


CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST

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March 6, 2020

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst 

SUBJECT: March 11, 2020 Budget and Finance Committee Meeting

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<p>Item 2 File 20-0115 <i>(Continued from March 4 meeting)</i></p>	<p>Departments: Department of Public Health (DPH) Real Estate Division</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would (1) approve a lease between the City and The Salvation Army for property located at 1156 Valencia Street for a term of three years with two one-year options to extend at a base rent of \$404,000 per year; (2) authorize the reimbursement by the City to the landlord up to \$300,000 plus a 4 percent construction management fee towards the cost of tenant improvements and (3) authorize the Director of Property to execute documents, make certain modifications and take certain actions in furtherance of the lease and the resolution to commence following Board of Supervisors’ approval. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The property at 1156 Valencia Street will be used for a 30-bed Navigation Center serving adults experiencing homelessness and with behavioral health issues. The proposed Navigation Center will be based on the Department of Public Health’s Hummingbird Navigation Center model located at San Francisco General Hospital. • The landlord will construct tenant improvements, including showers and laundry facilities, which costs will be reimbursed by the City up to \$300,000 plus a 4 percent construction management fee. The Navigation Center is expected to open in April 2020 following completion of construction. • The landlord is offering a short-term, three-year lease because the landlord is expecting to develop the property as affordable housing and, therefore, is unwilling to commit beyond three years. If construction on the affordable housing project is delayed, the City expects to exercise one or both options to extend the lease term. The proposed resolution authorizes the Director of Real Estate to enter into the lease extensions without further Board of Supervisors approval if the lease extension does not increase the rent or otherwise materially increase the obligations or liabilities of the City. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • Under the proposed lease, the City would pay an initial annual rent of \$404,000, escalating by 3 percent per year over the three-year term Total rental costs over the 3-year lease term for 1156 Valencia Street are estimated at \$1,248,724. • The proposed lease requires the City to pay for utilities, services, routine maintenance and repair and other operating expenses. The proposed operating costs for a Navigation Center site at 1156 Valencia Street from March 1, 2020 through June 30, 2021 will be \$3,878,000. <p style="text-align: center;">Recommendations</p> <ul style="list-style-type: none"> • Amend the proposed resolution to state that the rent on exercise of the option to extend the lease cannot increase by more than 3 percent per year • Approve the proposed resolution, as amended. 	

MANDATE STATEMENT

Administrative Code Section 23.27 requires Board of Supervisors approval of leases of one year or more in which the City is the tenant.

BACKGROUND

The Navigation Center model was first piloted in March 2015 to provide a low-barrier, service-rich alternative to traditional homeless shelters, with the goal of transitioning people off the streets and into longer-term solutions. As of January 2020, seven Navigation Centers are active.

The Board of Supervisors approved an ordinance in April 2019 (File 19-0047, Ordinance 61-19) to streamline the process for entering leases and contracts for homeless shelters in order to expedite the opening of homeless service sites, including Navigation Centers. According to a February 25, 2020 letter from Public Works to the Clerk of the Board of Supervisors, Public Works is relying on these streamlined permitting procedures for developing this site.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would (1) approve a lease between the City and The Salvation Army for property located at 1156 Valencia Street for a term of three years with two one-year options to extend at a base rent of \$404,000 per year; (2) authorize the reimbursement by the City to the landlord up to \$300,000 plus a 4 percent¹ construction management fee towards the cost of tenant improvements and (3) authorize the Director of Property to execute documents, make certain modifications and take certain actions in furtherance of the lease and the resolution to commence following Board of Supervisors' approval. The property at 1156 Valencia Street includes a 10,833 square foot building and adjacent parking lot and utility area. The City is leasing 10,100 square feet of the property².

According to Ms. Kelly Hiramoto, Special Projects Manager at the Department of Public Health, the site at 1156 Valencia Street will be used as an approximately 30-bed Navigation Center serving unsheltered adults with behavioral health issues experiencing homelessness. Ms. Hiramoto states that the site will serve as a community-embedded behavioral health respite program based on the Hummingbird Navigation Center model located at Zuckerberg San Francisco General Hospital.

Table 1 below lists the terms of the proposed lease.

¹ According to the Section 6.1(d) of the proposed lease, the 4 percent fee is based on the reimbursable leasehold improvements, which, as noted above, are capped at \$300,000.

² According to Mr. Josh Keene, Special Projects and Transactions Manager at the Real Estate Division, when the City and landlord originally negotiated the financial terms of the lease, it was based on the assumption the building was 10,100 square feet, although the City later determined it was actually 10,833 square feet. Despite actually being larger than expected, the parties agreed to pay rent as already negotiated based on the 10,100 square feet, and the landlord reserved a 200 square foot portion of the building for its Salvation Army Chaplain.

