# CITY AND COUNTY OF SAN FRANCISCO

# BOARD OF SUPERVISORS

## BUDGET AND LEGISLATIVE ANALYST

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**TO:** Government Audit and Oversight Committee

**FROM:** Budget and Legislative Analyst

**SUBJECT:** June 26, 2014 Government Audit and Oversight Committee Meeting

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## EXECUTIVE SUMMARY

### Legislative Objectives

The proposed ordinance would (1) approve a development agreement between the City and Visitacion Development, LLC, a subsidiary of Universal Paragon Corporation (UPC); (2) make findings under the California Environmental Quality Act (CEQA), (3) make a finding of conformance with the City's General Plan; and (4) waive certain provisions of Administrative Code Chapter 56.

### Key Points

- The proposed Schlage Lock Development Project is located at the site of the old Schlage Lock Plant located in Visitacion Valley, in the Southeast portion of San Francisco. The property is privately owned by UPC.
- Under the proposed development agreement UPC would develop up to (1) 1,679 new rental and owner occupied units, 15 percent of which will be below market rate; (2) 46,700 square feet of commercial development, including a full service grocery store; (3) 15,000 square feet of community-service cultural, institutional and educational space, including rehabilitation of the Historic Schlage Office Building; and (4) public improvements including roadways, sidewalks, utilities, bicycle infrastructure and parks.

### Fiscal Impact

- The project is expected to generate $24,363,259 in one-time revenues and $7,590,386 in ongoing revenues to the City.
- The City will spend $8,000,000 in public improvements for the project, including $2,000,000 in Proposition K funds and $1,500,000 in SFMTA funds for transportation and pedestrian improvements, and $4,500,000 in Open Space Acquisition funds to purchase park land. UPS will be responsible for park improvements and ongoing maintenance for 22 years.
- The City is expected to incur ongoing annual expenditures of $2,031,681 for public safety, transportation and public works for the new development.
- The project is expected to result in the City having realized estimated net one-time revenues of $16,363,259 and net annual revenues of $5,558,705.

### Recommendation

- Approve the proposed ordinance.

## MANDATE STATEMENT

In accordance with Section 56.14 of the San Francisco Administrative Code, after the Board of Supervisors completes its public hearing, it may approve or disapprove the proposed development agreement recommended by the Planning Commission. If the Board of Supervisors approves the development agreement, it shall do so by the adoption of an ordinance.

## BACKGROUND

The proposed Schlage Lock Development Project (Project) is located at the site of the old Schlage Lock Plant located in Visitacion Valley, in the Southeast portion of San Francisco. The property is privately owned by Universal Paragon Corporation (UPC). The project area is bounded by Blanken Avenue to the north, Bayshore Boulevard to the west, Tunnel Avenue to the east and the San Francisco/Daly City border to the south, as shown in Exhibit 1 below.

**Exhibit 1: Map of Schlage Lock Development Project**

The Schlage Lock Company closed its Visitacion Valley plant in 1999. Since that time, development of the site has been subject to numerous actions by the Board of Supervisors and various planning entities throughout San Francisco. The following Table 1 illustrates these events.

**Table 1: Prior Project Approvals**

| Schlage Lock Development History | | |
|---|---|---|
| **Action Taken** | **Authorizing Entity** | **Year** |
| Interim Zoning Controls passed changing zone from industrial M-1 to neighborhood commercial NC-3 zone. | Board of Supervisors | 2000 |
| Visitacion Valley Schlage Lock Community Planning Workshop: Strategic Concept Plan and Workshop Summary | San Francisco Planning Department | 2002 |
| Resolution 424-05 Establishing the Visitacion Valley Survey Area | Board of Supervisors | 2005 |
| Establishment of Visitacion Valley Citizens Advisory Committee | Mayor | 2006 |
| Redevelopment Plan for the Visitacion Valley Redevelopment Project | San Francisco Redevelopment Agency | 2008 |
| Visitation Valley/Schlage Lock Design for Development | San Francisco Planning Department<br>San Francisco Redevelopment Agency | 2009 |
| Certification of Final Environmental Impact Report (FEIR) for Visitacion Valley Redevelopment Program | Planning Commission | 2008 |
| Remedial action plan established to govern removal of groundwater and soil contamination | California Department of Toxic Substances | 2009 |

*Objectives of Redevelopment Plan*

Numerous workshops and community forums have been held which brought together City officials, neighborhood groups and residents to develop a framework which would guide the eventual development of the project area. These workshops produced a set of ten project objectives which included:

