which generally result in an additional 0.55 percent cost or total costs of approximately 4.05 percent annually as conservatively projected in

the SFPUC's 10-year financial plans. Based on existing credit facilities and market conditions, total costs currently range from 3.33 percent to 3.92 percent.

Estimated maximum annual fees and interest payments total $20.25 million for the increased Wastewater interim-funding authorization, $10.13 million for the increased Water interim-funding authorization, and $8.1 million for the increased Power interim-funding authorization, for a total of $38.48 million across the three programs, as shown in Exhibit 6 below. This calculation assumes that the funds are fully drawn down. The actual amount of fees will vary depending on when the SFPUC issues commercial paper as interest and dealer fees accrue only when commercial paper is outstanding.

Exhibit 6: Maximum Estimated Annual Fees and Interest Payments

	Wastewater	Water	Power	Total
Increased Authorization	$500,000,000	$250,000,000	$200,000,000	$950,000,000
Annual Fees				
Bank Fees (.5% annually) *	2,500,000	1,250,000	1,000,000	4,750,000
Dealer Fees (.05% annually) *	250,000	125,000	100,000	475,000
Interest Payments (3.5% annually)**	17,500,000	8,750,000	7,000,000	33,250,000
Total Maximum Annual Fees	**$20,250,000**	**$10,125,000**	**$8,100,000**	**$38,475,000**

Source: SFPUC

*Fees are estimates used for planning purposes and are subject to change. Current actual bank fees range from .21% to .42% and actual dealer fees range from .045% to .05%. Annual fees are paid from capital fund sources.

**Assumed annual interest for the fully issued commercial paper amount. Actual commercial paper amounts will be issued as needed.

Commercial Paper vs Revenue Bonds

At approximately 4.05 percent annually, commercial paper interest rates and fees are modeled to be significantly lower than long-term revenue bond interest rates and fees, which are currently approximately 6 percent annually in the SFPUC's 10-year financial plans. Increasing the SFPUC interim-funding authorization for the three programs will reduce the period of paying capitalized interest and allow the SFPUC to issue bonds at a later date, thereby lowering interest expense and the SFPUC's debt and debt service costs. Reducing SFPUC debt service costs should result in lower cost increases to wastewater, water, and electricity rate payers.

RECOMMENDATION

Approve the proposed ordinance.

Item 7 File 24-0954	Department: Public Utilities Commission

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution authorizes the San Francisco Public Utilities Commission (SFPUC) to enter into a professional services agreement with Consor PMCM, Inc. for construction management services related to the new City Distribution Division (CDD) Campus at 2000 Marin Street. The contract amount is not to exceed $10,720,500, with an initial term of four years and three months. The agreement may be extended by up to six years.

Key Points

- The SFPUC's City Distribution Division has outgrown its current headquarters due to overcrowding and outdated facilities. To address this, SFPUC is constructing a new headquarters at 2000 Marin Steet, estimated to cost $393.6 million and support up to 490 employees.
- On April 17, 2024, SFPUC issued an RFP for construction management staff augmentation services. Consor PMCM, Inc. was identified as the highest-ranked firm after evaluating submissions based on criteria in the RFP.
- Consor PMCM, Inc. will provide construction management staff augmentation services, including construction administration, inspection, contract management, and project controls for the new CDD Campus. A detailed scope of work will be developed upon award approval.

Fiscal Impact

- The proposed contract has a not to exceed amount of $10,720,500 and spans a period of four years and three months. This contract is funded by the SFPUC Water Enterprise's capital revenues, which include revenue bonds and customer revenues.

Recommendations

- 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) any modification to such contracts of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

2000 Marin Street

The City Distribution Division (CDD) of the San Francisco Public Utilities Commission (SFPUC), responsible for managing the City's water distribution system, has recently outgrown its headquarter facility at 1990 Newcomb Avenue. Used for nearly six decades, this site is now outdated and insufficient to meet escalating service demands. Challenges include overcrowding, non-compliance with current building codes and safety standards, and operational inefficiencies. To address these issues, the SFPUC is in the process of constructing a new CDD headquarters. As previously reported our report on the design contract for this project, SFPUC estimates the project will support up to 490 employees and cost a total of $393,600,000 for construction and project delivery (File 23-0042). Construction is now scheduled to begin in December 2024 and is expected to be complete in September 2028.