Table 1. Proposed Lease Terms for 1156 Valencia Street

Landlord	The Salvation Army
Tenant	City
Area	10,100 rentable square feet
Rent (monthly and annual)	<ul style="list-style-type: none"> • \$33,666.67 (monthly) • \$404,000 (annually)
Rent adjustments	3 percent increase annually
Term	36 months or 3 years. Estimated to begin on approximately March 1, 2020 and expire on approximately February 28, 2023.
Options to extend	Two one-year options determined by mutual agreement
Rent during extension	Determined by mutual agreement
Services and Operations	City to pay operating expenses (e.g., utilities) of the building.
Taxes and Insurance	Landlord to pay real estate taxes and landlord's insurance.
Tenant and Capital Improvements	Landlord to perform capital and tenant improvements needed to occupy and operate the property for the intended purposes. These improvements are expected to include installation of shower and laundry facilities and improvements to accessibility. The City will reimburse the landlord for the cost of the improvements up to \$300,000 and pay landlord a four percent construction management fee for the improvements.
Additional Services	None expected to be contracted through landlord.

Source: Proposed Lease

Short-Term Lease

According to Mr. Josh Keene, Special Projects and Transactions Manager at the Real Estate Division, the landlord is offering a short-term, three-year lease because the landlord is expecting to develop the property as affordable housing and, therefore, is unwilling to commit beyond three years. If construction on the affordable housing project is delayed, the City expects to exercise one or both options to extend the lease term.

The building on the property will be delivered vacant to the City on approximately March 1, 2020.

The proposed resolution authorizes the Director of Real Estate to enter into the lease extensions without further Board of Supervisors approval if the lease extension does not increase the rent or otherwise materially increase the obligations or liabilities of the City. Because the lease states that the rent during the extended lease term would be “determined by mutual agreement”, the proposed resolution should be amended to state that the rent on exercise of the option to extend the lease cannot increase by more than 3 percent per year.

Capital and Tenant Improvements

Under the proposed lease, the landlord will perform capital and tenant improvements needed to occupy and operate the property for the intended purposes as a Navigation Center site. The City will reimburse the landlord for the cost of the improvements up to \$300,000 and pay the landlord a four percent construction management fee³ for the improvements. According to Ms. Hiramoto, the current layout of the building does not include showers or laundry facilities. Capital improvements include the addition of showers and outlets that can support washers and dryers, as well as upgrading accessibility of bathrooms. An architecture firm will be providing design services at no cost to the City as part of the firm’s community benefit program. The design plans will be used by the landlord to solicit bids from a contractor to complete the renovation work. Total costs to complete the renovations will be known after the bid process is completed.

According to Ms. Hiramoto, it is anticipated that the proposed Navigation Center at 1156 Valencia Street would be operational by April 2020 if renovations are completed as anticipated.

FISCAL IMPACT

Under the proposed lease, the City would pay an initial annual rent of \$404,000, escalating by 3 percent per year over the three-year term. Under the proposed lease, two additional one-year extension options exist with rent determined by mutual agreement between the City and the landlord. Table 2 below summarizes the rental costs of the three-year term of the proposed lease. Total rental costs over the 3-year lease term for 1156 Valencia Street are estimated at \$1,248,724.

³ According to Mr. Keene, management (including the contracting aspect) of construction projects are time intensive and often require pre-payment for work performed. A standard fee for oversight typically ranges between three to five percent.

Table 2. Total Rental Costs Under Proposed Lease for 1156 Valencia Street

Year	Square Feet ⁴	Annual Rent per Square Foot	Total Rental Costs
1	10,100	\$40.00	\$404,000
2	10,100	\$41.20	416,120
3	10,100	\$42.44	428,604
Total			\$1,248,724

Source: Real Estate Division

First year rent of \$40.00 per square foot is less than the \$45 per square foot requiring an appraisal in accordance with Administrative Code Section 23.27.⁵ Mr. Keene states that the fair market rental rates for available property in the area range from \$41 to \$55 per square foot per year⁶.

Proposed Operating Costs of 1156 Valencia Street Navigation Center

In addition to leasing costs, as noted above in Table 2, the proposed lease requires the City to pay for utilities, services, routine maintenance and repair and other operating expenses. These costs have been incorporated into the operating costs for the proposed Navigation Center at the site. According to Ms. Hiramoto, the proposed operating costs for a Navigation Center site at 1156 Valencia Street from March 1, 2020 through June 30, 2021⁷ will be \$3,878,000, as shown in Table 3 below⁸.