- Ensure a mix of uses, including different types of housing, retail, community facilities, city services and open space;
- Attract a full-service grocery store and provide a variety of retail options;
- Include affordable housing to increase the local supply of well-designed affordable housing for low-income and working individuals, families and seniors;
- Create opportunities for local employment;
- Create a family-oriented, mixed-use destination that should include pedestrian walkways and destination points, such as small plazas;
- Incorporate thoughtful design that considers existing architectural styles and character and incorporates local historical and cultural elements;

- Improve the safety, pedestrian orientation and look of Bayshore Boulevard through new stores, traffic calming and a new community-policing substation;
- Ensure a relationship between new stores on the Schlage Lock site and the existing retail corridor on Leland Avenue, to revitalize the central shopping area;
- Bridge Little Hollywood and Visitacion Valley through the creation of new streets and foot and bike paths throughout the site; and
- Convert the old Schlage Lock office building to a civic use and consider new buildings for public, city and community services.

*Dissolution of the San Francisco Redevelopment Agency*

The San Francisco Redevelopment Agency was dissolved through passage of California Assembly Bill 26 (AB 26) in 2011. At that time, the San Francisco Redevelopment Agency and UPC were in the process of negotiating the Project's financial terms. Because the legislation and subsequent Superior Court decision dissolving the State's redevelopment agencies occurred prior to the completion of negotiations between the San Francisco Redevelopment Agency and UPC, the City lost the ability to access tax increment financing to fund the Project.

## DETAILS OF LEGISLATION

The proposed ordinance would (1) approve a development agreement between the City and Visitacion Development, LLC, a subsidiary of UPC; (2) make findings under the California Environmental Quality Act (CEQA), (3) make a finding of conformance with the City's General Plan; and (4) waive certain provisions of Administrative Code Chapter 56.

The proposed development agreement between the City and County of San Francisco and UPC provides the framework for developing the subject Property. The term of the agreement shall continue for 15 years to accommodate the phased development of the Project, unless terminated by mutual consent of the City and UPC or upon default of the development agreement by either party. UPC has the vested right to develop the property during the 15 years of the agreement.

### Elements of the Development Agreement

The Schlage Lock Development Project is a mixed-use development that will provide new housing units, commercial development, and additional amenities including parks, community space, and infrastructure improvements. The site consists of 15 development parcels that include sites for residential and commercial development, the historic Schlage Lock office building, a greenway, Visitacion Park, and other parcels.

The following section details relevant elements of the proposed Project.

*Housing*

Under the development agreement, UPS may develop up to 1,679 new rental and owner-occupied units. The development agreement requires that 15 percent of the new housing units be below market rate, which exceeds the San Francisco Planning Code Section 415 requirement for at least 12 percent below-market rate housing units. If UPS develops 1,679 housing units, 252 units would be below market rate. This requirement may be satisfied through a combination of:

1) on-site below market rate (BMR) units located within mixed-income buildings;
2) on-site BMR units located within a building of up to 100 percent affordable units;
3) off-site affordable units built by the UPC; exercising this option requires UPC to increase the number of affordable housing units to 23 percent of total housing;
4) payment of the Affordable Housing fee equal to 20 percent of housing development costs; or
5) dedication to the City of a development-ready parcel.

At least two-thirds of the 15 percent below market rate housing requirement (166 of the 252 below market rate units) must be satisfied with on-site BMR units delivered through options 1) and/or 2) through the alternatives listed above.

*Commercial Development*

The project includes up to 46,700 square feet of commercial development. Parcel 1 adjacent to Bayshore Boulevard must include a full service grocery store of at least 15,000 square feet and a total retail area of 20,000 square feet. The grocery store must be included in Phase 1 of the development, unless UPC can demonstrate to the Planning Commission that constructing the grocery store is not feasible and the Planning Commission takes action to remove this obligation. No development beyond Phase 1 may commence until the grocery store has been completed or the Planning Commission has waived the requirement.

*Cultural, Institutional, Educational Space*

The project will provide approximately 15,000 square feet of community-service cultural, institutional and educational space. When rehabilitated, the Historic Office Building is expected to house community uses (which may include health clinics, classrooms, childcare, non-profit offices and community meeting rooms). At least 25 percent of the Historic Office Building's net leasable floor area must be restricted to community uses for a minimum of 15 years. The rehabilitation and ongoing maintenance of the Historic Office Building will be UPC's responsibility until UPC assigns it to another party. UPC will be entitled to all revenue generated from the lease or sale of this property.

