CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: January 13, 2021 Budget and Finance Committee Meeting

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Items 1, 2 and 3 **Files 20-1259, 20-1294, 20-1295**	**Departments:** Office of Public Finance Department of Public Works (DPW) San Francisco Public Utilities Commission (SFPUC) Recreation and Parks Department (RPD)

EXECUTIVE SUMMARY

Legislative Objectives

Files 20-1294 and 20-1295: The proposed resolutions would authorize the issuance of $628,500,000 aggregate principal amount of 2020 Earthquake Safety and Emergency Response General Obligation Bonds and the sale of $85,000,000 of the Bonds.

File 20-1295: The proposed ordinance would appropriate $85,000,000 of the Series 2021A Earthquake Safety and Emergency Response General Obligation Bond proceeds to the Department of Public Works, San Francisco Public Utilities Commission, and Recreation and Parks Department in FY2020-21 for upgrade, replacement, improvement, rehabilitation, and seismic strengthening of City-owned fire, police, emergency, and disaster response facilities, as well as improvements to the City's Emergency Firefighting Water System.

Key Points

- The proposed first bond sale of up to $85,000,000 of the total $628,500,000 is expected to occur in February 2021 upon Board of Supervisors approval of the bond issuance (File 20-1295). The projects to be funded through the proposed $628,500,000 bond program include: (1) the Emergency Firefighting Water System; (2) neighborhood fire stations and support facilities; (3) district police stations and support facilities; (4) disaster response facilities – Kezar Pavilion; and (5) the City’s 9-1-1 Emergency Call Center.

Fiscal Impact

- Based upon an estimated market interest rate of 3.11 percent for GO bonds, the Office of Public Finance projects an average annual debt service cost of approximately $5,500,000. The total debt service over the anticipated 20-year life of the bonds is projected to be approximately $107,520,000. Of this, $81,430,000 represents the estimated par and the remainder of $26,090,000 represents estimated interest. Repayment of the annual debt service will be recovered through increases in the annual Property Tax rate, which is estimated to average $0.00184 per $100 of assessed value or $1.84 per $100,000 of assessed value over the anticipated 20-year term of the bonds.

Policy Consideration

- The Office of Public Finance does not expect significant challenges to the sale and closing of the Series 2021A Bond transaction despite the impact of the Covid-19 pandemic on underlying economic conditions.

Recommendation

Approve the proposed resolutions (File 20-1294 and File 20-1295) and the proposed ordinance (File 20-1259).

MANDATE STATEMENT

City Charter Section 9.106 states that the Board of Supervisors is authorized to provide for the issuance of general obligation bonds in accordance with the Constitution of the State of California. General obligation bonds may be issued and sold in accordance with state law or any local procedure adopted by ordinance. There shall be a limit on outstanding general obligation bond indebtedness of three percent of the assessed value of all taxable real and personal property, located within the City and County.

City Charter Section 9.105 states that amendments to the Annual Appropriation Ordinance are subject to Board of Supervisors approval by ordinance after the Controller certifies the availability of funds.

BACKGROUND

On March 3, 2020, a two-thirds majority of voters of the City approved Proposition B, the Earthquake Safety and Response General Obligation (GO) Bond. Proposition B authorizes the City to issue $628,500,000 in GO bonds to improve fire, earthquake, and emergency response by improving, constructing, and/or replacing the following: deteriorating cisterns, pipes, and tunnels, and related facilities to ensure firefighters a reliable water supply for fires and disasters; neighborhood fire and police stations and supporting facilities; the City's 911 Call Center; and other disaster response and public safety facilities, and to pay related costs.