⁴ Although the proposed lease states that the square feet are 10,833, the initial measurement for setting the rent was 10,100 square feet.

⁵ Per City Administrative Code Section 23.27, the Director of Property shall determine the Market Rent of such lease based on a review of available and relevant data. If the Market Rent of the lease is more than \$45 per square foot per year as base rent, the Director of Property shall obtain an appraisal for such Lease

⁶ According to Mr. Keene, the following comparable properties were used to determine the base rental rate: \$55 per square foot for 11,100 square feet, \$45 per square foot for 5,600 square feet, \$41.12 per square foot for 5,408 square feet, and \$41 per square foot for 7,500 square feet. The average of all comparable properties is \$45.53 per square foot per year.

⁷ According to Ms. Hiramoto, costs will be adjusted to reflect finalized commencement date of proposed lease.

⁸ According to Ms. Hiramoto, the nonprofit operator will be Positive Resource Center/Baker Places, Inc. The contract amounts have not been finalized yet.

Table 3. Proposed Operating Costs for Navigation Center at 1156 Valencia Street from March 1, 2020 through June 30, 2021

Operating Costs	Amount
Salaries and Benefits ⁹	\$2,318,568
Operating Expense ¹⁰	1,053,606
Indirect Cost (15 percent) ¹¹	505,826
Total Costs	\$3,878,000

Source: Department of Public Health

According to Ms. Hiramoto, the operating costs reflect staffing and programs for a behavioral health respite site serving clients with behavioral health needs.

Source of Funds

According to Ms. Hiramoto, the Department of Public Health plans to utilize the \$3 million Tipping Point grant (File 20-0116), pending Board of Supervisors approval, to fund the operating costs, rental costs and start-up costs for the first and second year. In addition, the General Fund, as appropriated in the Department of Public Health's FY 2019-20 budget, will provide supplemental funding for the first, second and third years of the lease.

RECOMMENDATIONS

1. Amend the proposed resolution to state that the rent on exercise of the option to extend the lease cannot increase by more than 3 percent per year
2. Approve the proposed resolution, as amended.

⁹ This includes staffing costs for a Project Director, Assistant Program Director, Residential Counselors, Relief Residential Counselor, Program Assistant, Peer Counselors, and Receptionist/Clerk.

¹⁰ This includes costs such as utilities, building maintenance supplies and repair, office supplies, medical supplies, medical professional service, insurance, equipment lease and maintenance, household supplies, computer supplies, security guard service, housekeeping and janitorial services, and client food.

¹¹ This is the allowable 15 percent of direct salary and operating expenses to cover the program's indirect cost to the provider's overhead. 15 percent is the standard percentage used by the Department of Public Health.

<p>Item 5 Files 20-0219</p>	<p>Department: Mayor’s Office of Housing & Community Development</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would (1) approve a \$30.5 million amended and restated loan agreement between the City and MHDC South Park Properties, L.P., and (2) confirm that the amended and restated loan agreement is consistent with the City’s General Plan. The purpose of the amended and restated loan is to finance the rehabilitation of 108 affordable single room occupancy units (including two manager’s units). <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Mayor’s Office of Housing and Community Development (MOHCD) is partially funding the rehabilitation of three affordable single room occupancy (SRO) buildings: Hotel Madrid, Park View, and Gran Oriente, owned by Mission Housing Development Corporation (Mission Housing). The rehabilitation project includes accessibility enhancements, seismic retrofitting, reconfiguring interior layouts to provide access to air and light, and upgrades to building systems. • Tenants at the Hotel Madrid and Park View will have to be temporarily relocated for approximately 2 – 3 weeks during construction. Tenants at Gran Oriente, which requires more extensive rehabilitation, will have to be relocated for approximately 12 months. • According Section 5.1 of the proposed Amended and Restated Loan Agreement, Mission Housing will select one or more construction contractors for the rehabilitation project, though that contract would be subject to the City’s procurement processes, including a competitive solicitation. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The Amended and Restated Loan Agreement provides for \$28.3 million in loans to Mission Housing to rehabilitate the three hotels, which includes consolidation of \$11.8 million in prior loans, and \$16.5 million in new loans. Sources of funds for the new loans include \$3.3 million in Housing Trust Fund monies and \$13.2 million in Preservation and Seismic Safety loan funds. <p style="text-align: center;">Policy Consideration</p> <ul style="list-style-type: none"> • MOHCD’s budget for the project is \$24.7 million, which is less than the total proposed loan amount of \$28.3 million and the resolution amount of \$30.5 million. The Budget and Legislative Analyst recommends amending the proposed resolution to reduce the not-to-exceed amount from \$30.5 million in the resolution to \$28.3 million, which is the amount in the Amended and Restated Loan Agreement, which still gives MOHCD a buffer of \$3.6 million, in case the need for loan funds exceeds the budgeted funds of \$24.7 million. <p style="text-align: center;">Recommendations</p> <ol style="list-style-type: none"> 1. Amend the proposed resolution to reduce the total not to exceed amount by \$2,187,034 million, from \$30,500,000 to \$28,312,966. 2. 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 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

