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 22, 2025 Budget and Finance Committee Meeting

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Item 2 File 25-0971	Department: Airport

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a professional services contract between the Airport and BEUMER Lifecycle Management LLC for the operations and maintenance of the baggage handling system in Harvey Milk Terminal 1. The contract has a not-to-exceed of $30,000,000 and a term of three years from November 1, 2025, through October 31, 2028, with an option to extend for two additional years, for a total possible term of five years through October 31, 2030.

Key Points

- In July 2015, the Airport Commission approved a design-build contract with BEUMER Lifecycle Management, LLC for the Harvey Milk Terminal 1 baggage handling system. The contract required the Airport to enter into an operations and maintenance agreement with BEUMER for a period of up to five years, commencing after the system became operational. In June 2024, the baggage handling system was expanded by approximately 33 percent and the new portions of the system remain under warranty until 2026. Because the system uses proprietary software, BEUMER is the only vendor that can operate the existing system. For this reason, the Airport obtained a sole source procurement authorization from the Office of Contract Administration for this new contract with BEUMER to operate and maintain the baggage handling system in Terminal 1.
- BEUMER's performance is measured primarily by system up-time, as well as the accuracy baggage sorting and timely completion of maintenance requests. Under the existing contract, BEUMER has generally met the contract's performance thresholds, and no penalties have been assessed.

Fiscal Impact

- The proposed resolution authorizes a new contract with a total not-to-exceed amount of $30,000,000 with a three-year term and one option to extend it for two years. The contract budget for the initial three-year term is $30,000,000, including a ten percent contingency.
- The contract is funded by Airport operating revenues.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

BACKGROUND

In July 2015, the Airport Commission approved a design-build contract with BEUMER Lifecycle Management, LLC (BEUMER) for the Harvey Milk Terminal 1 baggage handling system, which transports checked luggage from ticketing counters to departing airplanes and from arriving airplanes to baggage claim or other departing airplanes.[1] This contract required the Airport to enter into an operations and maintenance agreement with BEUMER for a period of up to five years, commencing after the system became operational.

In July 2020, the Board of Supervisors approved the original professional services contract with BEUMER for an initial not-to-exceed amount of $21 million for a term through June 2023 (File 20-0698). In October 2024, the Board of Supervisors approved Amendment No. 2, which extended the term through June 30, 2025, and increased the total not-to-exceed amount to $35 million (File 23-0801).

The current contract for these services was set to expire on June 30, 2025, but was extended through December 31, 2025, because negotiations for the new contract took longer than expected. The remaining balance from the prior agreement will be used to cover services from July through October 2025, with the new contract anticipated to begin on November 1, 2025.

Sole-Source Justification

In June 2024, the baggage handling system was expanded by approximately 33 percent. Airport staff negotiated a new sole-source agreement with BEUMER for ongoing operation and maintenance. The reason for the sole-source award is based on two factors: (1) the baggage handling system expansion from the Harvey Milk Terminal 1 North project remains under warranty, and switching vendors would void this warranty, which expires in 2026, and (2) the entire system operates with proprietary mechanical, electrical, and system control architecture, as well as proprietary software, that only BEUMER can service and support.

On March 5, 2025, the Office of Contract Administration approved a waiver of competitive solicitation requirements for procuring a baggage handling system operator for Terminal 1.

[1] According to the Airport, each terminal has a different baggage handling system. The Airport owns the systems but different entities operate and maintain them. The international terminal's baggage handling system is operated by SFOTEC, an airline consortium. Terminal 1 is maintained by BEUMER. Terminal 2 is maintained by Professional Business Providers, another Airport contractor. Terminal 3 is maintained by United Airlines.

On September 16, 2025, the Airport Commission awarded the professional services contract to BEUMER.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a professional services contract between the Airport and BEUMER Lifecycle Management LLC for the operations and maintenance of the baggage handling system in the Harvey Milk Terminal 1. The contract has a not-to-exceed of $30,000,000 and a term of three years from November 1, 2025, through October 31, 2028, with an option to extend for two years, for a total possible term of five years through October 31, 2030.

Scope of Services

Under the proposed agreement, BEUMER will offer 24/7 operational availability for the baggage handling system in Terminal 1. The scope includes all labor, supervision, materials, repair, replacement parts, tools, supplies, and equipment necessary for comprehensive maintenance and repair services. BEUMER is responsible for maintaining the flow of materials through the screening equipment, including the clearing of jams or stoppages.

The baggage handling system utilizes BEUMER's proprietary bi-directional tote technology to transport checked luggage from ticketing counters to departing aircraft and from arriving aircraft to baggage claim or other departure flights.

Local Business Enterprise Program Waiver

The Contract Monitoring Division approved a waiver of the Local Business Enterprise subcontracting requirement, citing an "absence of subcontracting opportunities." While the agreement lists three subcontractors (Lloyd W. Aubrey Company Inc., Prime Flight Aviation Services, and ABM Industries), these companies are not involved in the daily operation or maintenance of the system and are not LBEs. Their roles are limited to providing auxiliary, as-needed services for emergencies, such as specialty rigging for repairs or emergency baggage portering during system failures.

Performance Monitoring

BEUMER's performance is measured primarily by system up-time, as well as the accuracy baggage sorting and timely completion of maintenance requests. The Airport may deduct up to five percent of BEUMER's monthly invoice if the system is down and up to $1,000 if other performance targets are not met.

Under the existing contract, BEUMER has generally met the contract's performance thresholds, and no penalties have been assessed. While BEUMER has generally met its performance targets, the Airport notes that the automated tag reader read rate[2] is sometimes impacted by factors outside of BEUMER's control, including installation issues with readers located under the belt and

[2] Bags are inserted into totes which have serialized barcodes that are tracked by scanners installed throughout the baggage handling system. This enables BEUMER to track luggage throughout the baggage handling system.

poor bag tag print quality from airline-owned printers. BEUMER's performance between September 2024 and August 2025 is shown below in Exhibit 1.

Exhibit 1: Contract Performance Objectives

Performance Standard	Objective	Lowest Recorded Average, 9/24 – 8/25
Availability Rate (System Up Time)	99%	99.98%
Checked Baggage Inspection System Tracking Accuracy[3]	98%	100%
Sortation Sub-System Tracking Accuracy[4]	97%	Not Data Available
Automated Tag Reader Read Rate (Outbound)[5]	95%	94.40%
Automated Tag Reader Read Rate (Inbound)	93%	No Data Available
Maintenance and Inspection Completion Rate (Monthly)[6]	98%	99.77%

Source: Airport

FISCAL IMPACT

The proposed resolution authorizes a new contract with a total not-to-exceed amount of $30,000,000 with a three-year term and one option to extend the term by two years. Exhibit 2 details the contract budget for the initial three-year term, which totals approximately $30,000,000. Amendments to the contract that exceed $500,000 would require Board of Supervisors approval.

[3] Checked Baggage Inspection System Tracking Accuracy tracks baggage through the security screening process.
[4] Sortation Sub-System Tracking Accuracy tracks baggage from security screening to its final destination (an airplane or baggage claim).
[5] Automated Tag Reader Read Rate measures the percentage of bag tags accurately read by Automated Tag Reading Scanners as they pass through the system.
[6] Maintenance and Inspection Completion Rate refers to the completion rate of preventative maintenance for equipment inspected within a one-month period. The Airport and BEUMER develop a monthly and annual preventative maintenance plan, which details the inspection tasks to be performed.

Exhibit 2: Proposed Three-Year Contract Budget Projection

Category	Year 1	Year 2	Year 3	Total
Labor				
Wages and Benefits	$7,315,284	$7,559,724	$7,868,009	$22,743,017
Labor Overhead (2%)	$146,306	$151,194	$157,360	$454,860
Profit (10% of Labor Cost)	$731,528	$755,972	$786,801	$2,274,301
Non-Labor	$332,248	$369,598	$415,404	$1,117,250
As-Needed Services	$250,000	$250,000	$250,000	$750,000
Subtotal	**$8,775,366**	**$9,086,488**	**$9,477,574**	**$27,339,428**
Contingency (10%)				$2,660,572
Total Not-To-Exceed Amount				**$30,000,000**

Source: Airport

Year 1's cost is $8,775,366, which is approximately the same as the final year cost of the current contract.

Staffing

The contract funds 35 full-time equivalent positions across all shifts to provide 24/7 coverage. Classifications include management, administrative support, technical staff, and operations staff. Hourly rates outlined in the agreement range from $59.08 to $129.63 per hour. Wages are adjusted annually based on prevailing wage changes (for certain classifications) and inflation.

Funding Source

Airport operating revenues will fund the proposed contract.

RECOMMENDATION

Approve the proposed resolution.

Item 3 File 25-0977	Department: Office of Contract Administration (OCA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the fourth amendment to the contract between OCA and Universal Protection Service, LB, dba Allied Universal Security Services. The amendment extends the term by five months, from January 15, 2026 through June 14, 2026 and would increase the contract amount from $9,994,000 to $12,180,000.

Key Points

- In July 2022, the Office of Contract Administration (OCA) issued a Request for Proposals (RFP) for unarmed security guard services for Laguna Honda and San Francisco General hospitals. OCA initially awarded the contract to Black Bear Security Services Incorporated, which was the highest ranked proposal, beginning January 1, 2023. OCA and Black Bear mutually agreed to terminate the contract less than one month later at no cost to the City because Black Bear was not able to provide sufficient security guard staffing. OCA then awarded the contract to the next highest ranked responsive proposer, Allied.
- Since the contract was awarded, it has been amended to add additional security guard posts to backfill security services that could no longer be provided by the Sheriff's Office due to staffing shortages.
- Guards provided by the contractor are unarmed and must have at least five years of experience.

Fiscal Impact

- The billing rate for security guard services under this agreement is determined by a formula that adds together the prevailing wage rate for security guards and the contractor's markup; in this case, 73.23 percent, as determined in the procurement process.
- The five-month contract extension is based on the average monthly expenditure of $290,956 since the contract began in February 2023 plus a twenty percent contingency.
- The contract is funded by the General Fund.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

BACKGROUND

In July 2022, the Office of Contract Administration (OCA) issued a Request for Proposals (RFP) for unarmed security guard services for Laguna Honda and San Francisco General hospitals. OCA initially awarded the contract to Black Bear Security Services Incorporated, which was the highest ranked proposal beginning January 1, 2023, as shown below in Exhibit 1.