The proposed first bond sale of up to $85,000,000 of the total $628,500,000 is expected to occur in February 2021 upon Board of Supervisors approval of the bond issuance (File 20-1295). The projects to be funded through the proposed $628,500,000 bond program include: (1) renovation, expansion and seismic upgrading of the City's Emergency Firefighting Water System; (2) improvement and rehabilitation of neighborhood fire stations and replacement of the firefighter training facility currently located on Treasure Island; (3) seismic, safety and operations improvements to district police stations and City-owned Police Department support facilities; (4) upgrading or replacement of critical City-owned disaster response facilities; and (5) expansion of the City's 9-1-1 Emergency Call Center. Specific project activities to be funded through the proposed first bond sale of $85,000,000 include the following:

- **Emergency Firefighting Water System (SFPUC):** planning, design, bid process, and partial construction;
- **Neighborhood Fire Stations and Support Facilities (DPW):** planning and pre-design;
- **District Police Stations and Support Facilities (DPW):** planning, design, bid process, and partial construction;
- **Disaster Response Facilities - Kezar Pavilion (RPD):** investigative studies, concept development planning, design, permits, and bid process; and
- **9-1-1 Call Center (DPW):** planning, design, bid process, and construction

DETAILS OF PROPOSED LEGISLATION

File 20-1294: The proposed resolution would:

1. Provide for the issuance of not-to-exceed $628,500,000 aggregate principal amount of 2020 Earthquake Safety and Emergency Response General Obligation Bonds;
2. Authorize the issuance and sale of the bonds;
3. Provide for the levy of a tax to pay the principal and interest;
4. Provide for the appointment of depositories and other agents for the bonds;
5. Provide for the establishment of accounts related to the bonds;
6. Adopt findings under the California Environmental Quality Act (CEQA), the CEQA Guidelines and Administrative Code, Chapter 31;
7. Find that the proposed project is in conformity with the priority policies of Planning Code, Section 101.1 and with the General Plan consistency requirement of Charter, Section 4.105, and Administrative Code, Section 2A.53;
8. Ratify certain actions previously taken; and
9. Grant general authority to City officials to take necessary actions in connection with the issuance and sale of the bonds.

File 20-1295: The proposed resolution would:

1. Authorize the sale of not-to-exceed $85,000,000 aggregate principal amount of 2020 Earthquake Safety and Emergency Response General Obligation Bonds (Series 2021A);
2. Prescribe the form and terms of the bonds;
3. Provide for the appointment of depositories and other agents for the bonds;
4. Provide for the establishment of accounts related to the bonds;
5. Provide for the manner of sale of the bonds by competitive or negotiated sale;
6. Approve the forms of Official Notice of Sale and Notice of Intention to Sell Bonds;
7. Direct the publication of the Notice of Intention to Sell Bonds;
8. Approve the form of the Purchase Contract;
9. Approve the form of the Preliminary Official Statement and the execution of the Official Statement relating to the sale of the bonds;
10. Approve the form of the Continuing Disclosure Certificate;
11. Authorize and approve modifications to such documents;

12. Waive the deadline for submission of Bond Accountability Reports;
13. Ratify certain actions previously taken; and
14. Grant authority to City officials to take necessary actions for the authorization, issuance, sale, and delivery of the bonds.

File 20-0516: The proposed ordinance would appropriate $85,000,000 of the Series 2021A Earthquake Safety and Emergency Response General Obligation Bond proceeds to the Department of Public Works, San Francisco Public Utilities Commission, and Recreation and Parks Department in FY2020-21 for upgrade, replacement, improvement, rehabilitation, and seismic strengthening of City-owned fire, police, emergency, and disaster response facilities, as well as improvements to the City's Emergency Firefighting Water System. The $85,000,000 appropriation would be placed on Controller's Reserve pending sale of the bonds.

The proposed resolution (File 20-1295) waives the deadline for submission of accountability reports required under Administrative Code Section 2.71(a). According to Mr. Vishal Trivedi, Financial Analyst in the Office of Public Finance, the waiver was to ensure that the sale would not be delayed if the bond accountability report was not submitted 60 days prior to appropriation of the bond proceeds. Pursuant to Administrative Code Section 2.71, DPW submitted the Earthquake Safety & Emergency Response 2020 GO Bond Sale Accountability Report to the Board of Supervisors on November 12, 2020.

Table 1 below outlines anticipated sources and uses for the Series 2021A bonds.