Low-Income Housing at South Park Scattered Sites

The Mayor's Office of Housing and Community Development (MOHCD) is partially funding the rehabilitation of three affordable single room occupancy (SRO) buildings owned by the nonprofit affordable housing sponsor, Mission Housing Development Corporation (Mission Housing), as summarized in Table 1 below.

Table 1: Summary of Buildings to Be Rehabilitated

Building	# Units	Address	Residential Area	Commercial Area	Year
					Acquired by Mission Housing
Hotel Madrid	44	22 South Park	9,565 sf	1,486 sf	1987
Park View	40	102 South Park	8,240 sf	1,019 sf	1982
Gran Oriente	24	106 South Park	6,594 sf		2015??
Total	108		24,399 sf	2,505 sf	

Source: MOHCD

As shown above, the three buildings collectively have 108 SROs, including two manager units: one in Hotel Madrid and one in Park View. The Declaration of Restrictions that accompanies the proposed loan agreement states that the 106 SRO units will be affordable to persons who make between 25 percent to 80 percent of Area Median Income.¹ According Ms. Caroline McCormack, Project Manager at MOHCD, the occupants of these three SRO buildings are primarily formerly homeless adults and low-income individuals.

The properties are owned by Mission Housing Development Corporation, and property management services are provided by FPI Management. Hotel Madrid and Park View have commercial space totaling 2,505. The commercial tenants are Mexico Au Parc and Caffe Centro.

Selection of Project for Funding

Mission Housing submitted a request for funding in response to a 2014 Notice of Funding Availability (NOFA) for its Small Sites Program, a loan program administered by MOHCD whose purpose is to acquire and preserve multifamily rental buildings that have between 5 and 25 units. The request for funding was to purchase the Gran Oriente SRO. According to Ms.

¹ According to the Declaration of Restrictions, 17 units will be at 25% AMI, 44 units will be at 30% AMI, 40 units will be at 50% AMI, 3 units will be at 60% AMI, and 1 unit will be at 80% AMI.

McCormack, the previous owner of the Gran Oriente was holding units in the building vacant in recent years in order to increase its market value and, in April 2016, listed the property for sale, putting the remaining seven primarily low-income tenants at risk of displacement. At that point, Mission Housing identified Gran Oriente as a potential candidate for the Small Sites Program. However, upon review of the funding application, MOHCD determined that the Gran Oriente project did not meet the Small Sites Program guidelines for a City subsidy of no more than \$175,000 per SRO unit due to the significant deferred needs of the building. As a result, MOHCD worked with Mission Housing to develop an alternative financing plan.

Since the residents of Gran Oriente were still at risk of displacement, in May 2018, MOHCD provided a Small Sites loan of \$5 million to assist Mission Housing in purchasing Gran Oriente in order to take the building off of the market while MOHCD pursued a larger rehabilitation plan. In March 2019, the Citywide Loan Evaluation Committee approved a \$2 million loan for predevelopment costs related to rehabilitating Gran Oriente in addition to the \$5 million Small Site Program loan and added the two other properties owned by Mission Housing, Hotel Madrid and Park View.

In February 2020, MOHCD staff referred the project to the Citywide Affordable Housing Loan Committee² for consideration of other funding sources. According to Ms. Amy Chan, Director of Policy and Legislative Affairs for MOHCD, the Committee makes loan decisions on a project-by-project basis.³

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would (1) approve a \$30.5 million amended and restated loan agreement between the City and MHDC South Park Properties, L.P., and (2) confirm that the amended and restated loan agreement is consistent with the City's General Plan. The purpose of the amended and restated loan is to finance the rehabilitation of 108 affordable single room occupancy units (including two manager's units).

Rehabilitation Project

According to Ms. McCormack, the rehabilitation project at Gran Oriente includes accessibility enhancements, seismic retrofitting, reconfiguring interior layouts to provide access to air and light, installing alarm systems, bringing fire alarm and protection systems up to code, upgrading mechanical, electrical, and plumbing systems, exterior and interior painting, new roof and drainage system.