Exhibit 1: Ranking of Responsive Proposers

Rank	Proposer	Total Proposal Score
1	Black Bear Security Services	215
2	Allied Universal Security Services	204
3	A1 Protected Services	162
4	ABA Protection	140
5	Treeline Security	114

Source: OCA

Less than one month later, OCA and Black Bear mutually agreed to terminate the contract at no cost to the City because Black Bear was not able to provide sufficient security guard staffing. OCA then awarded the contract to the next highest ranked responsive proposer Universal Protection Services, LP doing business as Allied Universal Security Services—and hereinafter referred to as Allied. The proposals were evaluated on minimum qualifications related to experience, state licensing and registration, and a guard tracking system (pass/fail), price (60 out of 300 points), written proposal (150 out of 300 points), and oral interviews (90 out of 300 points). Black Bear and Allied were the only two firms to qualify for oral interviews by scoring at least 110 points on their respective written proposals, according to OCA.

The initial two-year contract term with Allied began on February 15, 2023 through February 14, 2025 with a not-to-exceed amount of $2.6 million for unarmed security guard services at San Francisco General Hospital (SFGH). This original not-to-exceed amount was based on 58,240 hours per and Allied's average hourly rate at the time of $43.86.[1] After ten months, the Department of Public Health (DPH) added additional security guard posts and increased the annual hours to approximately 112,060 to address service gaps resulting from staffing shortages

[1] The hourly rate is based on Allied's markup of 73.23 percent over the 2023 hourly fully-loaded prevailing wage rate of $25.32, according to OCA.

at the Sheriff's Office, which have limited the ability of the Sheriff's Office to provide adequate security coverage at SFGH. This resulted in the first contract amendment in March 2024 to increase the maximum expenditure by $3.4 million to a total not to exceed $6 million, and again in September 2024 to further increase the maximum expenditure by $3,994,000 to a new total not to exceed $9,994,000. According to OCA, other factors that increased security costs include security guard wage increases associated with experience, number of health care dependents, and prevailing wage adjustments; and the need for additional security during large-scale events or periods when security concerns are heightened. A third amendment was made in February 2025 to extend the contract term by 11 months to January 15, 2026.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the fourth amendment to the contract between OCA and Universal Protection Service, LB, dba Allied Universal Security Services. The amendment extends the term by five months, from January 15, 2026 through June 14, 2026 and would increase the contract amount from $9,994,000 to $12,180,000.

The total term of three years and four months is four months longer than the three-year term stated in the RFP used to procure this service. According to OCA, this fourth extension would provide time to issue a new request for proposals for a new security guard contract.

Additionally, the resolution authorizes OCA to enter into amendments or modifications to the contract that do not materially increase the obligations or liabilities to the City and are necessary to effectuate the purposes of the contract or the resolution.

Scope of Services

Under the agreement, security guards are required to perform general security functions. All security guards under this contract are unarmed. Their duties generally include the following:

- Respond to hospital emergencies, drills, or surveyor questions concerning emergency response plans;
- Investigate unusual or suspicious activity;
- Guard the premises against fire, theft, damage, and trespassing;
- Protect the safety of persons on sites;
- Keep peace and order at all times;
- Monitor all incoming and outgoing traffic;
- Ask visitors which floor they are going to and direct them accordingly;
- Be polite, welcoming, courteous, respectful, and responsive to visitors and hospital staff; and
- Be visible to the public, alert, and attentive at all times while on duty, among other responsibilities.

In addition, the security guards are required to provide incident reports to the DPH Director of Security and report threats to life and property to the Police Department.

Per the agreement, the security guard locations include: SFGH Building 5 Lobby, SFGH Urgent Care, SFGH Buildings 80 and 90, SFGH Building 9 Occupational Health Service, and SFGH Hospital Lobby – Building 25.

Prevailing Wage and Contractor Mark Up

The contract rate for security guard services under this agreement is determined by a formula that adds together the prevailing wage rate and the contractor's percentage markup. Prevailing wage is approved by the Board of Supervisors each year, based on surveys of market compensation for various industries for a particular job classification. The markup is an additional percentage that contractors add over the base costs (wages and benefits) to cover their overhead expenses, administrative costs, and profit margins. Under the agreement between OCA and Allied, the percentage markup is set at 73.23 percent.[2]

Training and Qualifications

According to the RFP, all security guards provided by the contractor must have five years of experience and be registered with the California Bureau of Security and Investigative Services, a state agency that licenses security guard firms and regulates the industry. In addition, security guards must have a high school education and be proficient in English.

Supervisors are required to train new guards and orient guards to new posts and assignments, according to the agreement. Allied is also required to execute a training program approved by the DPH Director of Security, including eight hours of site-specific training for new employees and as-needed refresher training, along with proof of training. At a minimum, the following training topics must be covered: site-specific operations protocols and building procedures; tenant base and services to the public; points of entry, and locations of egress and ingress; securing the premises, exterior and interior doors, and garage gate; and security system usage.

Performance Monitoring

Contractors are required to submit annual electronic usage reports detailing the total services rendered, conduct criminal background checks, as well as drug and alcohol testing for all security personnel.

All services performed under these agreements must adhere to the prevailing wage requirements as monitored and enforced by the Office of Labor Standards Enforcement (OLSE).

FISCAL IMPACT

The proposed resolution incorrectly states that the increase in the contract amount is $2,189,000 for a total not to exceed $12,183,000. Because of a rounding error, OCA will be amending these

[2] For the year 2025, the fully loaded prevailing wage rates for security guard services range from $25.52 to $33.58 per hour for straight time. In comparison, a Deputy Sheriff with the San Francisco Sheriff's Office can earn total compensation of as much as $93.58 to $128.79 per hour, depending on hire date (which determines fringe benefit levels).

amounts to reflect an increase of $2,186,000 and a total not to exceed $12,180,000, as stated in the proposed contract amendment and shown in Exhibit 2 below.

Exhibit 2: Actual and Projected Spending

Actual Spending	Amount
Year 1 (FY 2022-23) 4.5 months	$185,000
Year 2 (FY 2023-24)	$3,740,000
Year 3 (FY 2024-25)	$3,910,000
Subtotal, Actual Spending	**$7,835,000**
Projected Spending	
Year 4 (FY 2025-26)	$4,345,000
Total Not To Exceed	**$12,180,000**

Source: BLA review of OCA data

The proposed increase to the not-to-exceed amount is based on a historical monthly expenditure of $290,956 since the contract began in February 2023 and 20 percent contingency. Without the contingency, the spending in FY 2025-26 would be approximately $3.6 million.

Funding Sources

The funding source for the contract is General Fund.

RECOMMENDATION

Approve the proposed resolution.

Items 7 & 8 Files 25-0946, 25-0948	Department: Controller's Office of Public Finance

EXECUTIVE SUMMARY

Legislative Objectives

- **File 25-0946**: The proposed ordinance would appropriate a total of $5,769,288 to the Mayor's Office of Housing and Community Development (MOHCD) for affordable housing and place the amount on Controller's Reserve until the bonds are issued.
- **File 25-0948**: The proposed resolution would authorize the issuance of Treasure Island Tax Increment Revenue Bonds in an amount not to exceed $31 million and approve related documents and amendments to existing documents, including a preliminary Official Statement, two supplements to the Indentures of Trust, two Bond Purchase Agreements, two Continuing Disclosure Certificates, and a Subordinate Pledge Agreement.

Key Points

- The Treasure Island/Yerba Buena Development Project includes up to 8,000 residential units, including 2,173 affordable units, as well as retail and commercial space, up to 500 hotel rooms, and 300 acres of public open space. To date, the Project has completed Stage 1 infrastructure improvements on Yerba Buena Island and Treasure Island, which include approximately 15 acres of new public parks, street network and roadway improvements, utilities, two public art installations, new water storage facilities, and a new ferry terminal. In addition, 974 residential units, which include 677 market rate and 297 affordable units, have been completed. The developer has expended approximately $890 million as of August 31, 2025.
- Proceeds from the proposed bonds will be used to reimburse eligible project costs, including demolition, abatement and geotechnical work, predevelopment costs, public park construction, and a proposed 100-unit senior affordable multifamily housing development.

Fiscal Impact

- The proposed bonds are anticipated to generate $25.1 million in proceeds, have a 30-year term and an estimated true interest cost of 5.84 based on market conditions as of August 28, 2025. Total debt service is expected to be $55.1 million or approximately $1.9 million on average, per year. Bond debt service will be paid from incremental increases to property tax revenues on Treasure Island.
- The proposed appropriation ordinance would appropriate $5.5 million of bond proceeds from the Series 2025B Housing Bonds and $269,288 accumulated interest earnings from the Series 2022B and Series 2023B Treasure Island IRFD Housing Bonds for MOHCD to finance a senior affordable multifamily housing development. The remaining portion of the proposed bond proceeds do not require an appropriation.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.105 states that amendments to the Annual Appropriations Ordinance, after the Controller certifies the availability of funds, are subject to Board of Supervisors approval by ordinance.

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

BACKGROUND

Treasures Island/Yerba Buena Development Project

The Treasure Island/Yerba Buena Development Project (Project) is part of the Treasure Island Development Authority's (TIDA) ongoing project to transition Treasure Island and a portion of Yerba Buena Island from a former military base to a residential and commercial development. In 2011, the Board of Supervisors approved the Development Agreement between the City and Treasure Island Community Development, LLC (TICD), the master developer for the Treasure Island development project, and the Disposition and Development Agreement (DDA) between TIDA and TICD (Files 11-0226,11-0291, 24-0198, & 24-0202). The Project is anticipated to include up to 8,000 residential units, including 2,173 affordable units (27.2 percent), as well as retail and commercial space, up to 500 hotel rooms, and 300 acres of public open space.

The Project is phased over eight stages for a total estimated budget of approximately $2.56 billion. Under the DDA's Financing Plan, public infrastructure costs are paid for by the developer and then reimbursed over time by long-term public financing support by growth in property tax increment (through an Infrastructure and Revitalization Financing District), special tax revenues (through a Community Facilities District), and up to $115 million in Certificates of Participation. According to TIDA, the developer has expended approximately $890 million as of August 31, 2025.

Financing Plan

The Financing Plan obligates the City to provide funding for certain public improvements through: (a) the issuance of special tax bonds[1] issued by one or more community facilities districts (CFDs);

[1] The 1982 Mello-Roos Community Facilities Act allows for the formation of CFDs to fund public infrastructure improvements by levying special taxes on taxable property within a CFD. In 2017, the Board of Supervisors approved resolutions forming Community Facilities District No. 2016-1 on Treasure Island, authorizing up to $5 billion of CFD bonds , and a $250 million issuance of special tax bonds (Files 16-1122, 16-1123, and 16-1127) . Subsequently, up to $73.76 million in special tax bonds were authorized at the annexation of Improvement Area No. 2 (Files 20-0977, 21-1046, 21-1054, 21-1166) and up to $731.4 million in special tax bonds were authorized at the annexation of Improvement Area No. 3.