Table 1: Sources and Uses of Series 2021A Bond Proceeds

Estimated Sources:	
Par Amount	$81,430,000
Reserve for Market Uncertainty	$3,570,000
Total Estimated Sources:	**$85,000,000**
Estimated Uses:	
Administrative Costs	
Costs of Issuance	$733,644
Controller's Audit Fund	$159,283
Underwriter's Discount	$814,300
Citizens' GO Bond Oversight Committee Fee	$81,430
Reserve for Market Uncertainty	$3,570,000
Administrative Costs Subtotal	***$5,358,657***
Project Costs	
Emergency Firefighting Water System[1]	$20,000,000
Neighborhood Fire Stations & Support Facilities	$2,900,000

[1] The $628.5 million Earthquake Safety and Emergency Response General Obligation Bond includes $153.5 million for Emergency Firefighting Water System projects, of which $20 million is appropriated in this ordinance (see Table 2 below). The initial appropriation of $20 million will be used for planning, design, bid, and partial construction of the Westside Phase I system project.

District Police Stations & Support Facilities	$32,022,200
Disaster Response Facilities	$15,855,705
9-1-1 Response Facilities	$8,863,438
Project Costs Subtotal	***$79,641,343***
Total Estimated Uses:	**$85,000,000**

Source: Office of Public Finance and Department of Public Works

As shown in Table 2 below, with the proposed $85,000,000 appropriation in Series 2021A GO bond proceeds, $543,500,000 of the total $628,500,000 in 2020 Earthquake Safety and Emergency Response GO Bonds will be issued in amounts to be determined at a later date. The Attachment shows the specific project activities to be funded by the proposed Series 2021A GO bond issuance.

Table 2: 2020 Earthquake Safety and Emergency Response General Obligation Bonds Funds Allocation

Projects	**Proposed Bond Authorization**	**Proposed Bond Budget**	**Proposed 1st Bond Issuance (Series 2021A)**	**Remainder to be Allocated**
Emergency Firefighting Water System (SFPUC)	$153,500,000	$151,170,852	$20,000,000	$131,170,852
Neighborhood Fire Stations & Support Facilities (DPW)	275,000,000	270,827,260	2,900,000	267,927,260
District Police Stations & Support Facilities (DPW)	121,000,000	119,163,994	32,022,200	87,141,794
Disaster Response Facilities (RPD)	70,000,000	68,937,848	15,855,705	53,082,143
9-1-1 Response Facilities (DPW)	9,000,000	8,863,438	8,863,438	0
Project Subtotal	***$628,500,000***	***$618,963,392***	***$79,641,343***	***$539,322,050***
Cost of Issuance/Oversight/Underwriter's Discount/Audit Fund	-	5,966,608	1,788,657	4,177,951
Reserve for Market Uncertainty	-	3,570,000	3,570,000	-
Administrative Subtotal	**-**	***$9,536,608***	***$5,358,657***	**$4,177,951**
Total	**$628,500,000**	**$628,500,000**	**$85,000,000**	**$543,500,000**[2]

Source: Office of Public Finance and Department of Public Works

[2] Figure may not add due to rounding.

Citizens' General Obligation Bond Oversight Committee Annual Report

Under the proposed resolution (File 20-1295), the Citizens' General Obligation Bond Oversight Committee shall conduct an annual review of bond spending and shall provide an annual report on the management of the program to the Mayor and the Board of Supervisors.

FISCAL IMPACT

Annual Debt Service

As shown above in Table 1, the Office of Public Finance expects to sell $81,430,000 in par value Series 2021A Bonds. The proposed resolution (File 20-1295) authorizes the Director of Public Finance to determine the sale date, interest rates, principal amount, and maturity dates of the bonds, subject to the following conditions: (1) the true interest cost shall not exceed 12 percent; and (2) the Series 2021A Bonds shall have a final maturity date no later than 30 years after the date of issuance.

Based upon an estimated market interest rate of 3.11 percent for GO bonds, the Office of Public Finance projects an average annual debt service cost of approximately $5,500,000. The total debt service over the anticipated 20-year life of the bonds is projected to be approximately $107,520,000. Of this, $81,430,000 represents the estimated par and the remainder of $26,090,000 represents estimated interest.