² The Citywide Affordable Housing Loan Committee consists of the MOHCD Director, the Office of Community Investment and Infrastructure (OCII) Executive Director, and the Department of Homelessness and Supportive Housing Deputy Director for Programs.

³ According to Ms. Chan, when evaluating the level of City funding for affordable housing projects, MOHCD compares the project to similar projects in size, unit count, target population, construction type and overall development costs. Financing factors also considered are: if the project budget includes acquisition costs, the amount of non-city sources leveraged, tax credit pricing and loan interest assumptions, target affordability levels, and if a rental or operating subsidy are part of the program, which helps maximize the amount of debt the project can leverage. MOHCD then makes loan recommendations to the Citywide Affordable Housing Committee.

At Hotel Madrid and Park View, the rehabilitation project includes seismic strengthening, upgrade mechanical, electrical and plumbing systems, repair solar hot water system, create ADA accessible entries, replace roofs, evaluate stability of fire escapes, replace fire escape windows and window hardware, install energy efficient lighting, exterior and interior paint.

Tenant Relocation During Construction

Tenants at the Hotel Madrid and Park View will have to be temporarily relocated for approximately 2 – 3 weeks during construction. According to Ms. McCormack, all but seven of the 24 units at Gran Oriente are currently vacant. These households will have to be temporarily relocated for no more than 12 months. MHDC is working with a relocation consultant to conduct interviews with tenants to assess their relocation needs.

Selection of Construction Contractors

According Section 5.1 of the proposed Amended and Restated Loan Agreement, Mission Housing will select one or more construction contractors for the rehabilitation project, though that contract would still be subject to the City's procurement processes, including a competitive solicitation. In January 2020, the Project Team submitted a Notice of Intent to Solicit Bids and completed review with the City's Contract Monitoring Division regarding labor requirements and created a package of documents to include with the subcontractor bid package.

FISCAL IMPACT

Amended and Restated Loan Agreement

The Amended and Restated Loan Agreement provides for \$28.3 million in loans to Mission Housing to rehabilitate the three hotels, which includes \$11.8 million in prior loans, and \$16.5 million in new loans to the three hotels, as shown in Tables 2 and 3 below.

Table 2: Prior City Loans for South Park Scattered Sites Buildings

Loan	Principal Amount	Year	Building(s)
Community Development Block Grant	\$57,594	1984	Park View
Community Development Block Grant	769,940	1985	Hotel Madrid
Community Development Block Grant	629,118	1985	Park View
Small Sites Program Loan	5,000,000	2018	Gran Oriente
Community Development Block Grant	2,000,000	2019	Park View, Hotel Madrid, Gran Oriente
Total Prior Loans	\$8,456,652		
Total Accrued Interest	\$3,364,314		
Total Outstanding Amount	\$11,820,966		

Source: Proposed Amended and Restated Loan Agreement

Table 3: Consolidated Prior Loans and Proposed New Loans Under Amended and Restated Loan Agreement

Consolidated Prior Loans	
Community Development Block Grant	\$6,555,549
Small Sites Program Loan	5,265,417
Subtotal, Prior Loans	\$11,820,966
Proposed New Loans	
Housing Trust Fund	\$3,300,000
Preservation and Seismic Safety Program	
Market Rate Loan	7,532,632
Below Market Rate Loan	4,867,848
Deferred Loan	791,520
Subtotal, Preservation and Seismic Safety Program	\$13,192,000
Subtotal, Proposed New Loans	\$16,492,000
Total Consolidated Prior and New Loans	28,312,966

Source: Proposed Amended and Restated Loan Agreement

According to the Amended and Restated Secured Promissory Note for the Community Development Block Grant and Small Sites Loans would have to be repaid within 57 years after the New Deed of trust is recorded. According to the Secured Promissory Note for the Housing Trust Fund Loan of \$3.3 million would have to be repaid within 57 years after the New Deed of trust is recorded. According to the Secured Promissory Notes for the Market Rate, Below Market Rate, and Deferred Preservation and Seismic Safety Program Loans the total of approximately \$13.2 million would have been repaid within 40 years after that Deed of Trust is recorded.

Project Budget

The total rehabilitation costs for the 108 units of SRO housing is \$56.5 million, including the \$22.1 million for purchasing the three buildings, shown in Table 4 below. Of the approximate \$56.4 million in total rehabilitation costs, \$24.7 million are City funds and 31.7 million are private funds.