(b) tax increment revenue bonds[2] issued by the Treasure Island Infrastructure and Revitalization Financing District (IRFD), and Certificates of Participation issued by the City. To date, the Board of Supervisors has approved four issuances of special tax bonds (Files 20-0978, 21-0508, 21-1054, and 23-1166), and the City has issued a total of $100.6 million on behalf of the CFD across the four issuances. The Board of Supervisors has also approved two issuances of tax increment revenue bonds (Files 22-0294 and 23-1131), and the IRFD has issued a total of $38.6 million to finance facilities and affordable housing which includes the following:

- Series 2022A Facilities Bonds: $24,270,000
- Series 2022B Housing Bonds: $5,120,000
- Series 2023A Facilities Bonds: $7,615,000
- Series 2023B Housing Bonds: $1,595,000

As previously mentioned, the Amended and Restated Disposition and Development Agreement (DDA) amended the Financing Plan, to provide $115 million of project fund proceeds from the issuance of General Fund Certificates of Participation (COPs). In December 2024, the Board of Supervisors approved $65 million of COPs as the first tranche of Stage 2 Alternative Financing (File 24-1085). According to TIDA, the City issued the first tranche of COPs (which funded $50 million of the Project) in March 2025. The City anticipates issuing the second tranche of COPs to fund $50 million of projects in FY 2026-27 and the third tranche to fund $15 million of projects in FY 2027-28.[3]

The Controller's Office of Public Finance (OPF) is proposing an additional issuance of up to $31 million in tax increment revenue bonds to finance the Project (as discussed below).

Infrastructure and Revitalization Financing District

The Treasure Island IRFD includes five project areas on Yerba Buena Island (Project Area A) and Treasure Island (Project Areas B, C, D, and E), which represent the Project's initial phases of development. The five project areas included in the IRFD are shown in Appendix A.

The IRFD Financing Plan stipulates how incremental property tax revenue generated by project areas within the IRFD will be used to reimburse eligible project costs, including public facilities (such as roads, sidewalks, parks, and shoreline improvements) and affordable housing. Each project area within the IRFD can have a different start date and extend for 40 years from the start date. Each project area can generate property tax increment and issue debt against the property tax increment at different times for the benefit of the entire development area. Project Area A

[2] State Infrastructure and Revitalization Financing District (IRFD) law allows for a portion of property tax revenues to be allocated to IRFDs to pay for public improvements. In 2017, the Board of Supervisors approved the formation of the Treasure Island IRFD No. 1, adopted the Infrastructure Financing Plan, and authorized the issuance of up to $780 million in tax increment bonds to finance eligible project costs (Files 16-1120 and 16-1121). Each bond issuance (of the $780 million total authorized) is subject to Board of Supervisors' approval of the terms of sale and related documents. In February 2022, the Board of Supervisors approved the addition of territory to the IRFD and amendments to the Infrastructure Financing Plan (File 21-1196).

[3] Under the Amended DDA and amended Financing Plan, the first debt service payment for the COPs is not payable until FY 2027-28. The first principal and interest payment are due on April 1, 2027.

began generating tax increment for the IRFD in FY 2019-20, and Project Areas B and E began generating tax increment in FY 2022-23 according to the September 9, 2025 OPF memo to the Board of Supervisors. The City's ability to issue tax increment debt is constrained by the amount of property tax available within the IRFD, which itself is a function of the development timeline.[4]

The City's share of the 1.0 percent property tax rate is approximately 0.646 percent. According to the Infrastructure Financing Plan, approximately 0.566 percent is pledged as "Net Available Increment" to pay for IRFD improvements and debt service and the remaining 0.08 percent is pledged as "Conditional City Increment" that will accrue to the City's General Fund if not required for the repayment of bonds. According to the Infrastructure Financing Plan, 82.5 percent of the net available increment allocated to the IRFD will be used to finance facilities and 17.5 percent will be dedicated to TIDA to finance affordable housing.

Project Status

To date, the Project has completed Stage 1 infrastructure improvements on Yerba Buena Island and Treasure Island, which include approximately 15 acres of new public parks, street network and roadway improvements, utilities, two public art installations, new water storage facilities, and a new ferry terminal. In addition, 974 residential units, which include 677 market rate and 297 affordable units, have been completed. According to TIDA, Stage 2 is underway and includes new street improvements, utilities and infrastructure, development of up to 1,300 market rate and affordable housing units, shoreline infrastructure improvements, and approximately 12 acres of new parks and open space.

DETAILS OF PROPOSED LEGISLATION

File 25-0948: The proposed resolution would authorize the issuance of Treasure Island Tax Increment Revenue Bonds in an amount not to exceed $31 million and approve related documents and amendments to existing documents, including a preliminary Official Statement, two supplements to the Indentures of Trust, two Bond Purchase Agreements, two Continuing Disclosure Certificates, and a Subordinate Pledge Agreement.

File 25-0946: The proposed ordinance would appropriate a total of $5,769,288 (consisting of $5.5 million from the issuance of Treasure Island Infrastructure and Revitalization Financing District Series 2025B Tax Increment Revenue Bonds and $269,288 accumulated interest from the issuance of Treasure Island Infrastructure and Revitalization Financing District Series 2022B and 2023B Tax Increment Revenue Bonds) to the Mayor's Office of Housing and Community

[4] According to TIDA, based on tax roll data and recommendations in the Fiscal Consultant report on Assessed Value projections, the proposed bond issuance is currently the highest amount of debt that can be issued from the IRFD. OPF states that the total amount of debt issuance is limited by the available tax increment revenues for IRFD bonds, which is based on the required debt service coverage ratio. Capacity to issue additional bonds is expected to grow in future years as revenues increase due to additional development coming online and expanding the total bonding capacity.

Development (MOHCD) for affordable housing and place the amount on Controller's Reserve until the bonds are issued.

Treasure Island Tax Increment Revenue Bonds Series 2025A and 2025B

The bonds would be sold as separate series for facilities (2025A Facilities Bonds) and housing (2025B Housing Bonds). It is anticipated that both bond series will be issued on a tax-exempt basis. The housing project that is proposed to be financed by the Housing Bonds is located on Treasure Island and will be developed by Mercy Housing California (as further discussed below).

Bond Purchase Agreements

The IRFD intends to issue the proposed bonds in a negotiated sale. The City's Municipal Advisor recommended this approach given that the bonds will be sold as non-rated. The approach is consistent with the City's Debt Policy, which allows for negotiated bond sales when the transaction involves a public/private partnership.

The terms of sale of the bonds are documented in two Bond Purchase Agreements, one for the 2025A Facilities Bonds and one for the 2025B Housing Bonds. The IRFD would first sell the bonds to the California Statewide Communities Development Authority (CSCDA). This is a third-party statewide joint powers authority[5], of which the City is a member. CSCDA would then sell the bonds to the underwriter. The Bond Purchase Agreements are between the IRFD, the CSCDA, and Stifel, Nicolaus & Company, Incorporated, the underwriter for the proposed bonds. According to the Office of Public Finance, the underwriter was selected from the Controller's Office pool of qualified underwriters, which was established through a competitive process in May 2023.[6]

According to the Office of Public Finance and the City's Municipal Advisor, because of the unique real estate-related risks associated with this financing, including concentration of property ownership on Treasure Island and uncertainties in development timeline, the bonds would not receive an investment grade rating and will be sold as non-rated.

Second Supplements to Indentures of Trust

The proposed 2025A Facilities Bonds would be secured on a parity basis[7] with the 2022A Facilities Bonds and 2023A Facilities Bonds, and the 2025B Housing Bonds would be secured on a parity basis with the 2022B Housing Bonds and 2023B Housing Bonds. As part of the issuance of the Series 2022AB and Series 2023AB Bonds, the City executed indentures of trust, which establish the terms by which the trustee administers and disburses bond payments. The proposed Second Supplements to the Indentures of Trust will apply to the Series 2025AB Bonds. The net available increment is separately pledged under separate indentures of trust to each series based on the shares determined in the Infrastructure Financing Plan (82.5 percent to the Facilities Bonds and

[5] A statewide joint powers authority is a public entity created by two or more public agencies to jointly exercise common powers, such as providing low-cost financing for public projects

[6] OPF states that the underwriter (Stifel, Nicolaus & Company, Incorporated) was the highest ranked proposer in the Development Finance pool.

[7] Bonds issued on a parity basis have equal seniority to one another and equal rights of payment.

17.5 percent to the Housing Bonds). The pledge of conditional City increment is split between the two series based on the same proportions.

Preliminary Official Statement & Continuing Disclosure Certificates

The Preliminary Official Statement describes the legal structure of the bonds as well as sources of revenue and major risks related to repayment for the benefit of prospective investors. The Preliminary Official Statement will be finalized after it is approved by the Board of Supervisors and Mayor prior to the sale of the bonds. The proposed resolution allows the IRFD to issue annual Continuing Disclosure Certificates, which provide financial information relevant for existing and prospective bond investors.

FISCAL IMPACT

Exhibit 1 below shows the sources and uses of the proposed tax increment revenue bonds. Based on market conditions as of August 2025, the City intends to issue approximately $25.4 million of Tax Increment Revenue Bonds with estimated proceeds of $25.1 million after the projected original issue discount.[8] To accommodate potential increases in bond proceeds due to shifts in market conditions and/or investor demands, the City could issue up to $31 million in tax increment revenue bonds under the proposed resolution.

Exhibit 1: Estimated Sources and Uses of Proposed 2025 Tax Increment Revenue Bonds

	2025A Facilities Bonds	2025B Housing Bonds	Total
Sources			
Par Amount	$20,975,000	$4,440,000	$25,415,000
Discount	(253,796)	(69,444)	(323,240)
Reserve for Market Uncertainty			5,908,240
Total Sources	**$20,721,204**	**$4,370,556**	**$31,000,000**
Uses			
Project Fund	$18,627,904	$3,927,013	$22,554,917
Debt Service Reserve	1,324,760	280,859	1,605,618
Delivery Expenses	768,540	162,685	931,225
Cost of Issuance	*453,915*	*96,085*	*550,000*
Underwriter's Discount	*314,625*	*66,600*	*381,225*
Reserve for Market Uncertainty			5,908,240
Total Uses	**$20,721,204**	**$4,370,556**	**$31,000,000**

Source: Office of Public Finance and Stifel, Nicolaus & Co, Inc.

[8] Bond investors demand a discount on the face value of bonds if the coupon rate of the bonds is less than comparable market rate interest rates.

