CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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September 11, 2020

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: September 16, 2020 Budget and Finance Committee Meeting

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Item 1 **File 20-1011**	**Department:** Office of the Controller

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution sets the property tax rate for FY 2020-21 for taxing entities within the City and County of San Francisco, including (a) the City and County of San Francisco (City); (b) the San Francisco Unified School District; (c) the San Francisco County Office of Education; (d) the San Francisco Community College District (SFCCD); (e) the Bay Area Rapid Transit District (BART); and (f) the Bay Area Air Quality Management District (BAAQMD).

Key Points

- The Board of Supervisors annually sets the combined property tax rate that provides revenues for: (1) General Operations, (2) specific Charter-required activities such as acquiring open space, services for children or constructing, maintaining, and operating the public library; and (3) paying debt service on voter-approved General Obligation bonds that were issued by the City, SFUSSD, SFCCD and BART.
- The proposed resolution also would set the property tax pass-through rate that landlords can pass through to tenants in FY 2020-21, as allowed under the Administrative Code.

Fiscal Impact

- The proposed resolution would set the combined property tax rate (comprised of the property tax rates levied for all of the taxing jurisdictions within the City) for FY 2020-21 at $1.19846368 per $100 of assessed value. The FY 2020-21 property tax rate is $0.0155, or 1.6 percent more than the FY 2019-20 property tax rate of $1.1801 per $100 of assessed value.
- The proposed FY 2020-21 property tax rate of $1.19846368 would increase property tax rates by $248 on a single-family residence with an assessed value of $601,941 in FY 2020-21.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

California Revenue and Taxation Code Section 2151 requires the Board of Supervisors to fix the rates of county taxes and to collect the taxes for the City, County and State.

San Francisco Administrative Code Section 3.3(m) requires the Board of Supervisors to adopt the property tax rate for the City and County of San Francisco by September 30.

City Charter Section 16.107-109 requires that portions of the City's annual property tax levy by set aside for specific uses including $0.0250 for the Library Preservation Fund; $0.0400 for the Children's Fund; and $0.0250 for the Open Space Acquisition Fund per $100 of assessed value.

San Francisco Administrative Code Section 37.3(a)(6)(A-D), the Residential Rent Stabilization and Arbitration Ordinance allows landlords to pass through to tenants one-half of property tax increases that result from certain voter-approved General Obligation bonds.

BACKGROUND

The Board of Supervisors annually sets the combined property tax rate that provides revenues for: (1) General Operations, (2) specific Charter-required activities such as services for children, acquiring open space, or constructing, maintaining and operating the public library; and (3) paying debt service on voter-approved General Obligation bonds that were issued by the City and County of San Francisco (City), the San Francisco Unified School District (SFUSD), the San Francisco Community College District (SFCCD), and the Bay Area Rapid Transit District (BART).

Under the California Revenue and Taxation Code, the base property tax rate that the City can levy on property owners is one percent and can be used for general purposes. Any amount over the base one percent is used to pay for debt service on voter-approved General Obligation bonds.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution sets the property tax rate for FY 2020-21 for taxing entities[1] within the City and County of San Francisco including (a) the City; (b) the San Francisco Unified School District; (c) the San Francisco County Office of Education; (d) the San Francisco Community College District; (e) BART; and (f) the Bay Area Air Quality Management District (BAAQMD).

The proposed resolution would also set the property tax pass-through rate that landlords can pass-through to tenants in FY 2020-21, as allowed in Chapter 37.3 of the City Administrative Code. The pass through to tenants may only be imposed on a tenant's anniversary date and does not become part of a tenant's base rent. The allowable tenant pass-through rate is based on the portion of the landlord's property tax liability that comes from General Obligation bond debt

[1] Taxing entities are agencies or organizations located within the City and County of San Francisco that have taxing authority but may not be part of the City government. The General City Operations tax rate factor of $0.80918319 includes $0.25330113 to be shifted to the Educational Revenue Augmentation Fund for the benefit of San Francisco Unified School District, the County Office of Education, and the San Francisco Community College District.

service for certain periods and is comprised of three factors as outlined in Chapter 37.3 of the Administrative Code, as shown in Table 1 below.

Table 1: Percent of Property Tax Increases for General Obligation Bond Debt Service Allowed for Pass-Through to Tenants

Entity	Date of GO Bond Approval	Pass-Through Rate
City and County of San Francisco	November 1, 1996-November 30, 1998	100%
City and County of San Francisco	November 14, 2002-Present	50%
San Francisco Unified School District San Francisco Community College District	November 1, 2006-Present	50%

Source: Administrative Code Section 37.3(6)

FISCAL IMPACT

The proposed resolution would set the combined property tax rate for FY 2020-21 at \$1.19846368 per \$100 of assessed value. The FY 2020-21 property tax rate of \$1.19846368 is 0.0155, or 1.6 percent more than the FY 2019-20 property tax rate of \$1.1801 per \$100 of assessed value.[2] See Table 2 for the proposed tax rates for all taxing jurisdictions in the City, as determined by the Controller.

[2] According to the Controller's Office, the City's new property tax system allows tax calculations to the eighth decimal point in conformance with State guidelines. The City's prior mainframe system allowed for tax calculations to the fourth decimal point.

Table 2. Current and Proposed Tax Rates per $100 of Assessed Property Value

Tax / Entity	FY 2019-20	FY 2020-21	Change
City & County of San Francisco			
General Fund	$0.8092	$0.8092	No Change
Library Preservation Fund	$0.0250	$0.0250	No Change
Children's Fund	$0.0400	$0.0400	No Change
Open Space Fund	$0.0250	$0.0250	No Change
GO Bond Fund	$0.1167	$0.1197	$0.0030
City Subtotal	**$1.0159**	**$1.0189**	$0.0030
San Francisco Unified School District			
General Operations	$0.0770	$0.0770	No Change
General Obligation Bond Debt Service	$0.0416	$0.0451	$0.0035
SFUSD Subtotal	**$0.1186**	**$0.1221**	**$0.0035**
San Francisco Office of Education			
General Operations	$0.0010	$0.0010	No Change
San Francisco Office of Education Subtotal	**$0.0010**	**$0.0010**	No Change
San Francisco Community College District			
General Operations	$0.0144	$0.0144	No Change
General Obligation Bond Debt Service	$0.0098	$0.0197	$0.0099
SFCCD Subtotal	**$0.0242**	**$0.0342**	**$0.0100**
Bay Area Rapid Transit			
General Operations	$0.0063	$0.0063	No Change
General Obligation Bond Debt Service	$0.0120	$0.0139	$0.0019
BART Subtotal	**$0.0183**	**$0.0202**	**$0.0019**
Bay Area Air Quality Management District Operations	**$0.0021**	**$0.0021**	No Change
Total Property Tax Rate	**$1.1801**	**$1.1985**	**$0.0184**

Source: Proposed Resolution

Note 1: Totals do not add due to rounding

Note 2: The City's new property tax system calculates property tax to the eighth decimal point in FY 2020-21, compared to the fourth decimal point in FY 2019-20 under the prior mainframe system. The Attachment to this report shows the eight decimal point tax rate in FY 2020-21.

The proposed combined property tax rate shown in Table 2 above includes a 0.25 percent administrative allowance charged on the City's voter-approved General Obligation bonds to reimburse the City for the costs of collecting property taxes. This 0.25 percent administrative allowance is charged to the total property tax collection attributable to the General Obligation bonds, rather than to the assessed value.