*Public Improvements*

UPC will be responsible for designing,[1] developing and installing all public improvements including roadways, sidewalks, utilities, bicycle infrastructure, off-site infrastructure, and parks. Each element of the public improvements is guided by a phasing schedule in the development agreement. According to Ms. Emily Lesk, Project Manager at the Office of Economic and

[1] The Project design will be conducted in coordination with the Recreation and Park Department and the Planning Department to finalize the designs for the two park sites. The Recreation and Park Department will also convene a Community Advisory Panel to provide input and oversight for the park designs. The Planning Department will approve the final park design.

Workforce Development, the City will not be obligated to accept such improvements until they have been completed by UPC.

UPC has agreed to sell the two parks parcels to the City. Funding for these purchases will come from the Open Space Acquisition Fund and the final purchase price will not exceed $4,500,000 ($1,966,500 and $2,533,500, respectively for each parcel). According to Ms. Stacy Bradley, Planner at Recreation and Park Department, the appraised value of the two properties is $8,700,000.

UPC will be responsible for all construction costs, including the costs of building and installing all recreation and park buildings, improvements, facilities and infrastructure required to operate the parks. UPC will also make payments of $250,000 each year to the Recreation and Park Department for the maintenance of the park for 22 years after the purchase has been executed. The amount of maintenance payments was based on early park concept plans reviewed by Recreation and Park Department staff and will cover gardening, custodial staff time, park patrol staff time, materials and supplies and long-term repair and replacement of worn-out facilities and equipment.

The property transfer and payment for each site will occur upon the final acceptance by the City of the completed park, which is currently estimated to be 2016 and 2018 for each parcel.

The Recreation and Park Department has established an acquisition policy, which defines three distinct policy goals which guide potential acquisitions. These goals include:

1) Acquire properties that are found within or serve a High Needs Area and/or an open space deficient area;
2) Acquire properties that have identified funding for the purchase, development, and maintenance of the property; and
3) Acquire properties that encourage a variety of recreational and open space uses.

The Recreation and Park Department has determined that the parks purchase at the Schlage development adhere to these policies. The Recreation and Parks Commission authorized the purchase of these two parks on June 19, 2014 through Resolution 1406-012.

*Design and Development Controls*

The proposed development agreement is part of a larger regulatory approvals package that are subject to Board of Supervisors approval. These approvals include: (1) the rezoning of the project site to permit mixed-use development, (2) a Planning Code text amendment creating a special use district for the project site, and (3) a General Plan amendment to remove references to the former Visitacion Valley/Schlage Lock Redevelopment Area.

*Limitation of City's Future Discretion*

By approving the basic approvals provided in the development agreement, the City has made a policy decision that the Project is in the best interest of the City and promotes the public health, safety and general welfare. As such, the City is limiting its future discretion with respect to the development phases and implementing approvals to the extent that they are consistent with the basic approvals in the agreement. Nothing shall limit the City's discretion with respect to (1) implementing approvals that seek a material change to the basic approvals or (2) Board of Supervisors approvals of subdivision maps, as required by law, not contemplated by the basic approvals.

**CEQA Findings**

The Planning Commission and former San Francisco Redevelopment Agency previously certified the final Environmental Impact Report (EIR) for the proposed Project in December 2008. After the State eliminated redevelopment agencies in February 2011 and the associated loss of tax increment financing for the Project, the Planning Department and Office of Economic and Workforce Development revised the project in order to make the project financially feasible. The revised project increased the number of housing units for 1,250 to 1,679 and decreased the amount of commercial space from 105,000 square feet to 46,700 square feet. The amount of community, cultural and educational uses did not change. The Planning Department evaluated these changes in an addendum to the final EIR.

Under the proposed ordinance, the Board of Supervisors would find that the final EIR and the addendum contain no new significant environmental impacts and that the Project does not necessitate different environmental mitigation measures than those identified in the final EIR and addendum.

**General Plan Findings**

Under the proposed ordinance, the Board of Supervisors would find that the proposed Project serves the public necessity, convenience and general welfare, for the reasons stated by the Planning Commission in Resolution 19163; and conforms to the General Plan for the reasons stated by the Planning Commission in Resolution 19163.

**Chapter 56 Waiver**

Administrative Code Chapter 56 establishes the City's procedures for entering into development agreements with private developers. The purpose of Chapter 56 is to "strengthen the public planning process by encouraging private participation in the achievement of comprehensive planning goals and reducing the economic costs of development". According to the proposed ordinance, the Board of Supervisors finds that the proposed development agreement substantially complies with the requirements of Chapter 56 and "waives any procedural or other requirements of Chapter 56 if and to the extent that they have not been complied with".