According to Mr. Trivedi, the Office of Public Finance anticipates issuing the Series 2021A Bonds via competitive sale based on the recommendations of the City's municipal advisors. In a competitive sale, the bonds will be awarded to the bidder providing the lowest true interest cost to the City and that meets the terms as specified in the Official Notice of Sale. However, Mr. Trivedi states that if tax-exempt municipal market conditions deteriorate significantly or other credit considerations change, the Director of the Office of Public Finance, in consultation with the Controller and the City's municipal advisors, may choose to pursue a negotiated sale through the City's Underwriting Pool[3], which was selected via a competitive Request for Qualifications process. As a negotiated sale, the City and its finance team will review comparable sales of financings recently sold with comparable ratings and par amount size to the Series 2021A Bonds. The City and the financial advisor will negotiate the final interest rates with the underwriting team to achieve the lowest true interest cost to the City based on recent comparable sales, orders received during the order period and overall conditions of the market at the time of sale.

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[3] According to Mr. Trivedi, the City maintains a pre-qualified pool of underwriters. If the City were to pursue a negotiated transaction, the underwriter selection would be based on a holistic evaluation of written proposals submitted by underwriters in the pool. The pre-qualified underwriter pool was established in accordance with the City's contracting procedures through a competitive Request for Qualifications process, with an evaluation panel reviewing and scoring the submittals based on approved guidelines and overseen by the Contract Monitoring Division.

Debt Limit

Section 9.106 of the City Charter limits the amount of GO bonds the City can have outstanding at any given time to 3 percent of the total assessed value of property in San Francisco. The City calculates its debt limit on the basis of total assessed valuation net of non-reimbursable and homeowner exemptions. On this basis, the City's general obligation debt limit for FY 2020-21 is approximately $9.04 billion, based on a net assessed valuation of approximately $301.4 billion. This net assessed valuation is based on the Controller's Certificate of Assessed Valuation, as of August 1, 2020.

As of December 31, 2020, the City had outstanding approximately $2.50 billion in aggregate principal amount of GO bonds, which equals approximately 0.83 percent of the net assessed valuation for FY 2020-21. If all of the City's voter-authorized and unissued GO bonds were issued, the total debt burden would be 1.44 percent of the net assessed value of property in the City. If the Board of Supervisors approves the issuance of the Bonds, the debt ratio would increase by approximately 0.03 percent, to 0.86 percent, which is within the 3 percent legal debt limit.

Property Tax Rates

For Series 2021A, repayment of the annual debt service will be recovered through increases in the annual Property Tax rate, which is estimated to average $0.00184 per $100 of assessed value or $1.84 per $100,000 of assessed value over the anticipated 20-year term of the bonds. The owner of a residence with an assessed value of $600,000, assuming a homeowner's exemption of $7,000, would pay average additional property taxes to the City of approximately $10.90 per year if the anticipated amount of $81,430,000 of Bonds are sold.

Capital Plan

The Capital Planning Committee approved a financial constraint regarding the City's planned use of GO bonds such that debt service on approved and issued GO bonds would not increase property owners' long-term property tax rates above FY 2005-06 levels. The FY 2005-06 property tax rate for the GO bond fund was $0.1201 per $100 of assessed value. If the Board of Supervisors approves the issuance of the Series 2021A GO Bonds, the property tax rate for GO bonds for FY 2020-21 would be maintained at or below the FY 2005-06 rate and within the Capital Planning Committee's approved financial constraint.

POLICY CONSIDERATION

According to Mr. Trivedi, the Covid-19 pandemic is continuing to impact underlying economic conditions which inform the municipal bond market and interest rates, and it may have some impact on the timeline for completion of the Earthquake Safety & Emergency Response bond projects. Mr. Trivedi states that current protocols also create minor logistical challenges for closing the bond transaction, but based on prior experiences with bond sales during the pandemic, the Office of Public Finance does not expect significant challenges to the sale and closing of the Series 2021A Bond transaction.

RECOMMENDATION

Approve the proposed resolutions (File 20-1294 and File 20-1295) and the proposed ordinance (File 20-1259).

