File No.
 200517
 Committee Item No.
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 Board Item No.
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COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee:	Budget & Finance Committee	Da	te	June 24, 2020	
Board of Supervisors Meeting Date June 30, 2020			June 30, 2020		
Cmte Boar	Cmte Board				
	Motion Resolution Ordinance Legislative Digest Budget and Legislative Analyst R Youth Commission Report Introduction Form Department/Agency Cover Letter MOU Grant Information Form Grant Budget Subcontract Budget Contract/Agreement Form 126 – Ethics Commission Award Letter Application Public Correspondence	and/or		rt	
	,	ate		ne 19, 2020 ne 25, 2020	

AMENDED IN COMMITTEE 6/24/2020

ORDINANCE NO.

- [Emergency Ordinance Delegation of Authority to Amend Certain Leases and Agreements for Affordable Housing]
- 3

4	Emergency ordinance to delegate Board of Supervisors approval authority under
5	Charter, Section 9.118, and Administrative Code Section 23.30, to the Mayor's Office of
6	Housing and Community Development ("MOHCD") and the Real Estate Division,
7	respectively, to amend certain existing leases regarding residual rent payments by
8	providers of 100% affordable housing projects, in response to the public health
9	emergency related to COVID-19; and to authorize the Director of MOHCD to amend
10	certain existing loan agreements and policies without review by the Citywide
11	Affordable Housing Loan Committee under Administrative Code Chapter 120.
12	
13	NOTE: Unchanged Code text and uncodified text are in plain Arial font.
14	Additions to Codes are in <u>single-underline italics Times New Roman;</u> Deletions to Codes are in <i>strikethrough italics Times New Roman</i> .
15	Board amendment additions are in <u>double underlined Arial font</u> . Board amendment deletions are in strikethrough Arial font.
16	Asterisks (* * * *) indicate the omission of unchanged Code subsections or parts of tables.
17	
18	Be it ordained by the People of the City and County of San Francisco:
19	
20	Section 1. Declaration of Emergency Pursuant to Charter Section 2.107.
21	(a) Section 2.107 of the Charter authorizes passage of an emergency ordinance in
22	cases of public emergency affecting life, health, or property, or for the uninterrupted operation
23	of any City or County department or office required to comply with time limitations established
24	by law. The Board of Supervisors hereby finds and declares that an actual emergency exists
25	that requires the passage of this emergency ordinance.

(b) On February 25, 2020, Mayor London Breed proclaimed a state of emergency in
 response to the spread of the novel coronavirus COVID-19. On March 3, 2020, the Board of
 Supervisors concurred in the February 25 Proclamation and in the actions taken by the Mayor
 to meet the emergency.

5 (c) To mitigate the spread of COVID-19, on March 16, 2020, the Local Health Officer 6 issued Order No. C19-07, replaced by Order No. C19-07b on March 31, 2020, Order No. C19-7 07c on April 29, 2020, and Order No. C19-07d on May 17, 2020, and Order No. C19-07e on 8 May 22, 2020, and updated on June 11, 2020, directing San Franciscans to stay safe in their 9 homes. These Orders generally require individuals to stay in their homes without a specific 10 expiration date, until it is extended, rescinded, superseded, or amended in writing by the 11 Health Officer, and require businesses to cease or modify all non-essential operations at 12 physical locations in the City.

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Section 2. Findings and Purpose.

15 (a) On March 23, 2020, the Mayor issued the Fifth Supplement to the February 25 16 Proclamation ("Fifth Supplement"). The Fifth Supplement imposed a temporary moratorium 17 on eviction for non-payment of rent by residential tenants directly impacted by the COVID-19 18 crisis, which includes residential tenants living in affordable housing buildings regulated by the City through the Mayor's Office on Housing and Community Development ("MOHCD"). The 19 20 Board of Supervisors concurred in these actions on March 31, 2020. On April 30, 2020, the 21 Mayor issued an Executive Order prohibiting rent increases and extending the temporary 22 moratorium to June 30, 2020. Residential tenants who miss rent payments due to the 23 financial impact of COVID-19 have up to six months after the expiration of the temporary 24 moratorium to repay missed rent payments.

