

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: September 25, 2019 Budget and Finance Committee Meeting

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Items 1 and 2 Files 19-0877 and 19-0878 <i>(Continued from September 18, 2019)</i>	Department: Office of Contract Administration (OCA)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolutions would authorize the Office of Contract Administration (OCA) to enter into the First Amendments for Technology Marketplace purchases between the City and (i) CCT Technologies Inc., dba ComputerLand of Silicon Valley, increasing the not-to-exceed amount to \$23,000,000 (File 19-0877); and (ii) XTech JV, increasing the not-to-exceed amount to \$44,000,000 (File 19-0878). <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Office of Contract Administration (OCA) selects information technology firms through a competitive Request for Proposals (RFP) process to provide goods and services through the Technology Marketplace. City departments may purchase technology products and specialized services through the Technology Marketplace on an as-needed basis. • The Board of Supervisors approved the contracts with CCT Technologies and XTech in January 2019 as part of the approval of 19 contracts with information technology vendors for the Technology Marketplace. The CCT Technologies and XTech contracts each had an initial not-to-exceed amount of \$20 million and an initial tow-year term through December 2021. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • Under the proposed resolution, the contract with CCT Technologies would increase by \$3 million to \$23 million, and the contract with XTech would increase by \$24 million to \$44 million. The contract term does not change. • The proposed contract increases are based on average monthly spending for each contract for the first six months of the contracts from January 2019 through June 2019. The increase of \$3 million for the contract with CCT Technologies and of \$24 million for the contract with XTech is expected to provide sufficient contract spending authority for 18 months through June 2020. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolutions. 	

MANDATE STATEMENT

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

BACKGROUND

The Office of Contract Administration (OCA) selects information technology firms through a competitive Request for Proposals (RFP) process to provide goods and services through the Technology Marketplace. City departments may purchase technology products and specialized services through the Technology Marketplace on an as-needed basis.

In 2018, OCA implemented Technology Marketplace 2.0, which allowed a broader pool of vendors to compete for Tier 1 contracts.¹ In addition, Technology Marketplace 2.0 includes a specific procurement process for cloud services, the ability to refresh the Technology Marketplace by adding new vendors, and the implementation of language to allow for flexible insurance requirements.

In June 2018, OCA issued an RFP for Technology Marketplace 2.0 and received 21 Tier 1 proposals, of which 19 met the minimum requirements and the minimum score of at least 60 out of 100 points. In January 2019, the Board of Supervisors approved contracts with the 19 vendors, including CCT Technologies, Inc., dba ComputerLand of Silicon Valley (File 18-1117, Resolution 004-19), and XTech JV (File 18-1131, Resolution 018-19). Each contract has a term of approximately three years, from approximately January 2019 through December 2021, with two one-year options to extend through December 2023. The initial not-to-exceed amount of each contract is \$20,000,000. However, the exact amount to be spent on each contract is difficult to predict, as City departments purchase services on an as-needed basis. According to Mr. Alaric Degrafinried, OCA Director and Purchaser, Technology Marketplace contracts often have to be amended to increase the not-to-exceed amount.

DETAILS OF PROPOSED LEGISLATION

The proposed resolutions would authorize OCA to enter into the First Amendments of Technology Marketplace contracts with (i) CCT Technologies, increasing the not-to-exceed amount to \$23,000,000 (File 19-0877), and (ii) XTech JV, increasing the not-to-exceed amount to \$44,000,000 (File 19-0878). Other contract terms would not change.

According to Mr. Degrafinried, the amended not-to-exceed amounts are projections based previous spending through June 28, 2019, or approximately the first six months of the contracts. Using the monthly spend rates, the CCT Technologies and XTech JV contracts are

¹ The Technology Marketplace offers three tiers of contracts. Tier 1 contracts have amounts of more than \$10 million and require the vendor to provide a wide selection of products, professional services, maintenance, and training for City departments. Tier 2 contracts are for amounts below \$10 million. Tier 3 contracts are for services provided by Local Business Enterprises for amounts of \$600,000 or less.

projected to exceed the \$20,000,000 not-to-exceed amounts before June 30, 2020, or halfway through the three-year contract terms. According to Mr. Degrafinried, 18-month projections were used rather than full three-year projections to increase transparency when seeking Board of Supervisors approval. The 18-month projections are shown in Table 1 below.