Table 4: Sources and Uses of Funding for South Park Scattered Sites Rehabilitation

	Prior City Loans	Proposed City Loans	Subtotal City Loans	Other	Total
Sources					
Loans to Hotel Madrid and Park View	\$4,664,818		\$4,664,818		\$4,664,818
Smalls Sites & 2019 Community Development Block Grant	7,581,681		7,581,681		7,581,681
Housing Trust Fund Loan		3,276,365	3,276,365		3,276,365
Preservation and Seismic Safety		9,204,300	9,204,300		9,204,300
Private Debt				13,192,458	13,192,458
Tax Credit Equity Funding				17,786,725	17,786,725
General Partner Funding				578,382	578,382
Income from Operations				174,320	174,320
Total Sources	\$12,246,499	\$12,480,665	\$24,727,164	\$31,731,885	\$56,459,049
Uses					
Acquisition	\$9,291,740		\$9,291,740	\$12,854,594	\$22,146,334
Construction	500,000	12,408,508	12,908,508	9,091,779	22,000,287
Soft Costs	2,104,759	72,157	2,176,916	5,403,567	7,580,483
Reserves			0	731,945	731,945
Developer Fees	350,000		350,000	3,650,000	4,000,000
Total Uses	\$12,246,499	\$12,480,665	\$24,727,164	\$31,731,885	\$56,459,049

Source: MOHCD

Funding Sources

Sources of funds for the proposed amended and restated loans of \$16,492,000 includes:

- \$3.3 million in Housing Trust Fund monies
- \$9,204,300 in Preservation and Seismic Safety loan funds (See Policy Consideration below).

Other funding for the project consists of \$31,731,885, including:

- \$18,365,107 in equity contributions, of which (a) \$578,382 is general partner equity provided by MHDC South Park, LLC, which serves as the general partner in the limited partnership, MHDC South Park Properties, L.P., and (b) \$17,786,725 is limited partner equity provided by the federal low-income housing tax credit investor, serving as the limited partner in the limited partnership).^{4,5}

⁴ Under Internal Revenue Service (IRS) regulations and for the purpose of eligibility for low income housing tax credits, the non-profit (tax exempt) partner in the limited partnership serves as the general manager and retains a nominal percentage interest, and the investors (which are not tax exempt) serve as limited partners, obtaining the majority financial interest, including profits, losses, deductions, and credits. According to MOHCD, MHDC is affiliated with MHDC South Park, LLC, which is the general partner in the limited partnership, MHDC South Park

- \$13,192,458 in loans, including a \$11,552,611 permanent loan
- \$174,320 in income from operations: Mission Housing anticipates using income generated after the rehab is complete and before permanent conversion as a source

The City’s Subsidy per Housing Unit

The total per housing unit City subsidy is \$228,955, as shown in Table 5 below. This subsidy amount includes the 108 housing units. The commercial space is not being rehabilitated. As shown above in Table 4, The total rehabilitation cost for the 108 units is \$56,459,049, or \$522,769 per unit.

Table 5: City Subsidy for Affordable Housing Units

Number of units	108
Total residential area (sq. ft.)	24,399
Total City subsidy	\$24,727,164
City Subsidy per unit	\$228,955
City Subsidy per sq. ft.	\$1,013

Source: MOHCD

Operating Revenues and Expenses

According to the 20-year cash flow analysis for the South Park Scattered Sites project, the project will have sufficient revenues to cover operating expenses, operating reserves, permanent loan payments, management fees, and payments on the proposed MOHCD loan. Project revenues consist of tenant rents and assistance payments and commercial space rents.

POLICY CONSIDERATION

Not to Exceed Amount

MOHCD’s budget for the Scattered Sites Rehabilitation Project is \$24.7 million, which is less than the total proposed loan amount of \$28.3 million and the resolution amount of \$30.5 million. The \$3.6 million difference between the budget of \$24.7 million and the proposed loan amount of \$28.3 million includes \$4 million in Preservation and Seismic Safety Loan funds (\$13.2 million in the Agreement and \$9.2 million in the budget); offset by \$0.4 million less in consolidated prior loan funds (\$11.8 million in the Agreement and \$12.2 million in the budget).⁶ The Budget and Legislative Analyst recommends amending the proposed resolution to reduce the not-to-exceed amount from \$30.5 million in the resolution to \$28.3 million, which is the

Properties, LP. MHDC South Park, LLC has a 0.01 percent ownership interest and CREA South Park, LP, an affiliate of CREA SLP, LLC has a 99.98 percent ownership interest in the limited partnership.

⁵ The IRS allocates a specific amount of federal low-income housing tax credits to each state, which in California are allocated to local jurisdictions and affordable housing developers by the State Treasurer’s California Tax Credit Allocation Committee.