The proposed resolution limits the underwriter's discount to 1.5 percent of the bonds' par value. Based on the values in Exhibit 1 above, the estimated underwriter's discount is 1.5 percent of the bonds' par value. The debt service reserve amounts are based on maximum annual debt service on the proposed and outstanding bonds and will depend on market conditions at the time of sale. Costs of issuance include legal and consultant fees, as well as reimbursement for staff time.

Project Costs Funded by Facilities and Housing Bonds

The proceeds of the 2025A Facilities Bonds[9] would reimburse expenditures on public improvements for the Project incurred by the developer, including demolition, abatement and geotechnical work[10] on Treasure Island and Yerba Buena Island that have been completed and were required to begin horizontal development. In addition, proceeds would also reimburse the developer for permit fees and predevelopment costs, as well as the completion of public park construction.

The proceeds of the 2025B Housing Bonds are expected to be used by TIDA and MOHCD to finance a grant or forgivable loan for a proposed senior affordable multifamily housing development (Parcel Senior E1.2) by Mercy Housing California[11] located at the intersection of Avenue F and California Street on Treasure Island. A five-story building, the proposed senior affordable housing development will have 100 units[12], including six transitional units for households relocating from housing that was previously owned by the Navy on Treasure Island. Construction is planned to begin in October 2026 and be completed by September 2028 according to TIDA staff in consultation with MOHCD. MOHCD anticipates seeking Board approval of the project's loan agreement in September 2026.

Appropriation

The proposed appropriation ordinance would appropriate $5.5 million of bond proceeds from the Series 2025B Housing Bonds and $269,288 accumulated interest earnings from the Series 2022B and Series 2023B Treasure Island IRFD Housing Bonds for MOHCD to finance the proposed senior affordable multifamily housing development (Parcel Senior E1.2). OPF states that the $5.5 million is a not-to-exceed estimate of Series 2025B proceeds, with $1,572,987 reserved for market uncertainty. Exhibit 2 below shows the estimated sources and uses of the proposed appropriation of $5,769,288. The appropriation only includes funding for housing. According to TIDA, the facilities bond proceeds do not require appropriation authority.

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[9] According to TIDA, the $18,627,904 of 2025A Facilities Bond proceeds deposited in the Facilities Project Fund will fund the following: $1,455,237 to reimburse pre-development costs, $4,780,719 to reimburse City permit costs, $5,919,518 to reimburse demolition and abatement costs, and $6,472,430 to reimburse public park construction costs.

[10] Geotechnical work encompasses specialized ground-improvement activities, including soil densification and stabilization, to improve the structural stability of the island's reclaimed land.

[11] Under the development agreement, the first five Authority Housing Developments (of which Parcel Senior E1.2 is one) is required to be developed by One TI (formerly Treasure Island Homeless Development Initiative - TIHDI) Qualified Housing Developers without a competitive solicitation process. Mercy Housing California is a One TI Qualified Housing Developer.

[12] This includes 95 one-bedroom units and five 2-bedroom units

Exhibit 2: Estimated Sources and Uses of Proposed Appropriation

	Total
Sources	
Series 2025B Housing Bonds (estimated)	$3,927,013
Reserve for Market Uncertainty – Series 2025B Housing Bonds	1,572,987
Series 2022B Housing Bonds Interest Earnings	163,849
Series 2023B Housing Bonds Interest Earnings	105,439
Total Sources	**$5,769,288**
Uses	
Parcel Senior Affordable Housing E1.2 – Construction costs	$5,769,288
Total Uses	**$5,769,288**

Source: Office of Public Finance and TIDA

Debt Service

The proposed bonds are anticipated to have a 30-year term and an estimated true interest cost of 5.84 percent based on market conditions as of August 28, 2025. Total debt service is expected to be $55.1 million (including the anticipated total par amount of $25.4 million and estimated total interest of $29.7 million) or approximately $1.9 million on average, per year. The bonds would be repaid with tax increment revenue collected within the IRFD. The Office of Public Finance expects the bonds will be issued by November or December 2025.

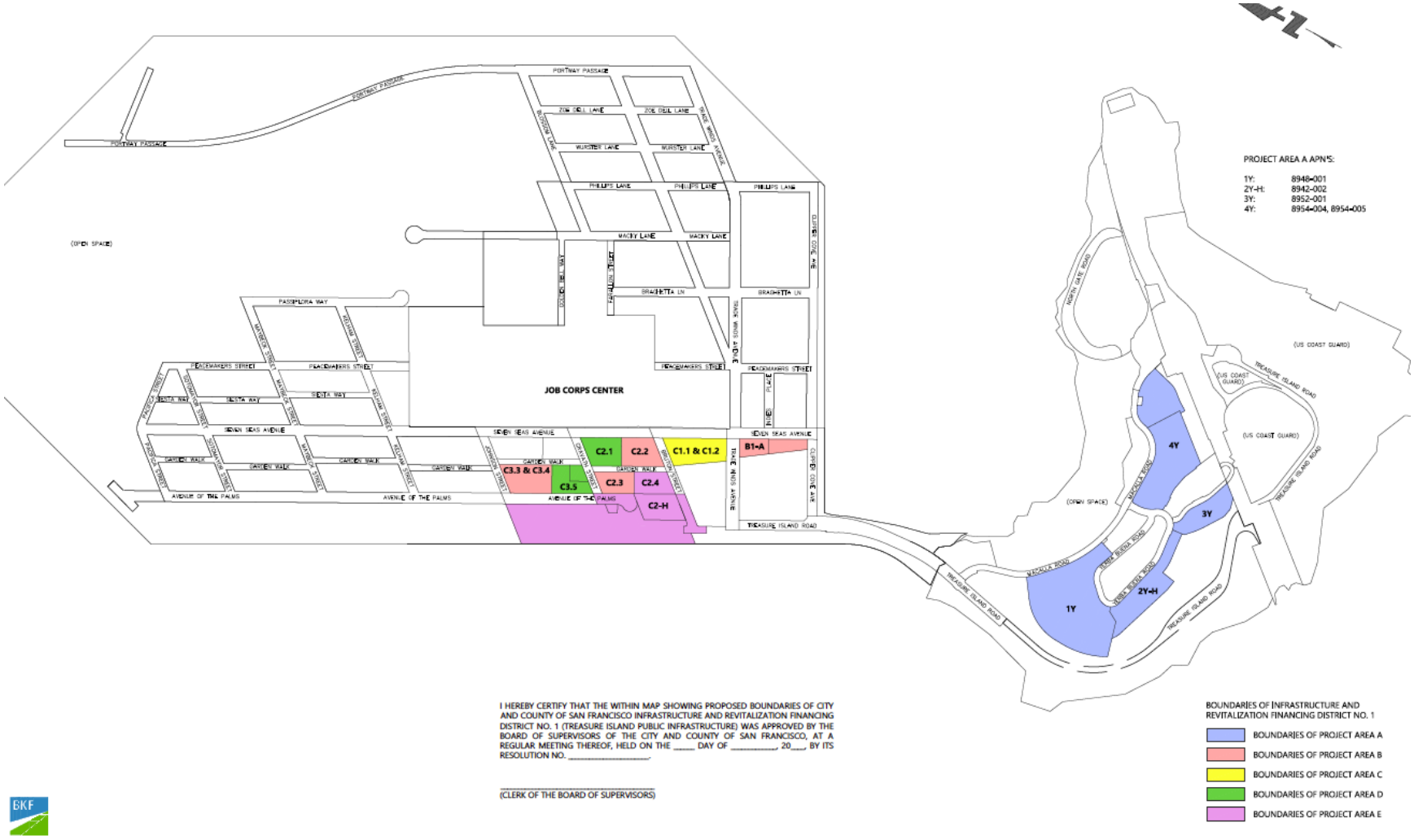
City Not Liable for Bond Repayment

The Bonds are limited obligations of the IRFD and are secured and payable only from the pledged tax increment of the IRFD. The City's General Fund is not liable for the repayment of the bonds.

RECOMMENDATION

Approve the proposed resolution.

Appendix A: City and County of San Francisco IRFD No. 1 (Treasure Island) Boundaries



Source: Amended and Restated Infrastructure Financing Plan

Item 9 File 25-1009	Department: Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a loan in an amount not to exceed $37,820,766 to MEDA Precita Small Properties, LLC to finance the acquisition, rehabilitation, and permanent financing of fifteen existing Small Site Projects with 89 residential units.

Key Points

- The Small Sites Program provides loans for acquiring and rehabilitating multi-family rental buildings of five to 40 units. Early Small Sites projects are now being refinanced because they received traditional hard debt loans with variable rate interest and were funded prior to the release of Preservation and Seismic Safety (PASS) loan financing. In addition, early Small Sites projects did not receive the same level of rehabilitation funding as current projects based on the expectation that future refinancing would also address capital needs.
- MOHCD is proposing to recapitalize and replace 15 existing Small Sites loans to projects sponsored by the Mission Economic Development Agency (MEDA) with one Small Sites loan, covering all 15 sites to: (a) achieve annual debt service savings of $340,000; (b) provide $2.7 million to rehabilitate the properties; (c) provide $2.1 million to recapitalize the operating and replacement reserves; and (d) use a shared approach to operating and replacement reserves to mitigate periods of negative net income for any one project.
- Thirteen of the 15 properties had operating losses in 2023, and the projects have not been meeting program guidelines for vacancy and rent levels.

Fiscal Impact

- The Small Sites Loan of up to $37.8 million is funded by the Affordable Housing Fund, 2015 and 2024 General Obligation Bond funds, the Housing Trust Fund, Eastern Neighborhoods - Mission Fees, and condo conversion fees.
- The City's subsidy for the acquisition, rehabilitation, and refinancing of the project is $37.8 million, or $424,952 per residential unit and is within Small Sites subsidy guidelines.

Policy Consideration

- The long-term financial feasibility of this portfolio is uncertain. The projects do not have sufficient reserves to address future capital needs of the properties. In addition, MEDA will have to refinance the projects within 15 years because of the structure of a companion private loan. The proposed loan agreement requires that MEDA develop a Long-Term Sustainability Plan within five years to plan for the future refinancing and address reserve levels.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

BACKGROUND

Small Sites Program

The Small Sites Program, administered by the Mayor's Office of Housing and Community Development (MOHCD), was created in 2014 to provide loans for acquiring and rehabilitating multi-family rental buildings of five to 25 units. The Program has issued two Notices of Funding Availability (NOFA), one in 2014 and an updated one in 2019. MOHCD issued updated guidelines in September 2022. The new guidelines prioritize sites that have between five and 40 units. The program aims to achieve an average of 80 percent Area Median Income (AMI) rent over time as a building experiences tenant turnover; however, MOHCD may make exceptions to the AMI requirement.