## FISCAL IMPACT

### Impact Fees

The project will be subject to the following fees as shown in Table 2 below:

**Table 2: Project Fees**

| Fee Type | Authority |
|---|---|
| **Project Specific Fees** | |
| Transportation Impact Development Fee | SF Planning Code Sec. 411 |
| Visitacion Valley Community Facilities and Infrastructure Fee | SF Planning Code §420; Section |
| **General Fees** | |
| School Impact Fee | Cal. Educ. Code §17620(b) Cal. Gov. Code §65995(b) |
| Jobs-Housing Linkage Fee | S.F. Admin Code §§ 34.8, 38.3-1 |
| Child Care Fee | S.F. Plan. Code §314.4(b)(4) |
| Wastewater Capacity Charge | Cal. Health & Safety Code §5471; SFPUC Resolution No. 07-0100 (Adopted June 12, 2007) |
| Water Capacity Charge | SFPUC Resolution No. 07-0099 (Adopted June 12, 2007 |

Under the Planning Code, the Transportation Impact Development Fee applies to the Project's commercial development. In addition, the development agreement extends the Transportation Impact Development Fee to residential development. Because Transportation Impact Development Fees do not apply to residential development under the Planning Code, applying these fees to this Project's residential development will be subject to an impact fee rate that is consistent with the February 2011 nexus study titled "The San Francisco Transit Impact Development Fee Update."[2]

The Visitacion Valley Community Facilities and Infrastructure Fee (Visitacion Valley Fee) allocates revenues from development projects to uses including transportation (28% of revenue), parks and recreation (24%), community facilities (9%), and other community benefit uses. Section 420 of the San Francisco Planning Code establishes this distribution of uses.

[2] While the Planning Code's TIDF provision was revised in March 2012, the nexus study was based on the Planning Code provision at the time of the study in February 2011.

According to Ms. Lesk, the development agreement provides for a reduction of the Transportation Impact Development Fee and the Visitacion Valley Fee to account for other fees that are assessed for the same purpose.

- The Transportation Impact Development Fee will be reduced by an amount equal to 28 percent of the Visitacion Valley Fee because of the portion of that fee which is directed towards transportation uses. According to Ms. Lesk, reducing the Transportation Impact Development Fee is necessary to show a nexus between the increased demand for transportation that is generated by residential development and the amount of the fee that is applied to residential development.
- Additionally, the Visitacion Valley Fee will be reduced by an amount equal to 33 percent of the fee because the development of parks and community facilities by the developer are considered to have satisfied the requirements of that fee. The first $3,000,000 of the transportation impact fees will be waived in consideration of the developer's mitigation of off-site intersection impacts and construction of pedestrian access to the Bayshore Caltrain station.

Total project fees are shown in Table 3 below.

**City Funding Commitments**

The Project will receive $2,000,000 of Proposition K Sales Tax funds to support transportation improvements that serve the larger community through improved pedestrian safety and pedestrian access to the Bayshore Caltrain Station. Pedestrian safety was included as a new program in the 2005 Proposition K Strategic Plan.

The project will receive $1,500,000 in funding from the San Francisco Metropolitan Transportation Agency (SFMTA) to help support transportation improvements that serve the larger community through off-site intersection improvements and improved pedestrian safety and pedestrian access to the Bayshore Caltrain Station.

As noted above, the City will use $4,500,000 to purchase two park parcels from the Developer. The Open Space Acquisition Fund will provide funds for the purchase of the parks. According to Ms. Bradley, the current balance of the fund is $9,149,000 and is projected to be $10,579,000 after the final purchase is made in 2018. This amount takes into account annual deposits into the Fund as well as purchases of other properties in the intervening years. Annual maintenance costs for the parks totaling $250,000 will be paid for each year by the Developer for 22 years for maintenance to be and performed by the Recreation and Parks Department. After 22 years, the City will assume the maintenance costs of the two parks.

**Community Facilities Districts**

The City agrees to cooperate with UPC to set up one or more Community Facilities Districts (CFD) to fund capital improvements and ongoing maintenance as permitted under the State law. CFDs were established by the Mello-Roos Community Facilities Act of 1982. Should a CFD become established for this project, the CFD would encompass all properties in the project area. A two-thirds majority vote of property owners living within the proposed boundaries is needed to form the CFD. Once approved, a special tax lien is placed against each property in the CFD to be paid by property owners. Municipal bonds are sold by the CFD to provide funds needed to build the improvements. Debt service gets paid by the CFD assessments.

**City Revenues and Expenditures**

Under the proposed development agreement, the City would receive one-time revenues generated by impact fees and ongoing revenues generated by increased property taxes, sales taxes and other various sources of revenue. The City will also be subjected to expenditures including allocation of Proposition K funding, MTA funding and ongoing expenditures to serve the new development. Analysis of these revenues and expenditures was conducted by the consulting firm Economic & Planning Systems, Inc. for the Office of Economic and Workforce Development and are summarized in Tables 3, 4, 5, 6, and 7 below.