Table 1: 18-Month Contract Spending Projections

Vendor	Spent Through June 2019	Spending Per Month	18-Month Projection through June 2020
CCT Technologies	\$7,524,971	\$1,254,162	\$22,574,914
XTech JV	\$14,661,525	\$2,443,587	\$43,984,574

City departments may purchase goods and services through any approved vendor in the Technology Marketplace. According to Mr. Degrafinried, XTech JV is typically the top selling vendor, due to both pricing and quality of service.

FISCAL IMPACT

The proposed resolutions would increase the not-to-exceed amounts of the CCT Technologies contract by \$3 million, from \$20 million to \$23 million, and the XTech JV contract by \$24 million, from \$20 million to \$44 million. Funding to pay for goods and services under each contract is subject to Board of Supervisors annual appropriation approval in City departments' budgets.

The proposed contract amendments would provide sufficient authorization to cover projected expenditures over 18 months. As the contract terms are each three years, with two one-year options to extend, future contract amendments with increased not-to-exceed amounts are likely.

RECOMMENDATION

Approve the proposed resolutions.

Item 3 File 19-0934	Department: Mayor's Office
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <p>The proposed resolution would authorize the Director of the Mayor's Office of Housing and Community Development (MOHCD) to amend an existing loan agreement with BRIDGE Housing Corporation (BRIDGE), to increase the loan amount by \$12,600,000, from \$6,000,000 to \$18,600,000, to pay for pre-development costs for the affordable housing development at 4840 Mission Street.</p> <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The proposed project at 4840 Mission Street, sponsored by BRIDGE, includes 137 affordable housing units, 39 residential parking spaces, residential property staff offices, a health center operated by Mission Neighborhood Health Center, and commercial space, and has an estimated total construction cost of \$83,009,416. • Total acquisition costs for 4840 Mission Street are \$12,000,000. MOHCD entered into a loan agreement with BRIDGE in 2017 for \$6,000,000, which included \$3,000,000 toward the acquisition costs. BRIDGE obtained an additional three-year \$9,000,000 loan from the San Francisco Housing Accelerator Fund in 2017 to fund the remaining acquisition costs. • The proposed loan amendment of \$12,600,000 will be used to pay off the \$9,000,000 San Francisco Housing Accelerator Fund loan and for other predevelopment costs. According to MOHCD, paying off the \$9,000,000 San Francisco Housing Accelerate Fund loan will save interest costs and total development costs for the project. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The loan amount under the amended loan agreement is \$12,510,000 (rather than \$12,600,000 as stated in the proposed resolution), funded by Inclusionary Affordable Housing fees. The proposed loan amount represents approximately 21 percent of the fund balance for the Inclusionary Affordable Housing Fee program. <p style="text-align: center;">Policy Consideration</p> <ul style="list-style-type: none"> • Substantial changes to the project design made after the original loan award to BRIDGE in 2017 resulted in the estimated total project cost increasing from approximately \$45 million to \$83 million. According to MOHCD, project changes are evaluated by the Citywide Affordable Housing Loan Committee, which determines whether the proposed project continues to meet MOHCD's underwriting guidelines and aligns with the financing plan prior to making a recommendation on the loan. <p style="text-align: center;">Recommendations</p> <ul style="list-style-type: none"> • Amend the proposed resolution to authorize the Director of MOHCD to execute loan documents for a total loan amount not to exceed \$18,510,000 rather than \$18,600,000 as stated in the resolution. • Approve the proposed resolution, as amended. 	

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission in excess of \$10 million or 10 years is subject to Board of Supervisors approval by resolution. Ordinance 202-19, adopted by the Board of Supervisors in August 2019, authorized the Director of the Mayor's Office of Housing and Community Development to enter into loan and grant agreements of more than 10 years without further Board of Supervisors approval if the total loan or grant amount is less than \$10 million.

BACKGROUND

In April 2016, the Mayor's Office of Housing and Community Development (MOHCD) released a Notice of Funding Availability (NOFA) for acquisition and predevelopment financing for affordable rental housing supported by the 2015 General Obligation Housing Bond – Proposition A. The proposed project at 4840 Mission Street, sponsored by BRIDGE Housing Corporation (BRIDGE), was selected out of a pool of submittals and received the highest score in the competitive process.