Small Site Projects Refinancing

In addition to Small Sites Program loans, some Small Sites projects also receive loans through the Preservation and Seismic Safety (PASS) program, which provides low-cost financing to fund the acquisition and preservation of affordable housing and seismic retrofits to existing buildings. According to MOHCD staff, all Small Sites projects funded before the release of PASS program loan financing in 2019 are expected to be refinanced before they reach their various maturity dates because these projects received traditional hard debt loans (in addition to Small Sites funding), typically with adjustable rate interest. In addition, early Small Sites projects did not receive the same level of rehabilitation funding as current projects receive based on the expectation that future refinancing would also address capital needs.

Proposed Refinancing of 15 Existing Small Sites Projects

As of September 2025, MOHCD has provided financing to 38 Mission Economic Development Agency (MEDA)- sponsored Small Sites projects. MEDA is requesting additional City financing to rehabilitate and refinance 15 of its Small Sites projects, which are summarized in Appendix A and referred to collectively as the "MEDA Bundle". The 15 projects are located in the Mission and Bernal Heights neighborhoods and include 89 residential and 9 commercial units, for a total of 98 residential and commercial units. MEDA acquired the 15 projects between 2016 and 2017,

and MOHCD provided Small Sites loans, which have an outstanding principal balance of $31.6 million.[1]

According to the MOHCD Small Sites Program evaluation of the proposed loan, the projects have not been able to stabilize occupancy and income due to prolonged vacancies, increased operating expenses, and high debt service payments. The Bank of San Francisco will provide up to $13 million to repay most of the existing private loans, which total $14 million. MOHCD is proposing to consolidate outstanding debt for 15 properties totaling $31.6 million and provide additional Small Sites funding of $6.2 million to repay the remaining portion of the existing private loans, rehabilitate the projects, and replenish reserves.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would:

- Approve a loan in an amount not to exceed $37,820,766 to MEDA Precita Small Properties, LLC[2] to finance the acquisition, rehabilitation, and permanent financing of fifteen existing Small Site Projects (as detailed in Appendix A);
- Affirm the Planning Department's determination under the California Environmental Quality Act;
- Adopt findings that the proposed transactions are consistent with the General Plan and policy priorities of the Planning Code; and
- Authorize the Director of MOHCD to execute loan documents and amend loan documents as needed.

Proposed Refinancing

MOHCD is proposing to recapitalize and replace 15 existing Small Sites loans with one Small Sites loan, covering all 15 sites. According to the MOHCD loan evaluation, this bundled refinance loan approach would:

- Repay a portion of the existing higher-cost private loans and achieve annual debt service savings of $340,000.
- Finance renovations totaling approximately $2.7 million.
- Provide $2.1 million to recapitalize the operating and replacement reserves.
- Use a shared approach to operating and replacement reserves to mitigate periods of shortfall for any one project. Tenant rental income would no longer be tied to a specific property but would be pooled across the portfolio to mitigate the risk of reductions in

[1] According to MOHCD staff, there is no accrued interest on the outstanding principal balance pursuant to the terms of the original promissory notes.

[2] MEDA manages and is the sole member of MEDA Precita Small Properties, LLC

rental income due to vacancies or other reasons to any one property. Similarly, the pooled replacement reserve could be used to fund capital needs of any of the projects.

- Comply with updated underwriting standards for vacancy losses, which increased from five percent to 10 percent, resulting in lower estimated operating revenues compared to previous assumptions at acquisition.

Timeline

According to MOHCD, construction would begin in April 2026 and is scheduled to be completed by April 2027.

Loan Agreement

The proposed Amended and Restated Loan Agreement would: (a) consolidate the 15 existing Small Sites Program loan agreements (one for each project), that have a combined principal amount totaling $31,580,766, under one loan agreement; and (b) increase the combined Small Sites Program loan by $6,240,000, for a total Small Sites loan of up to $37,820,766. Key terms of the loan are summarized in Exhibit 1 below.

Exhibit 1: MEDA Bundle Loan Terms

Terms	Existing	Proposed
Number of Loan Agreements	15	1
Loan Amount	$31,580,766	$37,820,766 *(increase of $6,240,000)*
Term	30 years ending between 2046 and 2047	40 years, ending 2065
Annual Interest Rate	3%	No change
Interest Type	Simple	No change
Repayment	Annual Payments, equal to **2/3** of Residual Receipts MOHCD share of residual receipts are deposited into replacement reserve until the reserve exceeds 1.5 times the original capitalized replacement reserve required per program guidelines	Annual Payments, equal to **50%** of Residual Receipts MOHCD share of residual receipts are deposited into replacement reserve until the reserve exceeds 1.5 times the original capitalized replacement reserve required per program guidelines
Required Rents per Declaration of Restrictions	Rents for units that become vacant will be set so that the combined average rents for all units are equal to 30% of 80% percent of Area Median Income (AMI). No vacant units may be filled with a household earning more than 120% AMI.	No change
City Option to Purchase	n/a	Under one City Option to Purchase Agreement, the City has the option to purchase the properties if the owner fails to comply with the affordability restrictions, if the Declaration of Restrictions is terminated, or if the owner receives another offer to purchase the properties after the City's loan is repaid.

Sources: Amended and Restated Loan Agreement, Form of Declaration of Restrictions, City Option to Purchase Agreement

Loan Documents

The proposed resolution also approves the following associated loan documents:

- The form of the Declaration of Restrictions, which requires the project sponsor to maintain the housing affordability levels defined in the loan agreement for the life of the project, even after the loan is paid in full or otherwise satisfied;
- The Amended and Restated Secured Promissory Note for the loan; and

- The Deed of Trust, which secures the loan.

Program Performance

According to the MOHCD loan evaluation of the proposed loan, most of MEDA's Small Sites projects have had cash flow issues over the last few years partially due to high vacancies, slow lease up, and inconsistent rent increases at some of the sites. The MOHCD loan evaluation states that 13 of the 15 properties in the MEDA Bundle had operating losses in 2023. As shown in Exhibit 2 below, the MEDA Bundle has not been meeting program guidelines for vacancy and rent levels. Further, MEDA has not been submitting required annual reports on a timely basis to MOHCD.

Exhibit 2: MEDA Bundle Vacancy Rate and Rent Levels

	Small Sites Guidelines	Actual
Average Vacancy Rate	No more than 10%	**13.5%** *2-Year Average As of May 2025*
Average Rent AMI of Occupied Units	Equal to 80% AMI Rent	**62%** AMI Rent *As of Sept 2025*

Source: MOHCD Loan Evaluation

MEDA staff turnover and limited documentation of internal controls and procedures have contributed to underperformance of the MEDA bundle and MEDA's other Small Sites projects. MOHCD reports that MEDA is: (a) prioritizing filling vacant units and has reduced the vacancy rate of the MEDA bundle to seven percent; (b) implementing rent increases to tenants paying less than 20 percent of their income in October 2025 and annually thereafter; (c) developing an Operational and Organizational Plan by January 1, 2026; and (d) developing a Long-Term Sustainability Plan by January 1, 2031, as discussed below.

In addition, the MOHCD loan evaluation notes that bundling the projects carries the risk that the contribution of higher performing properties (to project income and occupancy rate for example) can hide the performance of lower performing properties. The Amended and Restated Loan Agreement requires MEDA to submit quarterly vacancy data by property.

FISCAL IMPACT

The City will provide $6.2 million in additional Small Sites program funding for a total loan not to exceed $37,820,766 to MEDA for the refinancing and rehabilitation of the 15 projects. Exhibit 3 summarizes the sources and uses of funding for the MEDA Bundle.

Exhibit 3: Sources and Uses of Proposed MEDA Bundle Refinancing

Sources and Uses	Amount	% of Total
Sources		
MOHCD Small Sites Loan	$37,820,766	74%
Private Loan	13,000,000	26%
Total Sources	**$50,820,766**	**100%**
Uses		
Acquisition*	45,610,554	90%
Hard Costs (incl. 18% contingency)	2,676,125	5%
Soft Costs (incl. 15% contingency)	442,210	1%
Reserves	2,091,878	4%
Total Uses	**$50,820,767**	**100%**

Source: MOHCD

*Acquisition costs reflect outstanding debt that funded property purchase costs, prior rehabilitation costs, initial reserve amounts, and developer costs funded at acquisition

Hard Costs for Rehabilitation

The proposed loan includes $2.7 million in hard costs to finance immediate rehabilitation needs of the projects, including roof and window replacements, in-unit improvements, improvements to the building exteriors (such as siding repair and paint), and other improvements. Appendix B summarizes the scopes of work for each project, which were based on a Capital Needs Assessment completed in April 2025.

Funding Sources

Small Sites program funding for the proposed loan is from a combination of sources, including:

- Affordable Housing Fund ($13,038,193)
- 2015 General Obligation Bond funds ($11,461,000)
- 2024 General Obligation Bond funds ($4,485,573)
- Housing Trust Fund ($3,562,000)
- Eastern Neighborhoods-Mission Fees ($2,734,000)
- Condo conversion fees ($2,540,000)

City Subsidy

The City's subsidy for the acquisition, rehabilitation, and refinancing of the project is $37.8 million, or $424,952 per residential unit, as shown in Exhibit 4 below.

Exhibit 4: City Subsidy per Unit

Residential Units	89
Total Refinance & Rehab Cost	$50,820,767
Total City Subsidy	$37,820,766
Total Cost per Residential Unit	$571,020
City Subsidy per Residential Unit	$424,952

Source: MOHCD

Subsidy within Small Sites Subsidy Guidelines

Small Sites program guidelines establish the maximum City subsidy per unit for acquisition, rehabilitation, and permanent financing based on the unit type, ranging from $275,000 for each single room occupancy unit up to $550,000 per ADU studio unit. MOHCD includes the commercial units when calculating the subsidy per unit. Based on the unit mix of properties, the Small Sites Program funding ($385,926 per residential and commercial unit) is within program guidelines ($402,551 per residential and commercial unit) for the 15 projects combined.

Operating Budget

According to the 20-year cash flow analysis for the project, the project will have sufficient revenues to cover operating expenses, management fees, and debt service on the private loan. A portion of net income after operating expenses (residual receipts) will be used to make additional deposits to the project's replacement reserve account, rather than make payments on the MOHCD loan, as permitted by program guidelines.

As discussed below, the replacement reserve will be depleted after Year 10 despite the additional deposits.