On June 28, 2022, the SFPUC awarded Clark Construction Group a contract for construction services for the new CDD campus at 2000 Marin Street. The contract did not require Board of Supervisors approval because construction contracts are excluded from the Board's authority to approve contracts provided in City Charter Section 9.118(b).

Procurement

On April 17, 2024, the SFPUC issued a Request for Proposals (RFP) for construction management staff augmentation services. After evaluating the submissions based on established criteria, Consor PMCM, Inc. was identified as the highest-ranked firm.[1] Proposals were evaluated on a 1,000-point scale, with the Technical Written Proposal comprising 895 points, the DEI Submittal contributing 5 points, and the OPS accounting for 100 points. An additional 50 bonus points were available through the SIP Submittal[2], potentially bringing the total possible score to 1,050 points. To be considered for award, proposers needed to secure at least 537 points, which is 60% of the maximum available points for the technical written proposal. Proposals were evaluated based on

[1] The evaluation panel included: 2 Engineers from SFPUC, an Engineer from San Francisco International Airport, and an Engineer from San Francisco Public Works.

[2] The SIP evaluation panel included: a Program Manager from SFPUC, a Peer Supervisor from HOPE SF, and an Eligibility Worker Supervisor from the Human Services Agency.

qualifications (185 points), Key Member Qualifications (240 points), Non-Key Member Qualifications (215 points), Organizational Chart (20 points), Reference Projects (120 points), work approach (115 points), DEI Submittal (5 points), OPS (100 points), and Social Impact Partnership Submittal (50 Points).

Exhibit 1: Proposers and Rankings from RFP

Proposer	Score (Out of 1,050)	Rank
Consor PMCM, Inc.	882.1	1
M C K Americas, Inc.	864.6	2
Jacobs Project Management Co.	860.8	3

Source: SFPUC Proposal Evaluation

Related Commission Actions

On August 13, 2024, via Resolution No. 24-0176, the SFPUC adopted the Final Mitigated Negative Declaration, approved the project, and adopted findings under the California Environmental Quality Act (CEQA), including a Mitigation Monitoring and Reporting Program.

On September 24, 2024, the SFPUC approved the agreement with Consor PMCM, Inc.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution authorizes the San Francisco Public Utilities Commission (SFPUC) to enter into a professional services agreement with Consor PMCM, Inc for construction management. The contract amount is not-to-exceed spending authority of $10,720,500, with a term of four years and three months, starting from the effective date specified in the Notice of Contract Award, which will be issued after the agreement is fully approved and executed. The anticipated contract term is from December 2024 to February 2029. The proposed contract includes options to extend the agreement up to an additional six years.

Scope of Services

Under this agreement, Consor PMCM, Inc. will provide construction management staff augmentation services to support the SFPUC's Construction Management Bureau. Their responsibilities include overseeing the construction of the new City Distribution Division (CDD) Campus at 2000 Marin Street. The scope of services encompasses construction administration, construction inspection, construction contract management, and project controls, among other tasks. The SFPUC intends to create a detailed scope of work upon approval of the award.

Social Impact Partnership (SIP) Commitment

Consor is required to make specific contributions to community programs through the Social Impact Partnership (SIP). They have committed a total of $122,500 to benefit local communities affected by the SFPUC projects. This includes $100,000 in direct financial contributions and

$22,500 in in-kind contributions through volunteer hours valued at $150 per hour. The direct financial contributions are allocated as $25,000 towards Job Exposure, Training, and Internships, and $75,000 towards Environment and Community Health programs. The in-kind contributions, consisting of 150 volunteer hours valued at $22,500, are dedicated to the Environment and Community Health program area.

Importantly, these contributions are not included in their contract costs with the SFPUC; rather, they have to fund them separately out of their own resources. If Consor fails to fulfill these commitments, they could face penalties such as having their payments withheld or being fined up to 110% of the value of the commitments they didn't meet.