Tenant Pass-Through Tax Rate

The proposed resolution would set the allowable property tax rate that landlords can pass through to tenants at $0.0756 per $100 of assessed value (or 7.56 cents per $100 of assessed value). The FY 2020-21 pass-through rate is $0.0096 more than the FY 2019-20 rate of $0.0660.

Residential tenants may be eligible for relief from the property tax pass-through under Section 37.3(a)(6)(E) of the Administrative Code at a rate of $0.0168 per $100 of assessed value, or 1.68 cents per $100 of assessed value.

Impact of the Combined Property Tax Rate and Allowable Pass-Through

Under Proposition 13, the City may annually increase the assessed value of a property by a State-determined inflation factor of 2.00 percent or less. For FY 2020-21, the consumer price index adjustment authorized by the State Board of Equalization is 2.00 percent.[3] Combined with a tax rate of $1.1985 per each $100 of assessed value and the 2.00 percent consumer price index adjustment, a single-family residence with an assessed value of $590,138 in FY 2019-20 (the median assessed valuation in FY 2019-20 in San Francisco) experiences an increase of $11,803 to $601,941 in the current fiscal year 2020-21. Table 3 below shows the impact of the proposed increase in property taxes on an example single family home with an assessed value of $590,138 for both an owner and a tenant.

Table 3: Estimated Impact of Change to Property Taxes

Fiscal Year 2019-20	Single Family Residence	Allowable Tenant Pass-Through
Assessed Value	$590,138	$590,138
Less Homeowner's Exemption	$7,000	$0
Total Taxable Assessed Value	**$583,138**	**$590,138**
Rate per $100 of Assessed Value	1.1801	0.0660
Property Taxes Payable in 2019-20	$6,882	$389
Proposed FY 2020-21		
Prior Year Assessed Value	$590,138	$590,138
Assessed Value + Cost of Living Increase (2%)	$11,803	$11,803
Subtotal	$601,941	$601,941
Less Homeowner's Exemption	$7,000	$0
Total Taxable Assessed Value	**$594,941**	**$601,941**
Tax Rate per $100 of assessed value	$1.1985	$0.0756
Property Taxes Payable in 2020-21	**$7,130**	**$455**
Total Increase (Decrease) in Property Taxes Payable in FY 2020-21 versus FY 2019-20 for Single-Family Residence with Prior Year Assessed Value of $590,138	$248	$66

Source: Controller's Office

[3] The allowable inflation factor is based on the California Consumer Price Index, which uses a population weighted average equation that combines Los Angeles, San Francisco, San Diego, and Riverside Metropolitan Statistical Areas' consumer price index values.

As shown above, the proposed FY 2020-21 property tax rate of $1.1985 would increase property taxes by $248 on a single-family residence with an assessed value of $601,941 in FY 2020-21, with an allowable pass-through to tenants of $66.

RECOMMENDATION

Approve the proposed resolution.

Attachment: FY 2020-21 Property Tax Rate

Taxing Entity	**Tax Rate**	**Debt Service Included in Tax Rate**
City & County of San Francisco		
General Fund	$0.80918319	
Library Preservation Fund	$0.02500000	
Children's Fund	$0.04000000	
Open Space Fund	$0.02500000	
General Obligation Bond Debt Service	$0.11972733	
Subtotal City & County	*$1.01891052*	
San Francisco Community College District (SFCCD)	$0.03418016	$0.01973594
San Francisco Unified School District (SFUSD)	$0.12208898	$0.04510041
San Francisco County Office of Education (SFCOE)	$0.00097335	
Bay Area Air Quality Management District	$0.00208539	
San Francisco Bay Area Rapid Transit District (BART)	$0.02022528	$0.01390000
Total Combined Tax Rate	$1.19846368	

Source: Controller's Office Memorandum

Item 4 Files 20-0935	Department: Human Services Agency

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution retroactively approves a first amendment to the contract between the Human Services Agency (HSA), and Allied Universal Security for the provision of unarmed security services, to (i) increase the amount by $7,888,248 from $9,333,840 for a total amount not to exceed $17,222,088 to commence July 15, 2020; and (ii) to revise the contract term end date from sixty calendar days after expiration of the Local Emergency as declared by the Mayor to December 31, 2020, for an amended agreement term of April 1, 2020, through December 31, 2020.

Key Points

- In April 2020, the Human Services Agency (HSA) awarded a COVID-19 Emergency contract with Allied University Security for $9,333,840 to provide unarmed security guard services at various COVID-19 temporary quarantine facilities for the contract term of April 1, 2020 through sixty calendar days after expiration of the Local Emergency.
- The purpose of the proposed contract amendment is to provide additional time to transition to four new security service vendors procured through a COVID Emergency Bid for Unarmed Security Services issued in May. HSA intended to procure and transition to lower-cost replacement vendors to all sites before July 15, 2020. However, onboarding new vendors and transferring sites from Allied University Security to the new taken longer than expected.

Fiscal Impact

- HSA expects to FEMA funds to pay for 65.3 percent of the costs and approximately 34.7 percent of the remaining costs will be funded by the CARES Act Emergency Support Grant. HSA anticipates needing to staff eight sites with Allied security guards from September through December 2020 during the transition to the new replacement vendors.

Policy Consideration

- When the COVID-19 Emergency contract with Allied Universal Security was executed in April 2020, the vendor's billing rates were $75/hour for April and part of May, and was later reduced to $65 for part of May and June. The billing rate from July 1 through the proposed contract end date of December 31, 2020 is $50/hour.
- According to an analysis conducted by the BLA Office comparing the $65/hour and $50/hour billing rate, the security officer blended pay rate stayed the same at $29.17. The higher rates charged by Allied Security in May and June were not to increase security officer wages, but instead compensated branch overhead, vehicle costs, corporate services, insurance, and management/supervision.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

BACKGROUND

On February 25, 2020, the Mayor issued a proclamation declaring a local emergency because of the COVID-19 pandemic health crisis. On March 17, 2020, the County of San Francisco Health Officer ordered San Francisco residents to shelter in place to control the spread of COVID 19. The intent of the order was for individuals to self-isolate as much as possible to prevent infection from the virus. The order specifically exempted homeless individuals but urged the City to take steps to provide shelter for these individuals.

In April 2020, the Board of Supervisors approved an emergency ordinance[1] to require the City to secure 8,250 private rooms by April 26, 2020, through service agreements with hotels and motels for use as temporary quarantine facilities for people currently experiencing homelessness, people released from local hospitals with COVID-19 exposure or infection, and front-line workers in the COVID-19 crisis (File 20-0363).

In April 2020, the Human Services Agency (HSA) awarded a COVID-19 Emergency contract with Allied University Security for $9,333,840 to provide unarmed security guard services at various COVID-19 temporary quarantine facilities for the contract term of April 1, 2020 through sixty calendar days after expiration of the Local Emergency. Because the contract was less than $10 million and less than 10 years, the contract did not require Board of Supervisors' approval. According to Ms. Elizabeth Leone, HSA Senior Contracts Manager, the contract was procured under Administrative Code 21.15 – Emergency Procurement Procedures[2] in response to the need for unarmed security services at quarantine facilities given the COVID-19 health crisis and shelter-in-place order. Consequently, rather than issuing a Request for Proposals (RFP), HSA chose the vendor because of an existing contract with Allied Universal Security for $13,974,576 from July

[1] The emergency ordinance required the City to secure 8,250 private rooms by April 26, 2020, through service agreements with hotels and motels for use as temporary quarantine facilities for people currently experiencing homelessness, people released from local hospitals with COVID-19 exposure or infection, and front-line workers in the COVID-19 crisis; waive the requirement under Charter, Section 9.118, that the Board of Supervisors approve the service agreements for private rooms; require daily reporting to the Board of Supervisors on the City's progress in procuring and providing the needed rooms; require congregate care facilities for the homeless to comply with social distancing practices and implement COVID-19 screening protocols; and direct the City to use best efforts to enable people leaving congregate care facilities for temporary rooms provided by the City to subsequently return to congregate care facilities.