Exceptions from MOHCD Guidelines

MOHCD will provide waivers from four Small Sites Program guidelines. Specifically:

- The project's **replacement reserve**, which supports the project's capital needs over time, will be funded to cover 10 years of capital needs, rather than 20 years. MEDA must identify a plan to fund the replacement reserve past Year 10 as part of their Long-Term Stabilization Plan.
- The **construction management fee** is $81,600, which exceeds the maximum of $30,000 under Small Sites Program guidelines, because of the number of properties MEDA is rehabilitating. The fee of $81,600 is based on MOHCD's general Underwriting Guidelines.
- The **hard cost contingency** is 18 percent, which exceeds the maximum of 15 percent, to cover potential additional costs associated with additional rot, mold abatement, and electrical work at three of the projects.
- MOHCD's share of **residual receipts** will be 50 percent, rather than 66 percent, consistent with MOHCD's updated residual receipts policy. Small Sites Program guidelines allow MOHCD's share of residual receipts to be deposited in the project's replacement reserve depending on the funding level of the reserve.

POLICY CONSIDERATION

Long-Term Financial Feasibility of MEDA Bundle

According to the MOHCD loan evaluation, the long-term financial feasibility of the MEDA bundle is uncertain. The replacement reserve will be depleted after Year 10, which means the project will not be able to address future capital needs of the properties based on the existing operating budget and financing sources. In addition, MEDA will have to refinance the project between years 10 and 15 because of the structure of the private loan. The Bank of San Francisco loan has a 15-year term with a fixed interest rate of 5.25 percent for the first ten years only, after which the interest rate is variable, and a balloon payment is due at year 15. If the interest rate increases after year 10, the project may not have sufficient operating income to meet its debt service requirements. In addition, the project will not be able to afford the balloon payment due at year 15 and will require permanent financing to repay the Bank of San Francisco loan before the end of the term, if not earlier, based on the interest rate.

The Amended and Restated Loan Agreement requires MEDA to develop a Long-Term Sustainability Plan within five years to address the long-term stabilization of the project, future refinancing strategy, and the anticipated depletion of the replacement reserve.

RECOMMENDATION

Approve the proposed resolution.

Appendix A: MEDA Bundle Project Details

Project	Year Built	Neighborhood	No. of Units	Residential Units	Unit Mix	Residential Vacancy Rate	Avg Rent AMI	MEDA Purchase Price	Purchase Year	Existing City Loan	Non-City Loans Payoff Amount
3329-3333 20th St	1900	Mission	10	10	5 studios; 5 one-beds	10%	45%	$900,000	2016	$2,540,000	$784,110
3182-3198 24th St	1900	Mission	13	8	4 studios; 2 one-beds; 2 three-beds; 5 commercial	25%	48%	2,340,000	2017	5,012,000	2,030,165
3353 26th St	1914	Mission	11	10	3 studios; 6 one-beds; 1 two-beds; 1 commercial	0%	59%	1,550,000	2017	2,734,000	1,337,577
1500 Cortland Ave	1959	Bernal Heights	4	4	2 one-beds; 2 two-beds	0%	57%	1,400,000	2016	1,262,000	439,764
35 Fair Ave	1912	Bernal Heights	4	4	4 one-beds	0%	69%	700,000	2017	1,509,000	598,946
3840 Folsom St	1905	Bernal Heights	4	4	3 one-beds; 1 two-beds	0%	67%	1,192,500	2016	1,292,199	441,553
642-646 Guerrero St	1924	Mission	4	4	3 one-beds; 1 two-beds	0%	82%	481,000	2016	1,600,014	416,423
63-67 Lapidge St	1910	Mission	6	6	6 one-beds	0%	73%	1,192,000	2017	1,827,000	986,548
2217-2221 Mission St	1904	Mission	9	8	6 one-beds; 2 two-beds; 1 commercial	13%	65%	2,080,000	2017	2,608,000	1,881,815
3800 Mission St	1910	Bernal Heights	6	5	1 studio; 4 one-beds; 1 commercial	0%	66%	1,020,000	2017	2,099,000	909,781
19-23 Precita Ave	1900	Bernal Heights	3	3	3 three-beds	0%	69%	740,000	2017	1,200,000	668,314
344-348 Precita Ave	1900	Bernal Heights	4	3	1 studio; 1 one-bed; 1 two-bed; 1 commercial	0%	56%	1,002,111	2017	1,385,000	626,820

Project	Year Built	Neighborhood	No. of Units	Residential Units	Unit Mix	Residential Vacancy Rate	Avg Rent AMI	MEDA Purchase Price	Purchase Year	Existing City Loan	Non-City Loans Payoff Amount
269-271 Richland Ave	1908	Bernal Heights	6	6	4 one-bed; 2 two-beds	0%	67%	1,300,000	2017	2,100,000	511,564
380 San Jose Ave	1900	Mission	4	4	4 one-bed	25%	75%	1,450,000	2016	1,431,553	499,912
1015 Shotwell St	1900	Mission	10	10	2 studios; 7 one-beds; 1 two-beds	10%	67%	2,240,000	2017	2,981,000	1,896,495
Total			**98**	**89**		**7%**	**62%**	**$19,587,611**		**$31,580,766**	**$14,029,787**

Source: MOHCD Loan Evaluation for MEDA Bundle; Vacancy rate based on identified vacant units in Exhibit A of the proposed Amended and Restated Loan Agreement

Appendix B: Rehabilitation Scopes of Work for MEDA Bundle from MOHCD Loan Evaluation

Project	Proposed Scope of Work	Hard Cost Estimate	Units	Cost per Unit
3329 20th St	No immediate rehabilitation needs	$0	10	$0
3182 24th St	Exterior: Repair exterior wood siding and paint; repair four-story stairway	42,400	13	3,262
3353 26th St	Exterior: Repair/replace exterior siding and paint; replace exterior windows; repair entry tile Interior: Electrical service upgrade and meter installation Unit Improvements: Window replacement in eight units	356,140	11	32,376
1500 Cortland Ave	Roof: Roof replacement Interior: Intercom replacement Unit Improvements: Exhaust fan replacement	39,200	4	9,800
35 Fair Ave	Roof: Roof replacement Exterior: Repair exterior wood siding and paint	65,050	4	16,263
3840 Folsom St	Roof: Main roof replacement Exterior: Garage work, including replacing the garage door hardware, replacing the garage built-up roof and re- sloping the roof deck to allow for proper water drainage and installation of scuppers and drains; exterior stucco repair Unit Improvements: Window replacement	153,868	4	38,467
642 Guerrero St	Exterior: Replace exterior lights; recondition exterior doors Interior: Replace existing electrical system Unit Improvements: Replace windows in four units; replace water heater in one unit HVAC: Replace exhaust fans in three units; replace heating system in four units	266,200	4	66,550
63 Lapidge St	Roof: Roof repair Unit Improvements: Replace windows in four units; replace exhaust fan in one unit	143,950	6	23,992
2217 Mission St	Interior: Replace three common area windows Unit Improvements: Replace windows in two units HVAC: Replace exhaust fans in two units	15,300	9	1,700
3800 Mission St	Roof: Roof replacement Exterior: Recondition unit entry doors Unit Improvements: Replace windows in five units HVAC: Replace exhaust fans in two units	169,800	6	28,300
19 Precita Ave	Roof: Replace replacement Exterior: Repair exterior wood siding and repaint; replace exterior gate Unit Improvements: Replace windows in three units	222,920	3	74,307

Project	Proposed Scope of Work	Hard Cost Estimate	Units	Cost per Unit
	Roof: Roof replacement Exterior: Recondition entry doors; wood stair deck repair			
344 Precita Ave	Unit Improvements: Replace windows in three units	117,750	4	29,438
380 San Jose Ave	Unit Improvements: Window replacement in all units	270,780	6	45,130
269 Richland Ave	Exterior: Structural repairs, door repair Interior: Sewer line replacement; electrical upgrade Unit Improvements: Replace three windows; carpet replacement;	96,580	4	24,145
1015 Shotwell St	Interior: Electrical upgrade	7,800	10	780
Total Costs		**$1,967,738**	**98**	**$20,079**

Source: MOHCD Small Sites Program Loan Evaluation for MEDA Bundle

Item 11 File 25-1011	Department: Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would (a) Approve an amended and restated loan agreement in an amount not to exceed $61,163,787 to 1979 Mission Street PSH Associates, L.P., an affiliate of Mission Housing Development Corporation and Mission Economic Development Agency, (b) approve a ground lease with the same entity, and (c) approve related loan documents. The purpose of the loan is to provide permanent financing for a new 136 unit permanent supportive housing project at 2970 16th Street.

Key Points

- The developers were selected following a Request for Qualifications MOHCD issued in August 2023 seeking developers with experience building housing for formerly homeless households and with infrastructure experience. MHDC and MEDA were the sole respondent to the solicitation. The land for all projects was acquired at no cost by MOHCD in March 2022.
- Construction for the proposed PSH project is scheduled to run from December 2025 to November 2027. Under the proposed ground lease, 95 percent of units must be rented by June 2028.
- The project includes onsite supportive services, a behavioral health center, and open space for residents.

Fiscal Impact

- The proposed City loan is funded by $16 million in State No Place Like Home funding, $20 million from the local Housing Trust Fund, $13.7 million from development impact fees, and $11.4 million from the Low & Moderate Income Housing Fund. In addition to the proposed City funding, the developer secured tax credit financing and a private loan from Western Alliance Bank.
- The total cost of the development is $117.8 million. Local funding amounts to $333,000 per unit.
- The City will incur ongoing costs for (a) rental subsidies, starting at $1.7 million per year, (b) supportive services, starting at $0.9 million per year, and (c) behavioral health services, which average $1.7 million over 20 years.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

BACKGROUND

2970 16th Street

2970 16th Street is the site of a new 100 percent permanent supportive housing (PSH) project. The nine-story project will have 136 units, including 89 studios and 47 one-bedrooms. All units will be rented via the Department of Homelessness & Supportive Housing (HSH) Coordinated Entry and through the San Francisco Housing Authority for units funded by federal rental subsidies. The project will also include a 1,500 square foot behavioral health center for residents and 2,400 square feet of open space.

The project is being developed by 1979 Mission Street PSH Associates, L.P., a joint venture of Mission Housing Development Corporation (MHDC) and Mission Economic Development Agency (MEDA) (together, the "developer"). MHDC is the lead partner for the PSH project and operating responsibilities between MHDC and MEDA are still being negotiated. The developer will eventually construct two other 100% affordable family buildings next to 2970 16th Street once financing becomes available. The developers were selected following a Request for Qualifications MOHCD issued in August 2023 seeking developers with experience building housing for formerly homeless households and with infrastructure experience. MHDC and MEDA were the sole respondent to the solicitation and were awarded $6 million in predevelopment funding in May 2023 ($3 million for the PSH project and $3 million for the affordable family housing projects).