The project sponsor originally proposed to use modular design as a method of cost containment; however, the current project design is for traditional construction due to community and decision maker input. The initial conceptual design, which included 114 affordable housing units, property staff offices, and 20 for-sale market rate townhouses, no parking, and a health center, had an estimated total construction cost of \$45,007,090 as of April 2017.¹ The current design, which includes 137 affordable housing units, 39 residential parking spaces, residential property staff offices, a health center operated by Mission Neighborhood Health Center, and commercial space, has an estimated total construction cost of \$83,009,416.

The construction cost estimates for the project have increased due to a combination of escalation of material and labor costs over time, the redesign of the project (including switching from modular to on-site construction), and other additions to the scope such as three additional housing units, parking spaces, and commercial space.

The original design assumed 112 of the 114 units would be affordable for households at or below 60 percent of the area median income (AMI), with 23 units set aside for homeless families, and operating subsidies provided by the Local Operating Subsidy Program (LOSP).

The current design has a mix of units affordable for households at or below 30 percent of AMI up to 105 percent of AMI, with an income average of 59 percent of AMI. The current plan includes 35 units set aside for households voluntarily relocating from the HOPE SF Potrero development.

In May 2017, MOHCD executed a \$6,000,000 loan agreement with BRIDGE to finance the predevelopment costs and acquisition of 4840 Mission Street. Of the \$6,000,000 in committed funds, \$3,000,000 are 2015 General Obligation Housing Bond proceeds and \$3,000,000 are

¹ According to Ms. Heavens, construction cost escalation is assumed to be 5 percent per year, but the actual cost of construction is not known until a project is bid out.

Inclusionary Affordable Housing Fee revenues. The original loan agreement was recommended for approval by the Citywide Affordable Housing Loan Committee and was not subject to Board of Supervisors approval at the time.

The \$6 million predevelopment loan included \$3 million toward the \$12 million acquisition of 4840 Mission Street. Because MOHCD was unable to provide the full \$12 million to fully fund the acquisition of the site in 2017, the project sponsor obtained an additional three-year \$9,000,000 loan from the San Francisco Housing Accelerator Fund in June 2017.

The project sponsor has made \$1,112,268 in interest payments to date; no payments were applied to principal. An additional interest payment of \$71,320 will be due in October 2019, for total interest payments of \$1,183,588. According to Ms. Cindy Heavens, Project Manager at MOHCD, MOHCD is amending the existing loan agreement between MOHCD and BRIDGE Housing to pay off the \$9 million San Francisco Housing Accelerator Fund loan prior to the loan payoff date of June 2020 in order to reduce the interest costs of the loan and the total development cost for the project.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would: (1) authorize the Director of the Mayor's Office of Housing and Community Development (MOHCD) to execute documents relating to a loan to provide financing for predevelopment activities for the construction of a 100 percent affordable 137-unit rental housing project known as 4840 Mission, including the payoff of an acquisition loan, completion of additional architectural design and design consultant work, and other predevelopment activities, in an aggregate amount not to exceed \$18,600,000; (2) authorize the execution of a first amendment to the loan agreement, an amended and restated promissory note, and an amendment to the deed of trust; (3) ratify and approve any action taken in connection with the project; and (4) find that the loan is consistent with the City's General Plan and the priority policies of Planning Code Section 101.1.

MOHCD has an existing pre-development loan agreement with BRIDGE Housing of \$6,000,000, as noted above. The proposed resolution would approve the first amendment to the existing pre-development loan agreement, increasing the loan amount by \$12,600,000, for a total pre-development loan of \$18,600,000.

MOHCD expects to close the loan transaction with BRIDGE in October 2019. The loan documents will restrict the project as affordable housing to low- and moderate-income households with annual maximum rent and income established by MOHCD for no less than 57 years. The loan will be secured by a deed of trust recorded against the property. According to Ms. Heavens, affordability of the project will be further restricted by the terms of the loan provided by MOHCD, and potential bond appropriation, which will be subject to future Board of Supervisors approval.