[2] Administrative Code Section 21.15 – Emergency Procurement Procedures allows departments to enter into emergency contracts without a competitive solicitation. Contracts with values greater than $100,000 require Board of Supervisors approval "as soon as possible." As noted above, the Department has not sought Board of Supervisors approval for the existing contract with Allied Security, which was executed in April 2020.

1, 2018 through June 30, 2021 for the provision of security services at HSA facilities, which was approved by the Board of Supervisors in May 2018 (File 18-0418) and selected through a competitive solicitation process.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution retroactively approves a first amendment to the contract between the Human Services Agency (HSA), and Allied Universal Security for the provision of unarmed security services, to (i) increase the amount by $7,888,248 from $9,333,840 for a total amount not to exceed $17,222,088 to commence July 15, 2020; and (ii) to revise the contract term end date from sixty calendar days after expiration of the Local Emergency as declared by the Mayor to December 31, 2020, for an amended agreement term of April 1, 2020, through December 31, 2020. According to Ms. Leone, the proposed resolution was introduced on August 24, 2020, or approximately five weeks after the estimated budgeted expenditure authority of the contract was reached, because, as noted below, HSA had experienced delays in transitioning to new security contracts, and therefore needed to continue services provided by Allied until the new vendors were in place.

Services Provided

The purpose of this contract is to provide unarmed security services for HSA's COVID-19 Alternative Housing Program, which provides hotel rooms to residents to quarantine and isolate. The scope of security services under this contract includes providing assistance and information, maintaining order, deterring intrusion, disputes, violence, theft and vandalism, and responding to emergencies. Each guard shift is 24 hours and coverage are 7 days a week. The City may adjust the hourly and site requirements as needed throughout the term of the contract.

Transition to New Vendors

According to Ms. Leone, the purpose of the contract amendment is to provide additional time to transition to four new security service vendors[3] procured through a COVID Emergency Bid for Unarmed Security Services issued by HSA on May 27, 2020. Ms. Leone states that the Department intended to procure and transition competitively priced, lower-cost replacement vendors to all sites before July 15, 2020. However, onboarding new vendors and transferring sites from Allied University Security to the new vendors has taken longer than expected. According to Mr. Vladimir Rudakov, the Director of Investigations/Program Integrity at HSA, the new vendors have been unable to hire enough employees to staff up sites. Consequently, under the proposed amendment, the department anticipates that Allied Universal Security will provide approximately 22,300 hours of labor per month from September through December 2020, and approximately 44,530 hours of labor in August 2020[4], until HSA is able to gradually transition

[3] The four new vendors are A1 Protective Services, Inc., Patrol Solutions, LLC, VIP Security Specialist, and Comprehensive Security Services, Inc. According to Mr. David Kashani, HSA Contracts Manager, all four contracts have been executed, and each contract is less than $10 million and less than 10 years. Therefore, the contracts did not require Board of Supervisors' approval. The solicitation was generally conducted by HSA as a "low bid", whereby the lowest responsive bidder(s) were awarded the contracts.

[4] Information on actual hours of labor in August are not available yet.

services at sites to the new lower-cost vendors. According to Mr. David Kashani, HSA Contracts Manager, since the proposed resolution has been submitted, HSA's new vendors have made significant progress in taking over sites from Allied. HSA is requesting the full amount to be approved to ensure that there is enough contract authority to cover any unforeseen transition challenges with the new vendors.

Performance Monitoring

According to Ms. Leone, performance monitoring is tracked through time sheets to ensure security guards are present on sites, as well as incident reports from Site Managers. The primary contract objective is to provide 24 hours a day, 7 days a week security services at temporary quarantine facilities. Timesheets are submitted as supporting documentation to the department with the vendor invoices. Incident reports are filed by Site Managers if security guards are not on site or not performing their duties correctly and reported to the vendor to be addressed and/or to dispatch a replacement.

FISCAL IMPACT

Table 1 below summarizes the sources and uses of the proposed contract spending.

Table 1. Sources and Uses of Funds for Proposed Allied Universal Security Contract (April through December 2020)

Sources of Funds	April through July 15, 2020[5] (Actual)	July 16 through December 2020 (Proposed)	Total
FEMA	$5,335,092	$5,148,233	$10,483,325
CARES Act COVID Relief Fund (CRF)	$3,588,848	$0	$3,588,848
CARES Act Emergency Support Grant (ESG)	$409,901	$2,740,015	$3,149,915
Total Sources	**$9,333,840**	**$7,888,248**	**$17,222,088**

Uses of Funds	April through July 15, 2020 (Actual)	July 16 through December 2020 (Proposed)	Total
Allied Security Guard Salaries	$9,333,840	$7,888,248	**$17,222,088**
Total Uses	**$9,333,840**	**$7,888,248**	**$17,222,088**

Source: Revised Appendix B-1 to Proposed First Modification

As shown in Table 1 above, for the proposed contract extension period, approximately 65.3 percent of the funding sources comes from FEMA, and approximately 34.7 percent is provided through the CARES Act Emergency Support Grant.

Table 2 below shows the proposed expenditures from July 16, 2020 through December 31, 2020 by site and proposed number of guards per shift. As shown in the table, HSA anticipates needing to staff eight sites with Allied security guards from September through December 2020 during

[5] According to Ms. Leone, June and July invoices have not been submitted by the vendor and are estimates.

the transition to the new replacement vendors. The billing rate from July 16, 2020 through December 31, 2020 per the proposed amendment is $50/hour.

Table 2. Proposed Expenditures for Allied Universal Security Contract (July 16, 2020 through December 31, 2020)

Site Number	Number of Guards per Shift	July 16-31, 2020	August 2020	September 2020	October 2020	November 2020	December 2020	Total
1	2							
2	4	$72,000	$146,016	$146,016	$146,016	$146,016	$146,016	**$802,080**
4	4	$72,000	$146,016	$146,016	$146,016	$146,016	$146,016	**$802,080**
5	2	$36,000	$73,008					**$109,008**
6	2	$36,000	$73,008					**$109,008**
7	2							
8	4	$72,000	$146,016	$146,016	$146,016	$146,016	$146,016	**$802,080**
10	10	$180,000	$365,040					**$545,040**
11	2							
16	3	$54,000	$109,512					**$163,512**
17	3	$36,000	$109,512					**$145,512**
25	3	$54,000	$109,512					**$163,512**
28	4	$72,000	$146,016	$146,016	$146,016	$146,016	$146,016	**$802,080**
29	2							
30	3							
31	3	$54,000	$109,512	$109,512	$109,512	$109,512	$109,512	**$601,560**
32	3.5	$63,000	$127,764	$127,764	$127,764	$127,764	$127,764	**$701,820**
33	3.5	$63,000	$127,764					**$190,764**
34	2	$0						
35	3	$54,000	$109,512					**$163,512**
38	2	$36,000	$109,512	$109,512	$109,512	$109,512	$109,512	**$583,560**
A	6	$108,000	$219,024	$219,024	$219,024	$219,024	$219,024	**$1,203,120**
F	4							
Total Expenditures		**$1,062,000**	**$2,226,744**	**$1,149,876**	**$1,149,876**	**$1,149,876**	**$1,149,876**	**$7,888,248**

Source: Revised Appendix B-1 to Proposed First Modification

POLICY CONSIDERATION

Billing Rates

As previously mentioned, HSA has an existing contract with Allied Universal Security for $13,974,576 from July 1, 2018 through June 30, 2021 for the provision of unarmed security services at HSA facilities, which was approved by the Board of Supervisors in May 2018 (File 18-

0418). Per the terms of this contract, the straight time billing rate for unarmed security services was $31.84/hour, and the overtime rate was $47.76/hour, with future modifications based on the Prevailing Wage.