The land for all projects was acquired at no cost by MOHCD in March 2022, via a land dedication agreement with the developer of 10 South Van Ness in order for them to meet their inclusionary housing fee requirements (File 21-1155). The site previously included a tiny homes village operated by HSH, which terminated operations in early September 2025 and will be fully vacate by November 14, 2025, to accommodate construction. Prior to start of construction, the City will provide security for the entire site. At construction start, the City will provide a license agreement for the site to the developer for construction staging for the project.

According to MOHCD, construction for the proposed PSH project is scheduled to run from December 2025 to November 2027. Under the proposed ground lease, 95 percent of units must be rented by June 2028.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would:

- Approve an amended and restated **loan** agreement in an amount not to exceed $61,163,787 to 1979 Mission Street PSH Associates, L.P. to provide permanent financing for the 2970 16th Street PSH project. The terms of the loan are summarized below in Exhibit 1;
- Approve a **ground lease** with 1979 Mission Street PSH Associates, L.P. to develop and operate the 2970 16th Street PSH project for an initial term of 75 years, with one option to extend an additional 24 years, for a total possible term of 99 years;

  The annual base rent is $1 per year. The ground lease also includes a residual rent payment, due if project generates annual net income after other obligations. For the first fifteen years of the ground lease, the residual rent is $1,325,999, which is approximately equal to ten percent of the appraised value of the site. Residual rent will be re-calculated every fifteen years based on ten percent of site's appraised value;
- Approve a **license agreement** with 1979 Mission Street PSH Associates, L.P. to access the non-PSH site for the purpose of construction staging for the PSH project;
- Adopt findings that the proposed transactions are consistent with the General Plan and policy priorities of the Planning Code;
- Adopt findings that the property is not necessary for the City's use;
- Authorize the Director of MOHCD to execute loan documents and amend loan documents as needed, so long as the changes do not materially increase the obligations and liabilities of the City; and
- Authorize MOHCD to acquire the property if the developer defaults.

Loan Agreement

The proposed amended and restated loan agreement increases City funding for the project from the $3,000,000 predevelopment loan to a total of $61,163,787. The loan consists of $45,163,787 in local funds and $16,000,000 of funding from a State No Place Like Home grant from the California Housing and Community Development Department. The proposed loan also includes $1,350,000 in bridge financing for the developer to apply for a regional Affordable Housing Program grant. If the developer is awarded that grant for this project, it must use the funds to repay the City loan.

Key terms of the proposed loan are summarized in Exhibit 1 below.

Exhibit 1: Loan Summary for Larkin Pine

Terms	MOHCD Loan: Local Funding	MOHCD Loan: State Funding
Loan Amount	$45,163,787	$16,000,000
Term	57 years	57 years
Annual Interest Rate	1%	0%
Interest Type	Simple Interest	Simple Interest
Repayment	Residual Receipts (except for bridge financing of $1.4 million)	Deferred
Required Rents per Declaration of Restrictions	20% - 50% of AMI	Up to 30% AMI
Other Restrictions	Units must be for formerly homeless or at risk of homelessness	Units (40 total) must be for formerly homeless and have a serious mental illness

Sources: Amended and Restated Loan Agreement, Promissory Notes, MOHCD

Sponsor Performance

According to the MOHCD loan evaluation, MHDC is performing well on its existing obligations to operate 70 affordable housing sites in San Francisco. As noted in our report on File 25-1009, MEDA staff turnover and limited documentation of internal controls and procedures have contributed to the financial underperformance of MEDA's Small Sites projects. As noted above, MHDC is the lead developer for this site however MHDC and MEDA are still finalizing their roles as of this writing. John Stewart Company will be the property manager for the proposed PSH site, however MOHCD has not evaluated their performance as part of the loan underwriting process.

FISCAL IMPACT

The City will provide $61,163,787 for the development of permanent supportive housing at 2970 16th Street. Exhibit 2 below summarizes the sources and uses of funding for the project.

Exhibit 2: Development Budget

Sources	Amount
MOHCD Loan	61,163,787
Tax Credit Equity	42,885,351
Private Mortgage	5,591,000
MOHCD Deferred Interest	623,372
Developer Equity	515,011
Total Sources	**110,778,521**
Uses	**Amount**
Acquisition	0
Construction	83,379,597
Soft Costs	19,284,185
Developer Fees	6,514,911
Reserves	1,599,828
Total Uses	**110,778,521**

Source: Proposed Amended & Restated Loan Agreement

Funding Sources

The proposed City loan is funded by $16 million in State No Place Like Home funding, $20 million from the local Housing Trust Fund, $13.7 million from development impact fees, and $11.4 million from the Low & Moderate Income Housing Fund (which accounts for former Redevelopment Agency assets that were transferred to MOHCD).

In addition to the proposed City funding, the developer secured tax credit financing and a private loan from Western Alliance Bank.

City Subsidy

The City's subsidy for the proposed development is $45,163,521, or $332,087 per unit. Exhibit 3 below shows the total development cost and City subsidy per unit for the proposed loan (excluding the State funding).

Exhibit 3: City Subsidy per Unit

Residential Units	136
Development Costs	$110,778,521
Total City Subsidy	$45,163,787
Total Cost per Residential Unit	$814,548
City Subsidy per Residential Unit	$332,087

Source: MOHCD

The proposed loan exceeds the $200,000 subsidy per PSH unit targeted in the 2023 RFQ to procure developers for this site. As noted above, there was only one respondent to that solicitation.

Operating Budget

According to the 20-year cash flow analysis for the project, the project will have sufficient revenues to cover operating expenses, reserve deposits, and debt services payments, including payments on the proposed loan (but not on the proposed ground lease). Project revenues consist of tenant rent ($0.4 million in year one), Local Operating Subsidy Payments (or LOSP, at $1.7 million in year one) and base rental subsidies funded by the Department of Housing and Urban Development's (HUD) Restore-Rebuild Project Based Vouchers ($1.3 million in year one). The developer is working with the San Francisco Housing Authority to increase the value of the Restore-Rebuild vouchers to 110 percent of fair market rent using Housing Authority reserves, however final approval of use of Housing Authority reserves is still pending from HUD. If approved, the increased HUD housing voucher values will offset the need for LOSP funding.

In addition to housing operations, HSH will fund supportive services starting at $900,000 annually, which will be provided by Lutheran Social Services. The onsite behavioral health center will cost $34.7 million over 20 years (or $1.7 million per year, on average). MOHCD will provide a $11.9 million 20-year Capitalized Operating Subsidy Reserve from No Place Like Home funds for those services, and HSH and DPH will fund the remaining annual costs.

Exceptions from MOHCD Guidelines

The developer fee is $6 million, which exceeds the maximum of $2.56 million for development projects under MOHCD's Policy on Development Fees because of the complexity of the project and financing. The $6 million developer fee is the maximum permitted by the California Tax Credit Allocation Committee, which administers the Low-Income Housing Tax Credit programs. MOHCD is in the process of updating its developer fee guidelines to comport with TCAC's allowable fee.

RECOMMENDATION

Approve the proposed resolution.

Item 14 File 25-1008	Department: Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve an amended and restated loan agreement with 1303 Larkin Street, L.P., an affiliate of Chinatown Community Development Center (CCDC), for an amount not to exceed $18,502,271 to finance the acquisition, rehabilitation, and permanent financing of 68-units of affordable rental housing.

Key Points

- Larkin Pine is an existing 63-unit affordable housing project, located at 1303 Larkin Street in Lower Nob Hill. The project's residents have an average income of 20 percent of area median income. CCDC built the project in 1993 on top of a US Post Office and has a long-term lease with the United States Postal Service on the air space.
- MOHCD previously provided two loans to acquire and rehabilitate the project. MOHCD is proposing to consolidate the existing loans and provide new loans under the Preservation and Seismic Safety (PASS) program to further rehabilitate the project. The scope of work includes converting 42 of the single-room occupancy units to studios and one-bedroom units by adding cooktops or kitchens, converting underutilized common areas into five new units, upgrading remaining common areas, replacing windows, and other improvements.

Fiscal Impact

- Existing City funding of $6.6 million is from federal HOME Investment Partnership Program funds and local hotel tax revenues. New PASS loans of $11.9 million are funded by 2016 General Obligation Bonds for the PASS program.
- The City's subsidy for the acquisition and rehabilitation of the project is $18.5 million, or $272,092 per unit, including PASS funding of $175,044 per unit and MOHCD soft debt funding of $97,048 per unit.
- The operating budget assumes new rental subsidies for 32 units that will be funded through the U.S. Department of Housing and Urban Development (HUD)'s Restore-Rebuild program after rehabilitation, for a total of 47 units funded by Section 8 Project Based Vouchers. However, the new subsidies are dependent on available HUD Section 8 budget authority after rehabilitation is completed and HUD's partnership in administering the program and facilitating a new contract. MOHCD currently anticipates the subsidies will be available.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

BACKGROUND

Rehabilitation of 1303 Larkin Street

Larkin Pine is an existing 63-unit affordable housing project, located at 1303 Larkin Street in Lower Nob Hill, that is owned and operated by Chinatown Community Development Center (CCDC). The project's residents have an average income of 20 percent of area median income. CCDC built the project in 1993 on top of a US Post Office and has a long-term lease with the United States Postal Service on the air space.

According to the Mayor's Office of Housing and Community Development (MOHCD) loan evaluation on the proposed loan, the project needs to be rehabilitated to improve the living conditions for residents and preserve affordability. The rehabilitation scope of work includes converting 42 of the single-room occupancy units to studios and one-bedroom units by adding cooktops or kitchens, converting underutilized common areas into five new units, upgrading remaining common areas, replacing the windows and building skin, and transitioning to all-electric heat. According to MOHCD staff, construction would begin in December 2025 and is scheduled to be completed by February 2027.

CCDC is in the process of renegotiating its existing lease with the United States Postal Service to facilitate the rehabilitation.

City Funding for the Project

In 1993, MOHCD provided a loan of $2.8 million to fund the development of the project. In 2023, MOHCD provided an additional loan of approximately $2.5 million from the Existing Non-Profit Notice of Funding Availability (NOFA)[1] for immediate repair needs, including elevator repairs, façade sealing, kitchen and bathroom remodeling, and replacement of hot water systems. MOHCD is proposing to consolidate the existing loans and provide new loans under the Preservation and Seismic Safety (PASS) program[2] to further rehabilitate the project. PASS funding

[1] MOHCD received 15 applications in response to the Existing Non-Profit NOFA, and 14 met the minimum scoring criteria of 70 out of 120 points to proceed in the selection process, including Larkin Pine which received a score of 86.8. MOHCD awarded funding to the top six scoring applicants, including Larkin Pine.