Loan repayment obligations are limited to the availability of residual receipts, or annual cash flow after operating costs have been paid. Interest not paid to the City each year due to lack of available residual receipts will be forgiven and will not accrue. For any year when the replacement reserve balance is less than 1.5 times the original replacement reserve amount,

one-third is retained by the project sponsor, and the other two-thirds is deposited into the replacement reserve. In the event that the replacement reserve balance is greater than 1.5 the original amount, then the City would receive repayment on the loan.

FISCAL IMPACT

Sources and Uses

The total loan amount between MOHCD and BRIDGE Housing is \$18,510,000, which includes \$6,000,000 previously loaned and \$12,510,000 to be loaned under the proposed first amendment. The \$12,510,000 loan would be used to repay the \$9,000,000 loan between BRIDGE Housing and the San Francisco Housing Accelerator Fund, and other pre-development costs.² Sources and uses of loan funds are shown in Table 1 below.

Table 1: Sources and Uses of Funds for 4840 Mission Street

Sources	Original Loan	First Loan Amendment (File 19-0934)	Total
Proposition A General Obligation Bond	\$3,000,000		\$3,000,000
Inclusionary Affordable Housing Fee	3,000,000	\$12,510,000	15,510,000
Total	\$6,000,000	\$12,510,000	\$18,510,000
Uses			
Acquisition	\$3,000,000	\$9,000,000	\$12,000,000
Legal/Closing Costs/Broker's Fee	47,911		47,911
Holding Costs ^a	1,425,887	407,657	1,833,544
Architecture & Design	714,986	1,802,499	2,517,485
Engineering & Environmental Studies	103,601	80,000	183,601
Financing Costs	135,000	0	135,000
Legal Costs	66,798	62,218	129,016
Other Development Costs	345,332	444,863	790,195
Soft Cost Contingency	0	323,248	323,248
Developer Fee	160,485	389,515	550,000
Total	\$6,000,000	\$12,510,000	\$18,510,000

^a Includes interest on the SFHAF loan, predevelopment loan interest, and security/maintenance for the vacant site.

² Total acquisition costs for 4340 Mission Street are \$12,000,000, including \$3,000,000 under the original loan agreement between MOHCD and BRIDGE Housing, and \$9,000,000 under the first amendment to the loan agreement.

City Subsidy

The current City subsidy per unit would total \$135,036, or \$94.34 per square foot, as shown in Table 2 below.

Table 2: City Subsidy for 4840 Mission Street

Number of units	137
Total building area	196,095 sf
Total City subsidy	\$18,500,000
City Subsidy per unit	\$135,036
City Subsidy per sf	\$94.34

Fund Balance

The proposed loan amount represents approximately 21 percent of the fund balance of the funding source, the Inclusionary Affordable Housing Fee program. As of July 1, 2019, the fund balance for the Inclusionary Affordable Housing Fee program was approximately \$60.2 million. Of the Inclusionary Affordable Housing Fee program fund balance, MOHCD has allocated but not yet encumbered \$35.2 million in FY 2019-20 (including the proposed \$12.5 million loan for 4840 Mission) and \$20.6 million in FY 2020-21, according to Mr. Benjamin McCloskey, Deputy Director of Finance and Administration at MOHCD.

POLICY CONSIDERATION

Project Changes after NOFA Award

As discussed above, substantial changes to the project design made after the 2016 NOFA award resulted in the estimated total project cost increasing from approximately \$45 million to \$83 million. It is not possible to know if the current project proposal with higher estimated construction costs would have received a different score in the competitive NOFA process that may have resulted in a different award decision by the MOHCD panel.

According to Ms. Mara Blitzer, Director of Housing Development at MOHCD, upon each loan request, project changes are evaluated by the Citywide Affordable Housing Loan Committee.³ The loan committee determines whether the proposed project continues to meet MOHCD's underwriting guidelines and align with the financing plan prior to making a recommendation on the loan.

³ The Citywide Affordable Housing Loan Committee consists of the MOHCD Director, the Office of Community Investment and Infrastructure Executive Director, the Department of Homelessness and Supportive Housing Deputy Director for Programs. If this body approves the funding request, it forwards its recommendation for funding to the Mayor for consideration.

RECOMMENDATIONS

1. Amend the proposed resolution to authorize the Director of MOHCD to execute loan documents for a total loan amount not to exceed \$18,510,000 rather than \$18,600,000 as stated in the resolution.
2. Approve the proposed resolution, as amended.