25

1 (b) As a result of COVID-19, affordable housing buildings are anticipated to experience 2 significant operating deficits. Decreased residential and commercial revenue will result from 3 the spikes in missed rent payments, underemployment, unemployment, and business 4 closures caused by the COVID-19 pandemic and orders from the Mayor and Local Health 5 Officer necessitated by the pandemic. In addition, affordable housing buildings have faced 6 annual increases to operational costs, such as expenses for janitorial, supportive services, 7 administrative support, utilities, insurance, staff salaries and repairs/maintenance, and will 8 face additional costs for supplies (such as cleaning supplies and personal protective 9 equipment). As a result of the combination of revenue losses and increased operating costs, 10 affordable housing providers will face unprecedented challenges to remain financially solvent 11 while maintaining operations at a satisfactory level at affordable housing buildings.

12 (c) The City has entered into long-term ground leases for the purpose of creating 13 100% affordable housing on City owned property, and was also assigned ground leases and 14 loan agreements with 100% affordable housing from the former Redevelopment Agency of the 15 City and County of San Francisco ("Agency") under Ordinance No. 215-12 and Resolution No. 16 11-12. Under these ground leases, the affordable housing provider pays to the City a residual 17 rent that is based on the remaining operation revenue after payment of operation costs 18 ("Surplus Cash"), and the affordable housing provider is sometimes allowed to retain a portion 19 of the Surplus Cash under MOHCD's loan agreements and department policy.

(d) In addition, certain affordable housing buildings with older ground leases and loan
agreements are financially burdened with restrictions on Surplus Cash and high residual rent
payments, and these buildings were facing challenges to remain financially solvent prior to the
COVID-19 pandemic. The financial impacts of the pandemic will exacerbate the financial
burden on these affordable housing buildings.

25

(e) Charter Section 9.118(c) and Administrative Code Section 23.30 require the Board
of Supervisors by resolution to review and approve certain types of long-term leases and
some amendments to those leases. But with some limitations, the Board may delegate
authority to departments in certain specific circumstances to enter into leases or amendments
that would otherwise require approval under Section 9.118(c). And the Board of Supervisors
by ordinance may waive the application of Administrative Code Section 23.30 in particular
circumstances.

(f) Administrative Code Chapter 120 authorizes MOHCD to adopt policies regulating
affordable housing supported by the City through loans and grants and execute amendments
to existing loan or grant agreements. Administrative Code Sections 120.2(b) and 120.4(b)
require MOHCD to seek review by the Citywide Affordable Housing Committee of any housing
policies and significant amendments to loan or grant agreements. As with Administrative
Code Section 23.30, the Board of Supervisors by ordinance may waive the application of
Administrative Code Sections 120.2(b) and 120.4(b).

(g) This emergency ordinance is necessary to enable MOHCD and the Real Estate Division to amend existing leases and agreements immediately to provide financial relief to certain providers of 100% affordable housing projects as soon as possible, without the potential delay that could be caused by seeking Board of Supervisors approval for individual lease amendments. In this respect, the emergency ordinance will ensure the uninterrupted and effective operation of the City's 100% affordable housing projects and mitigate the financial impacts of COVID-19 on affordable housing providers.

22

23 Section 3. Delegation of Authority to Amend Existing Leases.

Notwithstanding the requirements of Charter Section 9.118(c) and Administrative Code
 Section 23.30, MOHCD and the Real Estate Division may amend existing leases without

Mayor Breed BOARD OF SUPERVISORS seeking approval by the Board of Supervisors for the amendment, provided that all the
 following conditions are met:

3 (a) The lease that MOHCD and the Real Estate Division intend to amend has already
4 been approved by the Board of Supervisors under Section 9.118(c) and Administrative Code
5 Section 23.30, or the lease to be amended was assigned to the City pursuant to the
6 dissolution of the Agency under Ordinance No. 215.12 and Resolution No. 11-12;

7 (b) The Director of MOHCD, or the Director's designee, determines that the affordable
8 housing provider will suffer financial shortfalls as a result of the financial impacts from the
9 COVID-19 emergency;