Local Business Enterprise (LBE) Participation

Consor PMCM, Inc. has committed to a 50% Local Business Enterprise (LBE) sub-consulting participation rate, exceeding the Contract Monitoring Division's (CMD) requirement of 20%. The subcontractors and services they provide are Salami Management (engineering & construction scheduling), RES Engineers, Inc. (building inspection), and Saylor Consulting Group (construction contract change management & cost estimating services).

Performance Monitoring

Consultant Performance Evaluations are required annually for all SFPUC Infrastructure Division consultant agreements exceeding $1,000,000. As this is a new contract, no evaluations have been performed so far.

During the RFP process, Consor PMCM, Inc. was required to demonstrate relevant experience. The firm provided descriptions of their two most recent and verifiable construction projects valued at $75,000,000 or more within the last 15 years, including the demolishment and reconstruction of both the SFO Harvey Milk Terminal 1 and the Laguna Honda Hospital. This satisfied the requirement to showcase their capability in providing construction management services for large-scale projects.

FISCAL IMPACT

The proposed contract has a not to exceed amount of $10,720,500 and spans a period of four years and three months. This contract is funded by the SFPUC Water Enterprise's capital revenues, which include revenue bonds and customer revenues. The projected expenditure schedule is detailed below in Exhibit 2. Additional spending beyond $500,000 would be subject to Board of Supervisors approval.

Exhibit 2: Projected Expenditure Schedule

Year	Total Labor Expenditures
2025	$3,306,587
2026	2,687,844
2027	2,680,410
2028	1,217,927
Total Direct Costs (Rounded)	10,120,500
Other Direct Costs	300,000
Additional As-Needed Services	300,000
Total Cost	**$10,720,500**

Source: SFPUC Project Expenditures

The contract will fund an average of 6.30 FTE for the initial contract term. Billing rates range from $134 to $225, up to a maximum of $270 per hour, adjusted annually by the Consumer Price Index.

RECOMMENDATIONS

Approve the proposed resolution.

Item 10 File 24-0991	Department: Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve three loans totaling $22,757,350, including: (1) A not-to-exceed $12,015,350 amended and restated loan agreement for a minimum loan term of 57 years between the City and MP Golden Gate Avenue Associates, L.P., (2) A not-to-exceed $9,482,000 new loan agreement for a minimum loan term of 57 years between the City and MP GGA Moderate LLC, and (3) a not-to-exceed $1,250,000 new loan agreement between the City and Mid-Peninsula Hermanas, Inc.

Key Points

- The purpose of the proposed loans is to provide gap financing for a 75 unit low and moderate income affordable housing rental project at 750 Golden Gate Avenue. The project is being developed by MidPen Housing Corporation, which was awarded predevelopment funding by MOHCD following a 2023 competitive solicitation.
- The project will have 20 moderate income units (up to 120 percent AMI) and 54 low income units (40 to 90 percent AMI) and one manager unit. Priority will be given to employees of the San Francisc Unified School District and Community College District. A second phase of the project, which will be funded and developed at a later time, is expected to include an additional 96 residential units.

Fiscal Impact

- The total development costs for the Project are estimated at $80.5 million, of which the City is funding $20 million plus $2,757,350 in State Infill Infrastructure Grant pass-through funds. Other development sources include tax credits, a State grant, private loans, and developer equity. The City's subsidy per unit is $266,667, which is less than the maximum $350,000 per unit required by the solicitation used to fund this project.
- The City's $20 million in loans is funded by the Housing Trust Fund, Inclusionary Fees, and CPMC Development Agreement Fees.

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) any such contract that requires a modification of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

750 Golden Gate: Phase 1

The proposed 750 Golden Gate Street affordable housing project will be an eight story, 75 unit housing development for low- and moderate-income households. Priority will be given to employees of the San Francisco Unified School District (SFUSD) and San Francisco Community College District (SFCCD). The site is owned by the State and is a parking lot. No commercial space is included in the design. The site will also include 25 parking spots in a garage.[1] The proposed loans will fund phase 1 of the project; phase 2 will include an additional 96 residential units and 41 parking spaces, for a total 171 residential units and 66 garage parking spots.