When the COVID-19 Emergency contract with Allied Universal Security was executed in April 2020, the vendor's billing rates increased to $75/hour for April and part of May, and was later reduced to $65 for part of May and June. The billing rate from July 1 through the proposed contract end date of December 31, 2020 is $50/hour. According to Ms. Leone, the vendor stated that the $75/hour billing rate was based on a COVID-19 premium to protect assets in a crisis. According to an analysis conducted by the BLA Office comparing the $65/hour and $50/hour billing rate, the security officer blended pay rate stayed the same at $29.17. However, the "other" and "overhead" billing rate categories increased the most at approximately 177 percent and 74 percent. In the "other" billing rate category, the "management and supervision" line item had the highest increase at 310 percent. The vendor did not provide a billing rate breakdown for the $75/hour rate. Table 3 below shows the billing rate comparison.

Table 3. Allied Universal Security COVID-19 Security Services Contract Billing Rate Breakdown Comparison

	$50 Billing Rate	$65 Billing Rate	Percentage Change
Security Officer Blended Pay Rate	$29.17	$29.17	0.00%
Payroll Taxes			
FICA/Medicare	$2.23	$2.23	0.00%
Unemployment - Federal	$0.18	$0.18	0.00%
Unemployment - State	$0.44	$1.20	172.73%
Workers Compensation	$1.46	$2.19	50.00%
SF City Tax	$0.44	$0.44	0.00%
Total	*$4.75*	*$6.24*	*31.37%*
Benefits			
Health Care Insurance	$3.66	$5.00	36.61%
Life Insurance	$0.15	$0.29	93.33%
Vacation	$1.13	$1.46	29.20%
Sick Leave	$1.02	$1.57	53.92%
401k Retirement Plan	$0.24	$0.24	0.00%
Tuition as Assistance	$0.06	$0.06	0.00%
Uniforms	$0.55	$1.46	165.45%
Training	$0.67	$0.88	31.34%
Total	*$7.48*	*$10.96*	*46.52%*
Other			
Selection/Screening	$1.17	$1.25	6.84%
Management and Supervision	$1.6	$6.56	310.00%
General Liability Insurance	$0.73	$1.9	160.27%
Total	*$3.5*	*$9.71*	*177.43%*
Overhead			
Branch Overhead	$1.53	$3.57	133.33%
General and Administrative	$1.02	$1.02	0.00%
Corporate/Regional Services	$0.55	$0.58	5.45%
Nextel Radio/Phones	$0.57	$0.57	0.00%
Vehicle Lease/Maintenance	$0.58	$1.46	151.72%
Profit	$0.88	$1.75	98.86%
Total	*$5.13*	*$8.95*	*74.46%*
Total Bill Rate	**$50**	**$65**	**29.98%**

Source: BLA Analysis of Allied Universal Security Billing Rates

As shown above, the higher rates charged by Allied Security in May and June were not to increase security officer wages, but instead compensated branch overhead, vehicle costs, corporate services, insurance, and management/supervision.

As previously mentioned, the proposed contract amendment is needed for additional time to transition services at sites to the new lower-cost vendors due to the new vendors' challenges with recruitment and staffing. According to Ms. Leone, the new vendors' billing rates range from $35 to $40.30/hour.

Finally, as previously mentioned, the proposed contract with Allied Universal Security could be extended again if the transition to the new replacement vendors does not occur before December 31, 2020, if there are significant challenges in vendor transition.

RECOMMENDATION

Approve the proposed resolution.

Item 5 File 20-0543	Department: San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a News and Multi-Concept Retail Store Lease between San Francisco International Airport (Airport) as landlord and MRG San Francisco Terminal 3, LLC (MRG) as tenant, for a term of seven years, with two 1-year options to extend, and initial Minimum Annual Guaranteed (MAG) rent of $750,000.

Key Points

- In June 2019, the Airport conducted a Request for Proposals (RFP) for a News and Multi-Concept Retail Store Lease in Terminal 3, Boarding Area F. The Airport received five proposals, and MRG was determined to be the highest scoring responsive and responsible proposer and was awarded a lease. In October 2019, the Airport Commission approved a lease with MRG.
- The proposed lease would have a term of seven years, with two 1-year options to extend. Under the proposed lease, MRG would pay the greater of MAG rent or percentage rent based on gross revenues. The lease is expected to commence in January or February 2021.

Fiscal Impact

- Over the initial seven-year term of the proposed lease, the Airport would receive at least $5,250,000 in MAG rent. If the two 1-year options are exercised, the Airport would receive at least $1,500,000 in additional MAG rent, for total MAG rent of at least $6,750,000.
- The lease contains a provision that suspends the MAG if enplanements drop below 80 percent of 2018 levels for three consecutive months. The MAG is then reinstated if enplanements increase back to at least 80 percent of 2018 levels for two consecutive months. When the MAG is suspended, MRG would pay percentage rent, which may be lower than the MAG. Due to the impact of COVID-19 on air travel, the MAG will likely be suspended when the lease begins.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(c) states that any lease of real property for a period of ten or more years, including options to renew, or having anticipated revenue to the City of $1,000,000 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 a News and Multi-Concept Retail Store Lease in Terminal 3, Boarding Area F. The RFP called for a retail space including a newsstand and at least two separate retail concepts. The lease would have a term of seven years with two 1-year options to extend.

In June 2019, after conducting an informational meeting with interested parties, the Airport Commission authorized Airport staff to accept proposals. In July 2019, the Airport received five proposals that all met the minimum requirements of the RFP. A three-member panel[1] reviewed the proposals and scored them, as shown in Table 1 below.

Table 1: Proposals and Scores for RFP

Proposer	Concept Name	Score
MRG San Francisco Terminal 3, LLC	Silicon Valley News & Gifts; Natalies Candies; Urban Decay-Kiehls	88.29
WH Smith SFO, LLC	WH Smith; Athleta; MAC	78.13
Newslink of SF Term 3, LLC	415 Supply; Untuck IT; MAC	77.21
Paradies Lagardere SFO 2018, LLC	Mills Cargo; Johnston & Murphy; MAC	76.79
HG SFO Retailers 2017 JV	Lombard & Hyde; MAC; Taylor Stitch-Roost	74.33

Source: Airport

MRG San Francisco Terminal 3, LLC (MRG) was determined to be the highest scoring responsive and responsible proposer and was awarded a lease. In October 2019, the Airport Commission approved the lease with MRG.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a News and Multi-Concept Retail Store Lease between the Airport as landlord and MRG San Francisco Terminal 3, LLC (MRG)[2] as tenant, for a term of seven years, with two 1-year options to extend, and initial Minimum Annual Guaranteed (MAG) rent of $750,000. Under the proposed lease, MRG would pay the greater of the MAG or percentage rent based on gross revenues. The key terms of the lease are shown in Table 2 below.

[1] The RFP scoring panel included: a Senior Business Manager at Raleigh-Durham International Airport, a Director at a Global Design Firm, and an SFO Project Manager from Design & Construction.