10 (c) The Director of MOHCD, or the Director's designee, in consultation with the City 11 Attorney, determines that an amendment to the existing lease is necessary to mitigate the 12 financial impact of the COVID-19 emergency and apply MOHCD policies on Surplus Cash 13 distributions to the lease;

14 (d) The amendment modifies the lease solely to (1) add, change, or remove terms 15 related to (1) residual rent or distributions of Surplus Cash to allow the affordable housing 16 provider to retain a greater portion of Surplus Cash, including, but not limited to, amounts 17 reported in the 2019 annual monitoring report; and (2) require that any greater portion of 18 Surplus Cash retained by an affordable housing provider as a result of the amendment shall be used solely for affordable housing purposes within the City; and (3) add, change, or 19 20 remove any other terms that are relevant to MOHCD policies on Surplus Cash; and 21 (e) The amendment does not increase the liability of the City under the lease, change 22 the duration of the lease, or impose any other new obligations on the City. 23

Section 4. Suspension of Review by the Citywide Affordable Housing Loan Committee.

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Notwithstanding the requirements of Administrative Code Sections 120.2(b) and
 120.4(b), MOHCD may amend existing agreements and policies or waive certain
 requirements in such agreements and policies without seeking review by the Citywide
 Affordable Housing Loan Committee for the amendment, provided that all the following
 conditions are met:

- 6 (a) The Director of MOHCD, or the Director's designee, determines that an affordable
 7 housing provider will suffer financial shortfalls as a result of the financial impacts from the
 8 COVID-19 emergency;
- 9 (b) The Director of MOHCD, or the Director's designee, in consultation with the City
 10 Attorney, determines that an amendment to the existing agreement or MOHCD policy is
 11 necessary to mitigate the financial impact of the COVID-19 emergency and apply MOHCD
 12 policies on Surplus Cash distributions to the agreement;
- 13 (c) The amendment modifies the agreement or policy solely to (1) add, change, or 14 remove terms related to residual rent or distributions of <u>sSurplus eCash</u> to allow an affordable 15 housing provider to retain a greater portion of Surplus Cash, including, but not limited to, 16 amounts reported in the 2019 annual monitoring report; and (2) require that any greater 17 portion of Surplus Cash retained by an affordable housing provider as a result of the 18 amendment shall be used solely for affordable housing purposes within the City; and (3) add, change, or remove any other terms that are relevant to current MOHCD policies on Surplus 19 20 Cash; and 21 (d) The amendment does not increase the liability of the City, change the duration of 22 the agreement, or impose any other new obligations on the City 23 24 Section 5. Transmittal to the Clerk of the Board.
- 25

1	MOHCD shall submit a copy of any lease amendment executed under the delegated
2	authority of Section 3 of this ordinance to the Clerk of the Board of Supervisors within 30 days
3	of execution of the lease amendment.
4	
5	Section 6. Effective Date; Expiration.
6	Consistent with Charter Section 2.107, this emergency ordinance shall become
7	effective immediately upon enactment, and shall expire on the 61st day following enactment
8	unless reenacted as provided by Section 2.107. Enactment occurs when the Mayor signs the
9	ordinance, the Mayor returns the ordinance unsigned or does not sign the ordinance within
10	ten days of receiving it, or the Board of Supervisors overrides the Mayor's veto of the
11	ordinance.
12	
13	Section 7. Supermajority Vote Required.
14	In accordance with Charter Section 2.107, passage of this emergency ordinance by the
15	Board of Supervisors requires an affirmative vote of two-thirds of the Board of Supervisors.
16	
17	APPROVED AS TO FORM:
18	DENNIS J. HERRERA, City Attorney
19	By: <u>/s/</u>
20	KEITH NAGAYAMA Deputy City Attorney
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22	
23	
24	
25	

LEGISLATIVE DIGEST

[Emergency Ordinance - Delegation of Authority to Amend Certain Leases and Agreements for Affordable Housing]

Emergency ordinance to delegate Board of Supervisors approval authority under Charter, Section 9.118, and Administrative Code, Section 23.30, to the Mayor's Office of Housing and Community Development (MOHCD) and the Real Estate Division, respectively, to amend certain existing leases regarding residual rent payments by providers of 100% affordable housing projects, in response to the public health emergency related to COVID-19; and to authorize the Director of MOHCD to amend certain existing loan agreements and policies without review by the Citywide Affordable Housing Loan Committee under Administrative Code, Chapter 120.