The project is being developed by the MidPen Housing Corporation. MidPen was originally selected by the State to develop low income housing projects at two surplus State properties: 750 Golden Gate and 850 Turk. Separately, in 2023 MOHCD issued a Notice of Funding Availability to fund rental and ownership affordable housing projects for SFUSD and SFCCD. The funding included $12 million in certificates of participation proceeds appropriated in the FY 2022-23 budget and $20 million of 2019 general obligation bond funding – both for educator housing. The NOFA sought proposals for both rental and ownership educator housing. Proposals were evaluated based on developer experience (40 points) and project attributes (60 points). As shown below, an evaluation panel[2] scored four proposals, with MidPen achieving the highest score.

[1] Although the State has deemed this "surplus land," it is requiring the developer to replace the parking spots currently reserved for State Employment Development Department employees, who have an office nearby at 801 Turk Street.

[2] The evaluation panel included three staff from MOHCD, one from OCII, and one from SFUSD.

Exhibit 1: 2023 Educator Housing NOFA: Rental Project Scores

Site	Developer	Score (out of 100)
750 Golden Gate	MidPen Housing Corporation	87.8
Balbo Reservoir, Building F	BRIDGE Housing Corporation	80.0
33 Gough	Tenderloin Neighborhood Development Corp (TNDC) and Integral	77.8
Potrero Power Station Blk 14	California Barrel Company (CBC) and Young Community Developers (YCD)	76.6

Source: MOHCD

MOHCD provided a $3 million predevelopment loan to MidPen in July 2024. No other rental projects received funding.

MidPen has formed three legal entities to finance this project: (1) MP Golden Gate Avenue Associates, L.P., the borrower for the low-income portion of the project, which has tax credit financing, (2) MP GGA Moderate LLC, the borrower for the moderate income portion of the project, and (3) Mid-Peninsula Hermanas, Inc., the borrower for the garage loan.

Construction is expected to begin in December 2024 and lease up is expected to be complete by March 2027.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve three loans totaling $22,757,350, including:

1) A not-to-exceed $12,015,350 amended and restated loan agreement for a minimum loan term of 57 years between the City and MP Golden Gate Avenue Associates, L.P.,
2) A not-to-exceed $9,482,000 new loan agreement for a minimum loan term of 57 years between the City and MP GGA Moderate LLC,
3) A not-to-exceed $1,250,000 new loan agreement between the City and Mid-Peninsula Hermanas, Inc.,

The proposed resolution would also find that the project and related transactions are consistent with the City's General Plan and the priority policies of the Planning Code and authorize the Director of MOHCD to amend the agreements provided the amendments do not increase the obligations or liabilities to the City.

Affordability Restrictions

Affordability restrictions to preserve the affordability of the housing units in the proposed development are included in the loan agreements between the City and the affordable housing operator and will be included in a Declaration of Restrictions recorded on the deed of the property. The unit mix by maximum income level is shown in Exhibit 2 below. The State will retain

land ownership of the site and lease it to MidPen for 99 years and will also record of deed restriction that requires at least half of the units remain affordable, consistent with State law.

Exhibit 2: Unit Mix and Maximum Income Level

Unit Mix	Moderate Income (120% AMI)	Low Income (40%-90% AMI)	Total Units
Studio	0	7	7
1 Bedroom	14	19	33
2 Bedroom	6	14	20
3 Bedroom	0	14	14
Total	**20**	**54**	**74**

Source: Proposed Loan Agreements

In addition, the building will include one manager unit. Rents may not exceed 30 percent of the maximum income level for the unit.

Loan Agreements

The original loan agreement provided by MOHCD in July 2024 included $3,000,000 for predevelopment costs. MOHCD proposes to amend the loan agreement to increase the loan amount by $9,015,350 to complete development and construction, including permanent financing. Under the proposed amended loan agreement, the total loan amount would increase up to $12,015,350 to finance 55 units for low-income household. The loan has a three percent simple interest rate and is repaid by net project income, if available.

In addition, the proposed resolution approves a new $9,482,000 loan to provide permanent financing for 20 moderate income housing units. This loan also has a three percent simple interest rate and is repaid by net project income, if available.

The proposed resolution also approves a $1,250,000 loan to finance the 25 space garage on the ground floor of the building. The loan does not have interest costs and is deemed repaid once a notice of completion is issued by the City's Department of Building Inspection.