[2] MRG San Francisco Terminal 3 LLC is an affiliate of Marshall Retail Group, LLC.

Table 2: Key Terms of Proposed Lease

Premises	2,646 square feet in Terminal 3, Boarding Area F
Term	7 years
Options to Extend	Two 1-year options to extend
Initial MAG Rent[3]	$750,000
MAG Adjustment	Annually based on Consumer Price Index (CPI)
Percentage Rent (of Gross Revenues)[4]	12% up to $1,000,000; 14% from $1,000,000-$2,000,000; 16% over $2,000,000
Minimum Investment to Improve Premises	$750 per square foot of the premises ($1,984,500), paid by MRG, subject to Airport approval
Interim Rent During Construction	16% 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 the Airport's 5-Year or 10-Year Capital Plan
Promotional Charge	$1 per square foot of the premises per year
Pest Control Fee	$75 per month, subject to adjustment

Source: Proposed Lease

According to Ms. Evelyn Reyes-Dizadji, Airport Principal Property Manager, the lease is anticipated to commence in January or February 2021. The two optional one-year extensions may be approved by the Airport Commission without further Board of Supervisors' action.

FISCAL IMPACT

Under the proposed lease, the Airport would receive the greater of the MAG rent or percentage rent based on gross revenues. Over the initial seven-year term, the Airport would receive at least $5,250,000 in MAG rent. If the two 1-year options to extend are exercised, the Airport would receive at least $1,500,000 in additional MAG rent, for a total of $6,750,000. MAG rent paid to the Airport is shown in Table 3 below.

Table 3: MAG Rent Paid to Airport

Initial MAG Rent	$750,000
MAG Rent over Initial Term (7 Years)	$5,250,000
MAG Rent over Extension Terms (2 Years)	1,500,000
Total MAG Rent	**$6,750,000**

Source: BLA Analysis

Note: MAG rents do not include inflation adjustments.

MAG Suspension

Section 4.16 lease provides for the MAG rent to be suspended if Airport enplanements drop below 80 percent of 2018 levels for three consecutive months. The MAG is then reinstated if

[3] The Airport sets MAG rents for retail lease sites at approximately 75 percent of projected percentage rent.

[4] Percentage rent ranging from 12 percent to 16 percent of gross revenues was advertised in the RFP. According to Ms. Reyes-Dizadji, the percentage rent structure is based on the historical performance of like concepts and their associated rent structures.

enplanements increase back to at least 80 percent of 2018 levels for two consecutive months. When the MAG is suspended, MRG would still pay percentage rent, which may be lower than the MAG. According to Ms. Reyes-Dizadji, the MAG will likely be suspended at the beginning of the lease due to the impact of COVID-19 on air travel.

RECOMMENDATION

Approve the proposed resolution.

Item 6 **File 20-0759**	**Department:** Treasurer and Tax Collector (TTX)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance amends the Business and Tax Regulations Code to (1) amend the penalties and the provisions for waiver of penalties and interest for the taxes subject to the common administrative provisions of the Code, and (2) apply the common administrative provisions to the Cannabis Business Tax.

Key Points

- Article 6 of the San Francisco Business and Tax Regulations Code (BTRC) defines the date by which payment of applicable taxes are due and sets the penalties that the Tax Collector may assess for the failure to pay the applicable tax in accordance with Code provisions. The proposed ordinance eliminates the penalty for not making quarterly estimated tax payments, and revises the penalty structure for failing to pay, remit, or collect taxes, and for underreporting taxes.
- Currently, Article 6 of the Business and Tax Regulations Code does not reference the Cannabis Business Tax. The proposed ordinance amends the Code to include the Cannabis Business Tax in the Article 6 provisions, including defining estimated tax payments pertaining to the Cannabis Business Tax and other provisions to administer the Cannabis Business Tax.
- The proposed ordinance would delete obsolete text from the City's Business and Tax Regulations Code, including (1) Section 906.2(k)(1) regarding underreporting payroll expenses for Clean Technology Business Exclusion, which is redundant, and (2) deletion of Article 17 relating to the Business Tax Penalty Amnesty Program, which applied to tax liabilities ending on or before December 31, 1993.

Fiscal Impact

- According to the Treasurer/Tax Collector's Office, the proposed ordinance would result in reduced penalties, estimated to be $290,000 in FY 2020-21, $485,000 in FY 2021-22, and $660,000 in FY 2023-24

Policy Consideration

- According to the Treasurer/Tax Collector's Office, the proposed changes to the Business and Tax Regulations Code are to improve compliance by streamlining penalties. According to the Treasurer/Tax Collector's Office presentation to the August 24, 2020 Small Business Commission meeting, Proposition F on the November 3, 2020 ballot will further reduce the impact of penalties on businesses by eliminating the payroll expense tax and increasing the small business exemption threshold. The Small Business Commission approved a motion supporting the proposed ordinance at the August 24, 2020 meeting.

Recommendation

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

MANDATE STATEMENT

City Charter Section 2.105 states that all legislative acts shall be by ordinance, approved by a majority of the members of the Board of Supervisors.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance amends the Business and Tax Regulations Code to (1) amend the penalties and the provisions for waiver of penalties and interest for the taxes subject to the common administrative provisions of the Code, and (2) apply the common administrative provisions to the Cannabis Business Tax.

Changes to Tax Penalties

Article 6 of the San Francisco Business and Tax Regulations Code (BTRC) defines the date by which payment of applicable taxes are due and sets the penalties that the Tax Collector may assess for the failure to pay the applicable tax in accordance with Code provisions.[1]

Estimated Taxes and Penalty

Currently, certain businesses are required to pay estimated taxes quarterly, which are credited against the final tax owed for the year. Businesses who do not make an estimated tax payment by the date defined in the Code must pay an "estimated tax penalty" equal to 5 percent of the underpayment of the estimated tax. Article 6 allows the Treasurer/Tax Collector to waive the estimated tax penalty under certain circumstances.

The proposed ordinance eliminates this provision upon the effective date of the ordinance.

Failure to Pay, Collect or Remit Taxes

Currently, businesses who fail to pay, collect or remit taxes are assessed a penalty of 5 percent of the unpaid taxes, plus an additional penalty of 5 percent for each month that the taxes are unpaid up to 20 percent. If the taxes are unpaid after 90 days, the penalty is increased by 20 percent of the unpaid tax. Unpaid taxes accrue interest of one percent per month.[2]

The proposed ordinance would eliminate the additional 20 percent penalty effective after 90 days. Businesses who fail to pay taxes would be assessed a penalty of 5 percent of the unpaid

[1] Article 6 provisions apply to the following taxes and fees, among others: Tax on Transient Occupancy of Hotel Rooms; Sugary Drinks Distributor Tax; Tax on the Occupancy of Parking Space in Parking Stations; Utility Users Tax; Access Line Tax; Stadium Operator Admission Tax; Business Registration Fees; Payroll Expense Tax; Gross Receipts Tax; Early Care and Education Commercial Rents Tax; Homelessness gross receipts tax; Traffic Congestion Mitigation Tax; and the Cigarette Litter Abatement Fee.

[2] The provisions in this paragraph do not apply to payroll expense tax, the gross receipts tax, the Early Care and Education Commercial Rents Tax, and the Homelessness Gross Receipts Tax if the sum of the payroll expense tax payments, gross receipts tax payments, Early Care and Education Commercial Rents Tax payments, and Homelessness Gross Receipts Tax payment is equal to or greater than the sum of the payroll expense tax, gross receipts tax, Early Care and Education Commercial Rents Tax, and the Homelessness Gross Receipts Tax liability for that tax year.

taxes, plus an additional penalty of 5 percent for each month that the taxes are unpaid up to 25 percent. Unpaid taxes accrue interest of one percent per month.[3]

These provisions would apply to tax periods ending on or after January 1, 2021 and for fiscal years ending on or after July 1, 2021 in the case of the business registration fee and other charges imposed on a fiscal year basis.