Existing Law

Charter Section 9.118(c) and Administrative Code Section 23.30 require the Board of Supervisors to review and approve certain types of leases and some amendments to those leases. With some limitations, the Board may delegate authority to departments in certain specific circumstances to enter into leases or amendments that would otherwise require approval under Section 9.118(c) and Administrative Code Section 23.30.

Administrative Code Sections 120.2(b) and 120.4(b) require the Mayor's Office of Housing and Community Development ("MOHCD") to obtain the Citywide Affordable Housing Loan Committee's ("Loan Committee") review and recommendation of housing policies and significant amendments to loan agreements.

Amendments to Current Law

The proposed emergency ordinance would authorize MOHCD and the Real Estate Division, respectively, to amend existing leases without seeking approval by the Board of Supervisors for the amendment under Section 9.118(c) and Administrative Code Section 23.30, as long as: (a) the Board has previously approved the lease, or the lease was assigned to the City from the former Redevelopment Agency of the City and County of San Francisco; (b) MOHCD has determined that an affordable housing provider will suffer financial shortfalls as a result of the financial impacts from the COVID-19 emergency; (c) the amendments only add, change, or remove terms related to residual rent or surplus cash distributions; (d) the amendments don't increase the cost or duration of the lease; and (e) the amendments meet other conditions in the ordinance.

The proposed emergency ordinance would further authorize MOHCD to amend policies and loan agreements without seeking review by the Loan Committee under Administrative Code Chapter 120, as long as: (a) MOHCD has determined that an affordable housing provider will

suffer financial shortfalls as a result of the financial impacts from the COVID-19 emergency; (b) the amendments only add, change, or remove terms related to residual receipts or surplus cash distributions; (c) the amendments don't increase the cost or duration of the agreement; and (d) the amendments meet other conditions in the ordinance.

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	m 8Department:es 20-0517Mayor's Office of Housing & Community Development
EX	ECUTIVE SUMMARY
	Legislative Objectives
•	The proposed emergency ordinance would allow the Mayor's Office of Housing & Community Development (MOHCD) and the Real Estate Division to amend ground lease during the 60 days the emergency authority is granted for 100% affordable housing project without seeking review from the Citywide Affordable Housing Loan Committee or approvation from the Board of Supervisors if certain conditions are met.
	Key Points
•	MOHCD policy for affordable housing projects on City-owned land is to enter into below market rate ground leases for up to 99 years. Ground lease rent consists of base rent of \$15,000 per year and residual rent which is payable if the housing project generates surplu cash ("residual receipts"). According to MOHCD policy, 2/3 of residual receipts must be used to repay MOHCD loans and residual ground lease rent. The remaining 1/3 of the residual receipts may, with approval from MOHCD, be retained by the borrower, an affiliate of the affordable housing operator.
•	According to data provided by MOHCD, older ground leases commit affordable housing borrowers to repay a higher portion of residual receipts to the City than the 2/3 that is now standard. In addition, according to MOHCD, the residual rents for certain projects are higher than the current standard.
	Fiscal Impact
•	Approximately eight affordable housing projects would be eligible for amended ground leases, with reduced annual rent to the City of \$1.25 million.
	Policy Consideration
•	Because the proposed emergency ordinance waives lease review authority under Charte Section 9.118 and Administrative Code Section 23.30, we consider approval of the legislation a policy matter for the Board of Supervisors.
	Recommendation
_	Approval of the proposed ordinance is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

City Charter Section 2.107 states that the Board of Supervisors may pass emergency ordinances on their first reading with a 2/3 affirmative vote. Emergency ordinances become effective upon approval by the Mayor, the expiration of the ten-day period for the Mayor to approve or veto, or the Board of Supervisors' override of the Mayor's veto. Emergency ordinances expire sixty days after their passage.