⁶ According to the February 21, 2020 memorandum to the Citywide Loan Committee, the project sponsor could need \$5.4 million in loans in additional to the budget of \$24.7 million, including \$1.4 million in a buffer for the consolidated prior loans to account for interest accrual due to delays in construction closing, and \$4 million in Preservation and Seismic Safety loans in order to leverage more debt.

amount in the Amended and Restated Loan Agreement, which still gives MOHCD a buffer of \$3.6 million, in case the need for loan funds exceeds the budgeted funds of \$24.7 million.

Small Site Loan

As noted above, the City provided a \$5 million Small Site program loan to this project. Under the Small Site Program Guidelines, the maximum City subsidy per single room occupancy unit is \$175,000. However, the Small Site Program Guidelines allow exceptions to the per unit subsidy cap up to \$400,000 if the tenants are at risk of displacement. As noted above in Table 5, the total City subsidy is \$228,955, which exceeds the standard program cap but is below the \$400,000 exception. Because of the risk of tenant displacement, MOHCD concluded this project is a reasonable use of Small Site Program funds.

RECOMMENDATIONS

1. Amend the proposed resolution to reduce the total not to exceed amount by \$2,187,034 million, from \$30,500,000 to \$28,312,966.
2. Approve the proposed resolution, as amended.

Items 7, 8, & 9 Files 19-1209, 19-1210, & 19-1211	Department: San Francisco International Airport (Airport)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would approve concession leases between San Francisco International Airport (Airport) as landlord and the following tenants: (i) Park Café Group, Inc., for a term of 10 years and initial Minimum Annual Guaranteed (MAG) rent of \$240,000 (File 19-1209); (ii) Sidewalk Juice SFO, LLC, for a term of 10 years and initial MAG rent of \$136,000 (File 19-1210); and (iii) Elevate Gourmet Brands—SC Group (File 19-1211), for a term of 10 years and initial MAG rent of \$250,000. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • In 2019, the Airport conducted a Request for Proposals (RFP) for the following three concession leases: (1) a Food and Beverage Kiosk in Terminal 1; (2) a Food and Beverage Kiosk in Terminal 3; and (3) a Gourmet Grab and Go Market in Terminal 3. Leases 1 and 2 were intended as small business set-asides, with proposers required to have gross revenues below \$7.5 million per year for the past three years. A panel reviewed the 16 proposals received between the three leases and deemed Park Café Group, Inc., Sidewalk Juice SFO, LLC, and Elevate Gourmet Brands—SC Group to be the highest scoring responsive and responsible proposers. In October 2019, the Airport Commission approved leases with these tenants. • Each lease would have a term of 10 years with no option to extend. Each tenant would pay the greater of MAG rent, adjusted annually based on the Consumer Price Index (CPI), or percentage rent based on gross revenues. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • Over the 10-year terms of the leases, the Airport would receive at least \$6,260,000 in MAG rent. The Airport expects to receive percentage rent, which would exceed the MAG. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolutions. 	

MANDATE STATEMENT

City Charter Section 9.118(c) states that any lease, modification, amendment or termination of a lease that had an initial term of ten years or more, including options to extend, or that had anticipated revenues of \$1 million or more is subject to Board of Supervisors approval.

BACKGROUND

In April 2019, the San Francisco International Airport (Airport) Commission authorized Airport staff to conduct a Request for Proposals (RFP) for the following concession leases:

Lease 1: Food and Beverage Kiosk in Terminal 1, Boarding Area C

Lease 2: Food and Beverage Kiosk in Terminal 3, Boarding Area F

Lease 3: Gourmet Grab and Go Market in Terminal 3, Boarding Area F

Leases 1 and 2 are intended as small business set-asides, with proposers required to have gross revenues below \$7.5 million per year for each of the past three years.

In June 2019, after holding an informational conference with potential proposers, the Airport Commission approved the minimum requirements and lease specifications and authorized Airport staff to accept proposals. In July 2019, the Airport received 16 proposals that met the minimum requirements for the three leases. A four-member panel reviewed the proposals and scored them, as shown in Table 1 below.