Underreporting of Taxes

Currently, if the Tax Collector determines a person underreported any amount of tax required to be reported on a return, and that such underreporting was attributable to negligence, the Tax Collector can impose a penalty of 5 percent of the unpaid taxes, plus an additional penalty of 5 percent for each month that the taxes are unpaid up to 20 percent. If the underreporting is substantial (defined by the Code as the tax finally determined by the Tax Collector exceeds the amount reported on a taxpayer's return for a taxable period by 25 percent or more, or if no return is filed, the tax liability determined by the Tax Collector exceeds $5,000), the Tax Collector may impose a penalty of 50 percent of the substantially-underreported tax. If the Tax Collector determines that the underreporting is due to fraud, the Tax Collector may impose a penalty of 50 percent of the unpaid or underpaid tax.

The proposed ordinance would amend this provision to delete the provision pertaining to "substantial underreporting" and would retain the provision that if the Tax Collector determines that the underreporting is due to fraud, the Tax Collector may impose a penalty of 50 percent of the unpaid or underpaid tax.

These provisions would apply to tax periods ending on or after January 1, 2021 and for fiscal years ending on or after July 1, 2021 in the case of the business registration fee and other charges imposed on a fiscal year basis.

Cannabis Tax

Currently, Article 6 of the Business and Tax Regulations Code does not reference the Cannabis Business Tax. The proposed ordinance amends the Code to include the Cannabis Business Tax in the Article 6 provisions, including defining estimated tax payments pertaining to the Cannabis Business Tax and other provisions to administer the Cannabis Business Tax.

Other Provisions

The proposed ordinance would delete obsolete text from the City's Business and Tax Regulations Code, including (1) Section 906.2(k)(1) regarding underreporting payroll expenses for Clean Technology Business Exclusion, which is redundant, and (2) deletion of Article 17 relating to the Business Tax Penalty Amnesty Program, which applied to tax liabilities ending on or before December 31, 1993.

[3] The provisions in this paragraph do not apply to estimated tax payments of payroll expense taxes, gross receipts taxes, Early Care and Education Commercial Rents Taxes, Homelessness Gross Receipts Taxes, or Cannabis Business Taxes.

FISCAL IMPACT

According to the Treasurer/Tax Collector's Office, the proposed ordinance would result in reduced penalties, estimated to be $290,000 in FY 2020-21, $485,000 in FY 2021-22, and $660,000 in FY 2023-24.

POLICY CONSIDERATION

According to Ms. Amanda Fried, Chief of Policy & Communications at the Treasurer-Tax Collector, the proposed changes to the Business and Tax Regulations Code are to improve compliance by streamlining penalties. According to Ms. Fried's presentation to the August 24, 2020 Small Business Commission meeting, Proposition F on the November 3, 2020 ballot will further reduce the impact of penalties on businesses by eliminating the payroll expense tax and increasing the small business exemption threshold. The Small Business Commission approved a motion supporting the proposed ordinance at the August 24, 2020 meeting.

RECOMMENDATION

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

Item 8 Files 20-0976	Department: Mayor's Office of Housing & Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would (1) approve and authorize an Amended and Restated Loan Agreement for an amount not to exceed $35,076,507 for a term of 57 years between the City and 681 Florida Housing Associates, L.P., (2) approve a Ground Lease for a term of 75 years, with a 24-year option to extend and an annual base rent of $15,000, and (3) that the Loan and Ground Lease are consistent with the City's General Plan and Planning Code.

Key Points

- The City is providing gap financing for the development of 130 affordable housing units and 9,250 square feet of arts-related Production, Design, and Repair (PDR) space at 681 Florida Street (previously known as 2070 Bryant Street). The site will be jointly developed and managed by the Tenderloin Neighborhood Development Corporation (TNDC) and Mission Economic Development Agency (MEDA).
- The site was originally conveyed to City for $1 in 2017 in order to satisfy Affordable Housing program requirements for a new 199-unit market-rate housing development at 2000 Bryant Street. Following a competitive solicitation process, TNDC and MEDA were selected in 2017 to develop and operate the affordable housing project.

Fiscal Impact

- The total development costs for the 130 units of affordable housing and 9,250 sq. ft. PDR space are $90.3 million. Of the $90.3 million, $33.8 million are City funds and $56.5 million are non-City funds. The Loan Agreement amount of $35,076,507 includes funding for a $1.25 million bridge loan for an approved, but pending, Federal Affordable Housing Program loan.
- The total per unit development cost is estimated at $694,902 or $662 per square foot. City funds are expected to provide funding for 37 percent of total development costs, equal to a per unit subsidy of $260,204 or $249 per square foot.
- According to the Amended and Restated Loan Agreement, the loan repayment is due on the 57th year of the loan. Loan repayment obligations are limited to the availability of residual receipts, or annual cash flow after operating costs have been paid.
- MOHCD will also enter into a 20-year Local Operating Subsidy Program agreement with the project sponsor to subsidize rents for 39 units reserved for homeless or formerly homeless individuals, totaling $9,400,146 or $470,007 per year ($12,051 per unit). The agreement will not be subject to Board of Supervisors approval per the Administrative Code.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

BACKGROUND

681 Florida Street Affordable Housing Development Project

The City is providing gap financing for the development of 130 affordable housing units[1] and 9,250 square feet of arts-related Production, Design, and Repair space at 681 Florida Street (previously known as 2070 Bryant Street). The site will be jointly developed and managed by the Tenderloin Neighborhood Development Corporation (TNDC) and Mission Economic Development Agency (MEDA).

The housing project will include a mix of studio, 1-, 2-, and 3-bedroom housing units with affordability levels between 25 percent and 85 percent of Area Median Income (AMI),[2] as shown in Table 1 below. Thirty-nine of the units (30 percent) are reserved for homeless or formerly homeless individuals with rental subsidies to be provided by the Local Operating Subsidy Program (LOSP).[3] Supportive housing services will also be provided to housing residents by the non-profit operators or a sub-contractor. Construction is expected to occur start by the end of 2020 and complete by 2023, with the first year of operation expected in 2023.

Table 1: Housing Units by Affordability Level (% of Area Median Income)

Affordability Level	No. of Units	% of Units	Maximum Income
25% of Median Income	39	30%	$25,650
35% of Median Income	22	17%	$35,900
40% of Median Income	11	8%	$41,000
50% of Median Income	10	8%	$51,250
60% of Median Income	12	9%	$61,500
85% of Median Income	35	27%	$87,150
Manager's Unit	1	1%	N/A
Total	**130**	**100%**	**-**

Source: MOHCD and BLA Calculations

Note: MOHCD Unadjusted Area Median Income (AMI) based on two-person household.

[1] This includes one unit for an on-site manager/ staff.

[2] Based on MOHCD Inclusionary Income Limits for Area Median Income (AMI).

[3] The Local Operating Subsidy Program is a General Fund subsidy to supportive housing developments serving formerly homeless individuals. In 2019, the Board of Supervisors adopted Ordinance 202-19, authorizing the MOHCD Director to enter into Local Operating Subsidy Program grant agreements that would otherwise be subject to Board of Supervisors approval under Charter Section 9.118.