BACKGROUND

Chapter 120 of the Administrative Code allows the Mayor's Office of Housing & Community Development (MOHCD) to develop lending programs and associated lending policies for affordable housing development. MOHCD must consult with applicable City agencies on loans, which is accomplished through the Citywide Affordable Housing Loan Committee.¹ For affordable housing projects on City-owned land, MOHCD will enter into a below market rate ground lease for up to 99 years with the affordable housing operator to ensure affordability of the project. According to MOHCD's Policy on Ground Leases dated August 2015, ground lease rent is equal to 10 percent of the appraised fair market value of the property, and consists of base rent of \$15,000 and residual rent. According to MOHCD's current Residual Receipts Policy dated April 2016, in general, 2/3 of surplus cash ("residual receipts") must be used to repay MOHCD loans and residual ground lease rent. The remaining 1/3 of the residual receipts may, with approval from MOHCD, be retained by the borrower, an affiliate of the affordable housing operator.

According to data provided by MOHCD, older ground leases commit affordable housing borrowers to repay a higher portion of residual receipts to the City than the 2/3 that is now standard. In addition, according to MOHCD, the residual rents for certain projects are higher than the current standard. According to MOHCD, the COVID-19 related loss of rental income has materially reduced income for certain affordable housing projects.

Board of Supervisors' Review and Approval of Ground Leases

Administrative Code Section 23.30 states that the Board of Supervisors shall approve all leases on behalf of the City as landlord by resolution for which the term is longer than a year and costs over \$15,000 per month. The Board of Supervisors may approve below market rate leases if doing so furthers a public purpose.

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.

¹ The Citywide Affordable Housing Loan Committee is composed of MOHCD Director, Office of Community Investment and Infrastructure Executive Director, and the Department of Homelessness and Supportive Housing Deputy Director for Programs.

DETAILS OF PROPOSED LEGISLATION

The proposed emergency ordinance would allow MOHCD and the Real Estate Division to amend ground leases during the 60 days the emergency authority is granted for 100% affordable housing projects without seeking review from the Citywide Affordable Housing Loan Committee or approval from the Board of Supervisors if the following conditions are met:

- a) The ground lease was already approved by the Board of Supervisors or was assigned to MOHCD from the Office of Community Investment and Infrastructure
- b) MOHCD determines that the affordable housing project will suffer financially related to COVID-19
- c) MOHCD determines that adjusting residual receipts distributions will mitigate the financial impact of COVID-19
- d) The amendment modifies the lease solely to add, change, or remove terms related residual receipts distributions
- e) The amendment does not increase the duration of the lease, or impose any other new obligations on the City

Although the proposed emergency ordinance would be in effect for sixty days, the changes to the ground leases would be permanent.

According to Mr. Michael McLoone, Senior Asset Manager at MOHCD, the amendments would all conform to MOHCD April 2016 Residual Receipts policy.

FISCAL IMPACT

Table 1 below summarizes the projects for which ground leases may be amended and expected change in revenues. MOHCD is still finalizing the set of projects. The values below are based on 2018 financial data.

Project Name	Address	Sponsor	Affordable Units	Annual Change in City Revenue
Franciscan Towers	217 Eddy	Tenderloin Neighborhood Development Corporation	104	(19,061)
Golden Gate Apartments	1820 Post	Chinatown Community Development Center	71	(206,011)
Antonia Manor	180 Turk	Tenderloin Neighborhood Development Corporation	133	(124,833)
Namiki Apartments	1776 Sutter	Chinatown Community Development Center / Namiki Apartments Residents Association	33	(86,507)
Notre Dame Apartments	1590 Broadway	Chinatown Community Development Center	201	(51,826)
Maria Manor	174 Ellis	Tenderloin Neighborhood Development Corporation	119	(304,202)
Natoma Family Apartments	474 Natoma	Bridge Housing	59	(1)
The Dudley Apartments	172-180 6th	Mercy Housing California	74	0
Derek Silva Community	20 Franklin	Mercy Housing California	68	0
Mary Helen Rogers Senior Community	701-725 Golden Gate	Chinatown Community Development Center	99	(5)
Broadway Sansome Family Housing	235 -295 Broadway	Chinatown Community Development Center	74	0
Dr. George W Davis Senior Housing	1751 Carroll	McCormack Baron Salazar / BHP Multi Senior Svcs	120	(181,158)
Turk & Eddy Apartments	249 Eddy	Tenderloin Neighborhood Development Corporation	80	(96)
Rene Cazenave Apts	25 Essex	Community Housing Partnership	120	0
588 MBN (Mission Bay South Block 7 West)	588 Mission Bay	Related Companies / Chinatown Community Development Center	198	(278,606)
Total				(1,252,306)