As shown in Table 3 below, the City will receive estimated one-time revenues of $24,363,259.

**Table 3: One-Time Revenues to the City**

| One-Time Revenues | |
|---|---|
| **Impact Fees Paid by the Developer to the City** | **Fee Amount** |
| Transit Impact Development Fee* | $6,616,872 |
| Visitacion Valley Community Facilities & Infrastructure Impact Fee** | 4,851,710 |
| Intersection Mitigations and Transportation Improvements Credit | (2,867,455) |
| School Impact Fee | 4,900,000 |
| Jobs-Housing Linkage Fee | 1,000,000 |
| *Impact Fees Subtotal* | *$14,501,127* |
| **Real Property Transfer Taxes Paid by the Property Owners** | |
| Units for Sale | $3,887,227 |
| Units for Rent | 3,983,645 |
| Retail Sales | 83,374 |
| *Property Transfer Tax Revenue Subtotal* | *$7,954,246* |
| **Sales Taxes on Construction Materials and Supplies** | |
| Construction Materials Sales Taxes | $1,907,886 |
| *Construction Materials and Supplies Sales Taxes Subtotal* | *1,907,886* |
| **Total One-Time Fees** | **$ 24,363,259** |

Source: Economic & Planning Systems, Inc.

*Includes 28 percent reduction in Transit Impact Development Fee to account for transportation costs paid by the Visitacion Valley Fee

*Includes 33 percent reduction in Visitacion Valley fee to account for parks and community facilities costs paid directly by the developer

As shown in Table 4 below, the City and other taxing entities will receive estimated ongoing annual tax revenues of $7,590,386.

**Table 4: Ongoing Tax Revenues Paid by Property Owners to the City**

| Ongoing Revenue | |
|---|---|
| **Annual General Revenue** | |
| Property Tax | $4,878,520 |
| Property Tax in Lieu of Vehicle License Fee | 840,446 |
| Real Property Transfer Tax | 424,830 |
| Sales and Use Tax | 352,260 |
| Gross Receipts Tax | 76,088 |
| *Annual General Revenue Subtotal* | *$6,572,144* |
| **Annual Other Dedicated and Restricted Revenues** | |
| SF Unified School District Property Tax | $577,917 |
| Public Safety Sales Tax | 176,130 |
| SF County Transportation Authority Sales Tax | 176,130 |
| SF Public Financing Authority (Schools) Sales Tax | 88,065 |
| *Dedicated and Restricted Revenues Subtotal* | *$1,018,242* |
| **Total Ongoing Revenues** | **$7,590,386** |

Source: Economic & Planning Systems, Inc.

As discussed above and shown in Table 5 below, the City will make one-time expenditures for transportation, pedestrian, park and other improvements of $8,000,000.

**Table 5: One Time Expenditures Incurred by the City**

| One-Time Expenditures | |
|---|---|
| Proposition K Funds | $2,000,000 |
| SFMTA Funds | 1,500,000 |
| Park Purchase | 4,500,000 |
| **Total One-Time Expenditures** | **$8,000,000** |

Source: Economic & Planning Systems, Inc.

As shown in Table 6 below, the City will incur annual ongoing expenditures of $2,031,681 to provide police, fire, Muni, street cleaning and other DPW services.

**Table 6: Ongoing Expenditures Incurred by the City**

| Ongoing Expenditures | |
|---|---|
| **Annual Expenditures** | |
| Police | $ 766,414 |
| Fire | 404,753 |
| MTA/Muni | 601,351 |
| Public Works | 259,163 |
| **Total Annual Expenditures** | **$2,031,681** |

Source: Economic & Planning Systems, Inc.

As shown in table 7 below, the project will result in the City having realized estimated net one-time revenues of $16,363,259 and net annual revenues of $5,558,705.

**Table 7: Summary of All Net Revenues to the City**

| Revenue and Expenditures Summary | |
|---|---|
| **One-time revenues and expenditures** | |
| One-time revenues | 24,363,259 |
| One-Time Expenditures | (8,000,000) |
| *Net City One-Time Revenues* | *$16,363,259* |
| **Ongoing Revenues and Expenditures** | |
| Annual Revenues | 6,572,144 |
| Annual Dedicated and Restricted Revenues | 1,018,242 |
| Annual Expenditures | (2,031,681) |
| *Net City Annual Revenues* | *$5,558,705* |

Source: Economic & Planning Systems, Inc.

## RECOMMENDATION

Approve the proposed ordinance.