[2] The PASS program provides low-cost financing to fund the acquisition and preservation of affordable housing and seismic retrofits to existing buildings. Unlike other MOHCD permanent loans for affordable housing which are

is provided to projects that meet certain criteria and is awarded on a rolling, first-come, first-served basis.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would:

- Approve a loan in an amount not to exceed $18,502,271 to 1303 Larkin Street, L.P.[3] to finance the acquisition, rehabilitation, and permanent financing of 68-units of affordable rental housing
- Affirm the Planning Department's determination under the California Environmental Quality Act;
- Adopt findings that the proposed transactions are consistent with the General Plan and policy priorities of the Planning Code; and
- Authorize the Director of MOHCD to execute loan documents and amend loan documents as needed.

Loan Agreement

The proposed Amended and Restated Loan Agreement would: (a) consolidate the two existing City loans, that have a combined principal amount totaling approximately $5.3 million under one loan agreement; and (b) provide a new PASS program loan totaling approximately $11.9 million. The total loan amount would be up to approximately $18.5 million, which is $13.2 million greater than the combined principal amounts of the original City loans, including accrued interest on the original loans that is being consolidated into the new principal amount. Key terms of the loan are summarized in Exhibit 1 below.

structured as soft debt and repaid through residual receipts, PASS program loans are structured as hard debt, which means they must be repaid every year for the duration of the lending period.

[3] Chinatown Community Development Center Inc. is the general partner of 1303 Larkin Street, L.P.

Exhibit 1: Loan Summary for Larkin Pine

Terms	Existing	Proposed
Number of Loan Agreements	2 original loan agreements	1 amended and restated loan agreement
Loan Amount	Soft debt: $5,294,853 Hard debt (PASS): $0 Total: $5,294,853	Soft debt: $6,599,271* Hard debt (PASS): $11,903,000 Total: $18,502,271
Term	Soft debt: 55 years ending in 2048 and 2079	Soft debt: 55 years ending approximately 2082 Hard debt: 40 years ending approximately 2067
Maximum Income Level	60% of Median Income	60% of Median Income
Number of Units	63	68
Unit Mix	Single-room occupancy: 60 Studios: 0 One-beds: 3	Single-room occupancy: 20 Studios: 29 One-beds: 19

Sources: Amended and Restated Loan Agreement, MOHCD

*The proposed transaction will consolidate approximately $1.3 million in accrued interest on the HOME and Hotel Tax Fund loans into the principal amount of $5.3 million for a new total principal amount of $6.6 million. The project is not receiving additional funding from soft debt.

The interest rates and repayment terms for the loans are provided in Exhibit 2 below based on the terms in eight separate promissory notes.

Exhibit 2: Loan Interest Rates and Repayment Terms

Loan	Term	Amount	Annual Interest Rate	Interest Type	Repayment
Soft Debt					
HOME Program (2023 Existing Non-Profit)	55 years	$2,538,120	4.73%	Compound	Annual payments based on residual receipts
Hotel Tax Fund (1993 Loan)	55 years	$4,061,151	0.00%	Simple	Annual payments based on residual receipts
Hard Debt					
PASS Below Market Rate (2020C)	40 years	$3,730,944	0.96%	Compound	Interest-only payments through permanent loan conversion; After conversion: monthly payments of principal and interest
PASS Deferred (2020C)	40 years	$610,720	0.96%	Compound	Repayment at Maturity Date, no monthly or annual payments
PASS Market Rate (2020C)	40 years	$6,762,336	3.87%	Compound	Interest-only payments through permanent loan conversion; After conversion: monthly payments of principal and interest
PASS Below Market Rate (2025E)	40 years	$269,023	1.87%	Compound	Interest-only payments through permanent loan conversion; After conversion: monthly payments of principal and interest
PASS Deferred (2025E)	40 years	$43,721	1.87%	Compound	Repayment at Maturity Date, no monthly or annual payments
PASS Market Rate (2025E)	40 years	$486,256	6.61%	Compound	Interest-only payments through permanent loan conversion; After conversion: monthly payments of principal and interest
Total		**$18,502,271**			

Source: Master Promissory Notes

As shown above, there are six PASS loans. The PASS loans are funded by two bond sales (2020C and 2025E) from the 2016 general obligation Bond authorization for affordable housing preservation and seismic safety, and each series includes three components: (1) a market rate loan; (2) below market rate loan; and (3) a deferred loan. MOHCD combines PASS market rate loans with PASS affordable loans (below market rate and deferred) to create a blended interest rate and maximize total bond proceeds available for affordable housing preservation projects.

Loan Documents

The proposed resolution also approves the following associated loan documents:

- The Amended and Restated Declaration of Restrictions, which requires the project sponsor to maintain the housing affordability levels defined in the loan agreement for the life of the project, even after the loan is paid in full or otherwise satisfied;
- Eight Promissory Notes for the loan (one for each loan type shown in Exhibit 2 above); and
- Two Deeds of Trust (one for the PASS funding and one for the remaining MOHCD loan), which secure the loan.

Sponsor Performance

According to the MOHCD loan evaluation, staff turnover at CCDC contributed to delays in the lease-up of its most recent project (2060 Folsom). MOHCD provided training to new CCDC staff but notes that CCDC should improve collaboration between asset management, project management and lease-up staff to ensure an efficient lease up process.

FISCAL IMPACT

The City will provide new PASS loans totaling approximately $11.9 million for a total loan not to exceed $18,502,271 for the rehabilitation of 1303 Larkin Street. Exhibit 3 below summarizes the sources and uses of funding for the project.

Exhibit 3: Sources and Uses of Proposed Loan

Sources and Uses	Amount	% of Total
Sources		
MOHCD Loans	18,502,271	47%
MOHCD Soft Debt	*6,599,271*	17%
PASS Loans	*11,903,000*	30%
HCD Loan Portfolio Restructuring - Rental Housing Construction Loan	3,542,242	9%
Accrued Deferred Interest	494,263	1%
CCDC Sponsor Loan	1,000,000	3%
Deferred Developer Fee	2,620,895*	7%
Limited Partner Equity	13,143,931	33%
General Partner Capital	251,069	1%
Total Sources	**39,554,671**	**100%**
Uses		
Acquisition	10,111,367	26%
Hard Costs (incl. 10% contingency)	17,974,219	45%
Soft Costs (incl. 3% contingency)	7,480,365	19%
Reserves	412,000	1%
Developer Fee	3,576,720*	9%
Total Uses	**39,554,671**	**100%**

Source: Closing Projections for Larkin Pine provided by MOHCD

*The developer fee agreement provides for a $3.6 million total developer fee, including a cash fee of $2 million and a deferred fee of $1.6 million payable from residual receipts. The project currently has a $1 million funding gap which the budget addresses by deferring an additional $1 million of the developer fee (for a total deferred fee of $2.6 million), per the terms of the developer fee agreement. According to MOHCD staff, the sponsor is applying for Affordable Housing Program (AHP) funding from the Federal Home Loan Bank to fill the gap.

Funding Sources

Existing City funding is from federal HOME Investment Partnership Program funds and local hotel tax revenues, as shown in Exhibit 2. New PASS loans are funded by 2016 General Obligation Bonds for the PASS program. In addition, CCDC secured a loan from the California Housing and Community Development Department and tax credit financing (the limited partner equity noted above), and CCDC is providing a loan and equity funding for the project.

City Subsidy

The City's subsidy for the acquisition and rehabilitation of the project is $18.5 million, or $272,092 per unit, including PASS funding of $175,044 per unit and MOHCD soft debt funding of $97,048 per unit. Exhibit 4 below shows the total rehabilitation cost and City subsidy per unit for the proposed loan.

Exhibit 4: City Subsidy per Unit

Total Cost & City Subsidy	Amount	Cost per Unit
Total Refinance & Rehab Cost	$39,554,671	$581,686
Total City Subsidy	18,502,271	272,092
1993 Original Loan	4,061,151	59,723
2023 Existing Non-Profit Loan	2,538,120	37,325
Proposed PASS Loan	11,903,000	175,044

Source: MOHCD

The Existing Non-Profit Loan is within the maximum total amount ($4 million) and per unit amount ($100,000 per unit) established in the NOFA. Because PASS funding is a hard debt product, there are no comparable guidelines for PASS funding, but PASS loans are constrained and sized based on a minimum debt service coverage ratio of 1.15, a maximum loan-to-value ratio of 90 percent, and a maximum loan-to-cost ratio of 80 percent.

Operating Budget

According to the 20-year cash flow analysis for the project, the project will have sufficient revenues to cover operating expenses, management fees, and debt service on the PASS loans. Project revenues consist of tenant rent and rental subsidies for 47 units funded by Section 8 Project Based Vouchers. A portion of net income after operating expenses (residual receipts) will be used to repay the non-PASS MOHCD loan and the California Department of Housing and Community Development loan.

Operating Subsidies Uncertainty

The operating budget assumes rental subsidies for 47 of the 68 units, which allows the project to maintain deeply affordable rents. Rental subsidies for 15 units are funded by an existing Section 8 contract with the U.S. Department of Housing and Urban Development (HUD). Rental subsidies for an additional 32 units will be funded through HUD's Restore-Rebuild program[4] after rehabilitation. However, the new subsidies are dependent on available HUD Section 8 budget authority after rehabilitation is completed and HUD's partnership in administering the program and facilitating a new contract, according to the MOHCD loan evaluation. MOHCD reports that MOHCD staff are working closely with senior HUD staff and the San Francisco Housing Authority to mitigate the risks to the operating subsidies, and MOHCD currently anticipates the subsidies will be available.

Exceptions from MOHCD Guidelines

- The project budget does not include a capitalized **replacement reserve**, which supports the project's capital needs over time, because anticipated replacement costs through

[4] The Restore-Rebuild program provides long-term subsidy contracts to rebuild and finance deeply affordable housing. The program aims to "restore" rental subsidies that have been lost since 1999 due to the demolition of public housing.

year 15 can be covered by the existing reserve balance and annual replacement reserve deposits. MOHCD's underwriting guidelines require rehabilitation projects to fund a capitalized replacement reserve of at least $1,000 per unit, or $68,000 for a 68-unit project.

- The **developer cash-out fee** (which excludes the deferred fee) is $2 million, which exceeds the maximum of $1.1 million for rehabilitation projects under MOHCD's Policy on Development Fees because of the complexity of the project and financing. The cash developer fee of $2 million is the maximum permitted by the California Tax Credit Allocation Committee, which administers the Low-Income Housing Tax Credit programs.

RECOMMENDATION

Approve the proposed resolution.