Sponsor Performance

According to the MOHCD loan evaluation, there are no performance improvement plans for MidPen.

FISCAL IMPACT

Total Development Costs

The total development costs for the Project were estimated at $80.5 million in October 2024 as shown below.

Exhibit 3: Total Development Costs

Sources	Moderate Income	Low Income	Total
MOHCD Loan	$9,613,033	$10,386,967	$20,000,000
MOHCD Deferred Interest	439,046	474,393	913,439
MOHCD IIG Pass Through Loan	1,250,000	0	1,250,000
Private Loan	4,522,000	6,779,000	11,301,000
Tax Credit Equity	0	28,805,922	28,805,922
HCD Matching Grant	1,599,369	7,360,631	8,960,000
HCD Infill Infrastructure Grant (IIG)	154,350	1,343,000	1,497,350
Developer Loan	1,062,629	0	1,062,629
Developer Equity	1,040,000	4,127,484	5,167,484
Deferred Developer Fee	0	1,500,000	1,500,000
Total	**$19,680,427**	**$60,777,397**	**$80,457,824**
Uses			
Hard Cost	$15,986,379	$44,621,568	$60,607,947
Soft Costs	2,953,807	8,348,834	11,302,641
Reserves	140,241	279,611	419,852
Developer Fee	600,000	7,527,384	8,127,384
Total	**$19,680,427**	**$60,777,397**	**$80,457,824**

Source: MOHCD

The loan amounts in the proposed resolution ($12,015,350 for the low income portion of the project, $9,482,000 for the moderate income portion of the project, $1,250,000 for the garage, totaling $22,747,350) differ than the budget above because the budget for the project has changed since the resolution was introduced. The Department is planning to request that the Board amend the resolution to allow MOHCD to provide loans to the project totaling up to $12,500,000 for the low income project and up to $10,200,000 for the moderate income project, but still totaling no more than $22,747,350, including the Infill Infrastructure Grant pass-through loan.

MOHCD authorized a developer fee of $8,127,384 for this project, which is $300,000 more than its Underwriting Guidelines allow. According to MOHCD staff, the additional fee is justified given the complexity of the project, including the need for multiple marketing and lease up strategies.

Funding Sources for City Loan

Exhibit 4 below shows the sources of the proposed loans, which include the Housing Trust Fund, Inclusionary Fee Revenues, CPMC Funds, and, for the garage, a State Infill Infrastructure Grant.

Exhibit 4: Funding Sources for Proposed Loans

MOHCD Loan	Housing Loans	Garage Loan
Housing Trust Fund	$14,100,000	$0
Inclusionary Fee Revenues	400,000	0
CPMC DA Funds	5,500,000	0
Infill Infrastructure Grant	0	1,250,000
Total	**$20,000,000**	**$1,250,000**

Source: MOHCD

Costs Per Unit

As shown below, total cost per unit is $1,072,771, of which the City is funding $266,667 per unit. This is less than the $350,000 maximum City subsidy included in the NOFA used to fund this project. According to the September 2024 MOHCD staff memo to the Affordable Housing Loan Committee, total develop costs were higher than originally expected because a State mandated change in the Building Code that required additional structural reinforcements (thicker walls, more rebar).

Exhibit 5: City Subsidy for Affordable Housing Units

Number of Units	75
Total residential area (sq. ft.)	90,731
Development Cost	$80,457,824
Total City subsidy	$20,000,000
Development Cost per unit	$1,072,771
Development Cost per sq. ft.	$887
City Subsidy per unit	$266,667
City Subsidy per sq. ft.	$220

Source: MOHCD

The garage cost is $50,000 per parking spot, funded by a State grant (with MOHCD as a pass-through lender).

Operating Budget

According to MOHCD's 20-year cash flow analysis for the project, the project will have sufficient revenues to cover operating expenses, reserves, management fees, and debt service on the private loans and make payments on the proposed City loans. Project revenues consist of tenant rents. A portion of net income after operating expenses (residual receipts) will be used to repay the MOHCD loan.

RECOMMENDATION

Approve the proposed resolution.