Acquisition of 681 Florida Street

The property at 681 Florida Street was conveyed to the City in June 2017 for $1 by a developer, Podell Corporation, in order to satisfy the City's Inclusionary Affordable Housing requirement for a new 199-unit market-rate housing development at 2000 Bryant Street.[4] The land was appraised at a fair market value of $21,200,000 in March 2016. At that time, the developer also agreed to provide $955,267 towards the cost of transporting and disposing of contaminated soil identified on the property.[5]

Selection of Developers

The Mayor's Office of Housing and Community Development issued a Request for Proposals to develop affordable housing at 2070 Bryant Street (now 681 Florida Street) in October 2016. The RFP required the successful candidate to develop the site, conduct community outreach, and manage the property under a ground lease with the City. The RFP specified that the maximum affordability level would be 60 percent of AMI, however, the current project provides housing for those earning up to 85 percent of AMI. According to MOHCD, while the project provides for 35 units to be available to households with income up to 85 percent of AMI, the overall average household income is 60 percent of AMI or less, consistent with income averaging guidelines set by the California Tax Credit Allocation Committee. Two proposals were submitted and the highest scoring proposal, jointly by TNDC and MEDA, was selected to develop the site.[6] The proposals were evaluated based on the proposer's prior experience, site concept, plan financing and cost controls, and services plan.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would (1) approve and authorize an Amended and Restated Loan Agreement for an amount not to exceed $35,076,507 for a term of 57 years between the City and 681 Florida Housing Associates, L.P.,[7] (2) approve a Ground Lease for a term of 75 years, with a 24-year option to extend and an annual base rent of $15,000, and (3) find that the Loan and Ground Lease are consistent with the City's General Plan and Planning Code. The purpose of the Loan is to provide gap financing for the construction of 130 affordable housing units at 681 Florida Street.

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[4] See Resolution No. 258-17 (File No. 17-0602). Developer elected to satisfy the Inclusionary Affordable Housing Program requirements (Planning Code Section 415 and 419) by dedicating a portion of the development property to the City.

[5] Following subsequent assessment, remediation costs are now estimated at $961,849. A Site Mitigation Plan was conditionally approved by the Department of Public Health for the 2000 and 2070 Bryant Street properties in 2014 as required by San Francisco Health Code, Article 22A and Building Code, Sec. 106.3.2.4.

[6] The RFP selection panel was appointed by the MOHCD Director and composed of three MOHCD staff, one Department of Homeless and Supportive Housing staff, and one Mission neighborhood community representative.

[7] 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.

Ground Lease & Affordability Restrictions

Affordability restrictions to preserve the affordability of the housing units in the proposed development are included in the Restated Loan Agreement, a Regulatory Agreement and Declaration of Restrictive Covenants, and in the Ground Lease between the City and the affordable housing operator. These agreements specify the affordability levels for each unit and require the non-profit housing operator to maintain these for the duration of the agreements unless agreed by the City.

The Ground Lease is for a term of 75 years with an option to extend an additional 24 years and restricts the lessee to operating the housing development as affordable housing only (aside from the 9,250 square feet of commercial PDR space mentioned above). The lessee must receive MOHCD approval before entering into any contracts related to use of the Production, Design and Repair commercial space. The Ground Lease includes a base rent of $15,000 per year, plus residual rent of up to two-thirds of net income after operating costs, payments to credits, base rent, and replenishing operating reserves, consistent with MOHCD's Residual Receipts policy. According to MOHCD's cash flow projections, the project will generate sufficient income to pay residual rent on the Ground Lease. This residual rent will primarily be used to make payments on the City loan.

FISCAL IMPACT

Affordable Housing Development of 681 Florida Street

The total estimated development costs for the 130 units of affordable housing and 9,250 sq. ft. commercial Production, Design and Repair (PDR) space are $90.3 million. Of the $90.3 million, $33.8 million are City funds and $56.5 million are non-City funds. Table 2 shows the sources and uses by City and Non-City Sources.

Table 2: Sources and Uses for Affordable Housing Development at 681 Florida Street

	City Sources	Non-City Sources	Total
Sources*			
Total Sources	**33,826,507**	**56,510,801**	**90,337,308**
Uses			
Acquisition Costs (Transfer Tax)	36,354	-	36,354
Construction Costs	12,073,650	53,974,135	66,047,785
Construction Contingency (6.1%)	3,618,639	-	3,618,639
Soft Costs			
Architecture & Design	3,903,866	-	3,903,866
Engineering & Environmental Studies	356,899	-	356,899
Financing costs	3,481,592	-	3,481,592
Permanent Financing Costs	42,600	-	42,600
Legal Costs	318,834	-	318,834
Other Development Costs	5,985,592	-	5,985,592
Soft Cost Contingency (5%)	710,000	-	710,000
Soft Cost Subtotal	*14,799,383*	-	*14,799,383*
Reserves	760,047	-	760,047
Developer Fees	2,538,434	2,536,666	5,075,100
Total Uses	**33,826,507**	**56,510,801**	**90,337,308**

Source: MOHCD

Notes: * See full breakdown by source in Table 3 below. City sources refer to funding from MOHCD and the Office of Community Investment & Infrastructure.

In 2017, MOHCD entered into a pre-development loan agreement for $4,332,000 with TNDC and MEDA for pre-construction consulting and planning related to the project. The proposed resolution would increase the City's total loan for this project by $29,494,507.[8]

According to the proposed Second Amended and Restated Promissory Note, the City's loan would not accrue interest. Any unpaid balance on the loan is due at the end of the fifty-seven-year term.

Funding Sources

Table 3 below shows the funding sources breakdown for City and non-City sources for the construction and development of the 130-unit housing project. Of the $90.3 million in funding sources, $33,826,507 are from City sources and $56,510,801 are from non-City sources. The City Sources include $32,767,632 from Education Revenue Augmentation Funds (ERAF) deposited in the Affordable Housing Production and Preservation Fund, and $2,308,875 from a 2015 General Obligation Bond for affordable housing, which together total $35,076,507. The project sponsor has applied for a $1.25 million Federal Affordable Housing Program Loan, which it will use to pay down an equivalent portion of the City's loan. For this reason, the Federal Affordable Housing

[8] This is exclusive of a $1,250,000 bridge loan funded by the City to cover the expected disbursement of a Federal Affordable Housing Program loan. The total not to exceed amount for the loan with this bridge loan is $35,076,507.

Program Loan is presented as a non-City source and deducted from the City source total presented in Table 3 below.

Table 3: Detailed Funding Sources

Funding Source	Amount	Description
City Sources		
Affordable Housing Production & Preservation Fund (ERAF)	$32,767,632	
2015 General Obligation Bond for Affordable Housing	$2,308,875	
Federal Home Loan Bank - Affordable Housing Program	**($1,250,000)**	
Total City Sources*	**$33,826,507**	Excludes $1.25 million of City funding, which is expected to be repaid by the Federal Affordable Housing Loan
Non-City Sources		
Federal LIHTC Tax Credit Equity	$33,796,286	Low Income Housing Tax Credits allocated by the California Tax Credit Allocation Committee
California Housing & Community Development – Multifamily Housing Program	$14,706,000	State loan program to assist in the construction or preservation of rental housing for low income households. Loans are for 55-years at 3% interest.
Permanent Mortgage Loan	$3,260,000	
Deferred Developer Fee	$2,536,566	
Federal Home Loan Bank - Affordable Housing Program**	$1,250,000	Approved in June 2020. Expected to repay portion of City funding.
Podell Company	$961,849	2000 Bryant Street developer contribution for soil remediation
General Partner Equity	$100	
Total Non-City Sources	**$56,510,801**	
Total Sources	**$90,337,308**	

Source: MOHCD
* Excludes $1,250,000 Federal Home Loan AHP Bridge Loan (included in "Non-City Sources"). According to MOHCD, the Affordable Housing Program loan was awarded in June 2020 and is expected to close in December 2020.
** Funding equal to the amount of the AHP Loan is included in the City's loan with the expectation that the AHP loan will used to reimburse the City upon closing. The AHP Loan is expected to close by December 31, 2021. Borrower assumes responsibility for repaying the AHP amount included in the City loan if the AHP Loan does not close.