Table 1: Projects Eligible for Ground Lease Amendments

Source: MOHCD

As shown above, the total annual revenue loss is estimated to be \$1.3 million. Certain projects show zero savings because they are already deferring their residual rent payments in 2018 to pay

SAN FRANCISCO BOARD OF SUPERVISORS

for tenant improvements, however over the longer term a lower residual rent will financially benefit the project.

POLICY CONSIDERATION

Because the proposed emergency ordinance waives lease review authority under Charter Section 9.118 and Administrative Code Section 23.30, we consider approval of the legislation a policy matter for the Board of Supervisors.

RECOMMENDATION

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

BOARD of SUPERVISORS



City Hall 1 Dr. Carlton B. Goodlett Place, Room 244 San Francisco 94102-4689 Tel. No. 554-5184 Fax No. 554-5163 TDD/TTY No. 554-5227

MEMORANDUM

- TO: Eric D. Shaw, Director, Mayor's Office of Housing and Community Development Andrico Penick, Director, Real Estate Division
- FROM: Linda Wong, Assistant Clerk Budget and Finance Committee
- DATE: June 1, 2020

SUBJECT: LEGISLATION INTRODUCED

The Board of Supervisors' Budget and Finance Committee has received the following proposed legislation introduced by Mayor London N. Breed:

File No. 200517

Emergency ordinance to delegate Board of Supervisors approval authority under Charter, Section 9.118, and Administrative Code, Section 23.30, to the Mayor's Office of Housing and Community Development (MOHCD) and the Real Estate Division, respectively, to amend certain existing leases regarding residual rent payments by providers of 100% affordable housing projects, in response to the public health emergency related to COVID-19; and to authorize the Director of MOHCD to amend certain existing loan agreements and policies without review by the Citywide Affordable Housing Loan Committee under Administrative Code, Chapter 120.

If you have comments or reports to be included with the file, please forward them to me at the Board of Supervisors, City Hall, Room 244, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102 or by email at: <u>linda.wong@sfgov.org</u>.

c: Dan Adams, Mayor's Office of Housing and Community Development Amy Chan, Mayor's Office of Housing and Community Development

From:	Peacock, Rebecca (MYR)
To:	BOS Legislation, (BOS)
Cc:	Kittler, Sophia (MYR); Chan, Amy (MYR); NAGAYAMA, KEITH (CAT)
Subject:	Mayor [Emergency Ordinance] [Emergency Ordinance - Delegation of Authority to Amend Certain Leases and Agreements for Affordable Housing]
Date:	Tuesday, May 19, 2020 4:24:44 PM
Attachments:	1. 01444275-Legislation.docx
	2. 01444404-Digest.docx

Attached for introduction to the Board of Supervisors is an **emergency ordinance to delegate Board** of Supervisors approval authority under Charter, Section 9.118, and Administrative Code Section 23.30, to the Mayor's Office of Housing and Community Development ("MOHCD") and the Real Estate Division, respectively, to amend certain existing leases regarding residual rent payments by providers of 100% affordable housing projects, in response to the public health emergency related to COVID-19; and to authorize the Director of MOHCD to amend certain existing loan agreements and policies without review by the Citywide Affordable Housing Loan Committee under Administrative Code Chapter 120.

@NAGAYAMA, KEITH (CAT), can you please reply to this email to indicate your approval? Thank you!

Please let me know if you have any questions.

Rebecca Peacock (they/she) (415) 554-6982 | Rebecca.Peacock@sfgov.org Office of Mayor London N. Breed City & County of San Francisco *** I am working remotely. Please call me at 267-663-8648 with any questions ****