Table 1: Proposals and Scores for RFP

Proposer	Concept Name	Score
<i>Lease 1: Terminal 1 Food and Beverage Kiosk (File 19-1209)</i>		
Park Café Group, Inc.	Dolores Park Café at SFO	80.47
High Fly Foods, LLC	Illy Café	74.07
Sidewalk Juice SFO, LLC	Sidewalk Juice	67.93
Rylo Management	Sextant Coffee Roasters	66.27
JRenee LLC and Steven Maltz	Bagel & Brew	66.13
Mikey's Supermarket, LLC	Elixiria	55.87
DBDB Enterprise, LLC	Dragon Beaux	48.60
<i>Lease 2: Terminal 3 Food and Beverage Kiosk (File 19-1210)</i>		
Sidewalk Juice SFO, LLC	Sidewalk Juice	78.07
Park Café Group, Inc.	Dolores Park Café	74.80
JRenee LLC	Fraiche	65.47
Steven Maltz	Jamba	60.07
Mickey's Supermarket, LLC	Elixiria	52.73
DBDB Enterprise, LLC	Dragon Beaux Drinks + Bites	50.13
<i>Lease 3: Terminal 3 Gourmet Grab and Go Market (File 19-1211)</i>		
Elevate Gourmet Brands—SC Group	Pronto	74.27
Taste, Inc.	Oakville Grocery	67.20
ProperFood SFOAirport, LC	Proper Food	66.13

The following were deemed to be the highest scoring responsive and responsible proposers and were awarded leases: (1) Park Café Group, Inc.; (2) Sidewalk Juice SFO, LLC; and (3) Elevate Gourmet Brands—SC Group¹. In October 2019, the Airport Commission approved the leases.

DETAILS OF PROPOSED LEGISLATION

The proposed resolutions would approve concession leases between the Airport as landlord and the following tenants:

- Park Café Group, Inc. (File 19-1209) for a food and beverage kiosk in Terminal 1.
- Sidewalk Juice SFO, LLC (File 19-1210) for a food and beverage kiosk in Terminal 3; and
- Elevate Gourmet - SC Group (File 19-1211) for a gourmet grab and go market in Terminal 3.

Each lease would have a term of 10 years, with no option to extend. Each tenant would pay the greater of the Minimum Annual Guaranteed (MAG) rent or percentage rent based on gross revenues. The key provisions of the leases are shown in Table 2 below.

Table 2: Key Provisions of Proposed Lease

Tenant	Park Café (File 19-1209)	Sidewalk Juice (File 19-1210)	Elevate Gourmet – SC Group (File 19-1211)
Location	Terminal 1	Terminal 3	Terminal 3
Term	10 Years	10 Years	10 Years
Options to Extend	None	None	None
Rent Commencement Date	September 1, 2020	August 1, 2020	July 29, 2020
Square Footage	300 square feet	300 square feet	744 square feet
Initial MAG Rent ²	\$240,000	\$136,000	\$250,000 ³
MAG Adjustment	Annually based on Consumer Price Index (CPI)		
Percentage Rent (of Gross Revenues)	6% up to \$1,000,000; 8% from \$1,000,000-\$1,500,000; 10% over \$1,500,000		
Minimum Investment	\$1,000 per square foot		
Interim Rent During Construction	10% of gross revenues	10% of gross revenues	12% of gross revenues
Deposit	Equal to ½ of the initial MAG (subject to mid-term adjustment)		
Early Termination	Airport may terminate with 6 months written notice, if space is needed for Airport's Five-Year or Ten-Year Capital Plan		
Cleaning Fee	\$38 per square foot per year, subject to adjustment		
Promotional Charge	\$1 per square foot per year		
Pest Control Fee	\$75 per month, subject to adjustment		

¹ Elevate Gourmet Brands—SC Group is a joint venture partnership between Elevate Gourmet Brands and Skyview Concessions, LLC.

² Beginning with the Airport's 2016 competitive solicitation for food and beverage leases, the Airport sets MAG rents for each fully leased area, on an average, at 65 percent of projected percentage rent.

³ The RFP stated that the initial MAG rent for Lease 3 would be \$330,000. After holding an informational meeting with prospective proposers in May 2019, Airport staff analyzed United Airlines' gate usage in the vicinity of the premises and lowered sales projections, which also lowered the MAG. The grab and go concept is new at the Airport. In June 2019, the Airport Commission approved the revised MAG of \$250,000.

FISCAL IMPACT

Under the terms of each lease, the tenants would pay the greater of the Minimum Annual Guaranteed rent or rent equal to a percentage of gross revenues. Over the 10-year terms of the leases, the Airport would receive at least \$6,260,000 in Minimum Annual Guaranteed rent. Minimum Annual Guaranteed rents are shown in Table 3 below.

Table 3: MAG Rent Paid to Airport

Tenant	MAG Rent	Lease Years	Total Rent
Park Café (File 19-1209)	\$240,000	10	\$2,400,000
Sidewalk Juice (File 19-1210)	136,000	10	1,360,000
Elevate Gourmet—SC Group (File 19-1211)	250,000	10	2,500,000
Total	\$626,000	10	\$6,260,000

The Airport expects to receive percentage rent for the leases, which would exceed the Minimum Annual Guaranteed rent.

RECOMMENDATION

Approve the proposed resolutions.