City's Subsidy of Housing Development Costs

The City's total subsidy for the housing development costs is $33,826,507 (not including the $1,250,000 Federal Home Loan Bank AHP Bridge Loan), or 37.4 percent of the total development costs. This is equal to a per unit subsidy of $260,204 or $249 per square foot.

Table 4: Total and Per Unit City Subsidy for Affordable Housing Development

Project Information	
Number of Units	130
Total Residential Area (sq. ft.)	136,080

Cost Metric	**Total Cost**	**City Subsidy**
Total Development Costs	$90,337,308	$33,826,507
% of Total Cost	-	37.4%
Cost per Unit	$694,902	$260,204
Cost per Sq. Ft.	$664	$249

Source: MOHCD and BLA calculations

Operating Costs: Local Operating Subsidy Program

According to MOHCD, the Local Operating Subsidy Program will be used to provide subsidies for the 39 units reserved for homeless and formerly homeless individuals. The maximum income level for tenants in these units is 25 percent of Area Median Income (AMI). MOHCD will enter into a 20-year LOSP agreement with the project sponsor, totaling $9,400,146 or $470,007 per year ($12,051 per unit per year). As noted above, the LOSP agreement will not be subject to Board of Supervisors approval per the Administrative Code.

RECOMMENDATION

Approve the proposed resolution.

Item 10 File 20-0786	Department: General Services Agency - Department of Public Works (DPW)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would retroactively waive Department of Public Works (Public Works) permit and renewal fees for café tables and chairs in public sidewalks and roadway areas, for display of fruits and vegetables or nonfood merchandise on public sidewalks, and for use of parklets, for a period of two years, from August 2020 through July 2022.

Key Points

- The COVID-19 pandemic and Shelter-in-Place Order have created significant adverse impacts on small businesses in San Francisco. Under San Francisco's current health orders, indoor restaurant dining is not permitted. Other service businesses, such as retail, may not be operating at full capacity indoors due to social distancing requirements.
- The public right-of-way presents an opportunity to businesses that may not operate at full capacity indoors. The proposed ordinance would retroactively waive Public Works permit and renewal fees for tables and chairs in public sidewalk and roadway areas, merchandise display on public sidewalks, and use of parklets, for a period of two years, from August 2020 through July 2022.

Fiscal Impact

- The fiscal impact of the proposed ordinance is difficult to estimate due to uncertainty about the future of the COVID-19 pandemic. In FY 2018-19, the last fiscal year before the COVID-19 pandemic, Public Works received $662,496 in permit and renewal fees that would be waived by the proposed ordinance. If fee revenues were to continue at the FY 2018-19 level, the estimated fees waived over the two-year period of the proposed ordinance would be approximately $1,324,992. However, due to the impact of the COVID-19 pandemic on small business, and the number of businesses that have already permanently closed, the actual amount of fees waived by the proposed ordinance would likely be less than this amount.

Recommendation

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

MANDATE STATEMENT

According to City Charter Section 2.105, all legislative acts shall be by ordinance and require the affirmative vote of at least a majority of the members of the Board of Supervisors.

BACKGROUND

The COVID-19 pandemic and Shelter-in-Place Order have created significant adverse impacts on small businesses in San Francisco.

One June 11, 2020, San Francisco Health Officer Tomas Aragon issued an order allowing outdoor dining to reopen, after nearly three months of closure. On July 13, 2020, Governor Gavin Newsom ordered that indoor dining was prohibited statewide. On August 28, 2020, Governor Newsom unveiled a new tiered system that allowed certain businesses to open based on the case rate in each county and local health orders. As of the writing of this report, San Francisco is in the “red” State tier, which allows indoor dining at 25 percent of a restaurant’s capacity. However, City health officials have not permitted indoor dining to commence. Other service businesses, such as retail, may operate indoors but with limited capacity due to social distancing requirements.

The Public Works Code allows businesses to set up café tables and chairs on sidewalks and other public right-of-way but requires businesses to obtain permits and conform to guidelines issued by the Director of Public Works. According to the proposed ordinance, permit application and renewal fees are barriers to entry and unnecessary burdens to businesses that seek to use public rights-of-way.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would retroactively waive Department of Public Works (Public Works) permit and renewal fees for café tables and chairs in public sidewalks and roadway areas, for display of fruits and vegetables or nonfood merchandise on public sidewalks, and for use of parklets, for a period of two years, from August 2020 through July 2022.

The proposed ordinance would waive the Public Works fees shown in Table 1 below.

Table 1: Public Works Fees Waived by Proposed Ordinance

Category	Fee	Fee Amount (FY 2020-21)
Café Tables and Chairs (Annual)	New	$148 + $8/square foot
	Renewal	$74 + $7/square foot
	With prior departmental enforcement action[1]	$148 + $10/square foot
Merchandise Display	Annual	$160 + $11/square foot
Use of Parklets[2]	New Application	$306
	Inspection Fee	$244
	Renewal	$306

Source: Public Works

Note: The proposed ordinance only waives fees charged by Public Works for the People Place, and does not include fees that may be charged by the San Francisco Municipal Transportation Agency or other City agencies pursuant to Administrative Code Section 94A.11.

According to Mr. Bernie Tse, Public Works Senior Engineer, Public Works will request amending the proposed ordinance to make it retroactive to April 1, 2020. Public Works has not sent permit renewal letters to businesses that were due on April 15, 2020 and beyond. If the proposed ordinance were approved with the August 1, 2020 effective date, Public Works would have to invoice businesses with renewals due in April, May, June, and July 2020.

FISCAL IMPACT

According to Mr. Devin Macaulay, Public Works Budget Manager, Public Works received $662,496 in fees for café tables and chairs, sidewalk merchandise display, and use of parklets in FY 2018-19, the last fiscal year before the COVID-19 pandemic. Fee revenue is shown in Table 2 below.

Table 2: Permit Fee Revenues, FY 2018-19

Category	Fees Received
Café Tables and Chairs	$505,145
Sidewalk Display	140,240
Use of Parklets	17,111
Total	**$662,496**

Source: Public Works

The fiscal impact of the proposed ordinance is difficult to estimate due to uncertainty about the future of the COVID-19 pandemic. If fee revenues were to continue at the FY 2018-19 level, the

[1] According to Public Works Code Section 176, both the Department of Public Works and Department of Public Health may enforce compliance with permit requirements. Public Works Code Section 2.1.1 provides for a higher fee to be charged to businesses that have had a prior departmental enforcement action.

[2] Public Works Code Section 793 established the “Places for People” program, which provides for parklets in the public right of way. Administrative Code Section 94A defines the permitting process and fees. According to Administrative Code Section 94A, the fees charged to the People Place Permit are one-half the fees otherwise charged by Public Works for use of the public right-of-way.

estimated fees waived over the two-year period of the proposed ordinance would be approximately $1,324,992. However, due to the impact of the COVID-19 pandemic on small business, and the number of businesses that have already permanently closed, the actual amount of fees waived by the proposed ordinance would likely be less than this amount.

RECOMMENDATION

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