Attachment – Files 20-1294 and 20-1295

Projects	**Proposed 1st Bond Sale (Series 2021A)**	**Expenditures (pre-bond)**	**Balance**	**Future Bond Issuance(s)**	**Total Bond Issuances Combined**
Emergency Firefighting Water System (SFPUC)	**$20,000,000**	**-**	**$20,000,000**	**$131,170,852**	**$151,170,852**
Planning, Design, Bid/Award	5,200,000	-	5,200,000	6,400,000	11,600,000
Construction, Close out[4]	14,800,000	-	14,800,000	124,770,852	139,570,852
Neighborhood Fire Stations & Support Facilities (DPW)	**2,900,000**	**1,043,581**	**1,856,419**	**267,927,260**	**270,827,260**
Planning, Pre-design	2,900,000	1,043,581	1,856,419	-	2,900,000
Design, Bid/Award, Construction, Close out	-	-	-	267,927,260	267,927,260
District Police Stations & Support Facilities (DPW)	**32,022,200**	**1,382,612**	**30,639,588**	**87,141,794**	**119,163,994**
Surge Facility #1	4,240,000	-	4,240,000	-	4,240,000
Ingleside Station	11,027,200	-	11,027,200	66,422,800	77,450,000
Taraval Station	6,000,000	-	6,000,000	-	6,000,000
Lake Merced Range	5,280,000	-	5,280,000	18,720,000	24,000,000
Focused Scope – Mission Station	970,000	-	970,000	-	970,000
Pre-bond Efforts & Component Reserve[5]	4,505,000	1,382,612	3,122,388	1,998,994	6,503,994
Disaster Response Facilities (RPD)	**15,855,705**	**500,000**	**15,355,705**	**53,082,143**	**68,937,848**
Planning, Design, Bid/Award	15,855,705	500,000	15,355,705	2,092,756	17,948,461
Construction, Close out	-	-	-	50,989,387	50,989,387
9-1-1 Response Facilities (DPW)	**8,863,438**	**500,000**	**8,363,438**	**-**	**8,863,438**
Planning, Design, Bid/Award	852,316	500,000	352,316	-	852,316
Construction, Close out	8,011,122	-	8,011,122	-	8,011,122
Subtotal	***$79,641,343***	***$3,426,193***	***$76,215,150***	***$539,322,050***	***$618,963,392***
Cost of Issuance/Oversight/Underwriter's Discount/Audit Fund	1,788,657	-	1,788,657	4,177,951	5,966,608
Reserve for Market Uncertainty	3,570,000	-	3,570,000	-	3,570,000
Total	***$85,000,000***	***$3,426,193***	***$81,573,807***	***$543,500,001***	***$628,500,000***

Source: Office of Public Finance and Department of Public Works

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[4] The Emergency Firefighting Water System's 1st bond issuance for construction planned to fund the following project(s): Potable Emergency Firefighting Water System pipeline and/or fireboat manifold projects

[5] This is a pre-bond reimbursement and component reserve (set aside for project costs yet to be identified at this time).

Item 4 **File 20-1366**	**Department:** Department of Public Health (DPH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution retroactively authorizes the Department of Public Health to accept and expend a grant in the amount of $1,996,144 from the Mental Health Services Oversight and Accountability Commission (MHSOAC) for participation in a program entitled, "Early Psychosis Intervention (EPI) Plus," for the period of September 1, 2020 through August 31, 2024

Key Points

- The Department's existing Early Psychosis Intervention Program is intended to address early psychosis among young people in conjunction with the County's Transitional Aged Youth (TAY) System of Care. The program emphasizes the use of a team of specialists who work with the client to create a personal treatment plan. Treatment options can include medication management, psychotherapy, case management, work or education support and family education or support.
- The EPI Plus program, funded by the proposed grant will focus on improving access to services for Transitional Aged Youth (age 14-25) in San Francisco
- The original EPI Plus program start date was September 1, 2020, however the program is delayed because the State has not yet certified the agreement.

Fiscal Impact

- The proposed grant requires $4,341,655 in local matching funds. The entire program budget for the 4-year period (from September 1, 2020 through August 31, 2024) is $6,337,799, which includes grant funds of $1,996,144 and $4,341,655 in State and federal funds. State funds consist of Medi-Cal and Mental Health Services Act funds, and federal funds consist of Substance Abuse and Mental Health Services Act (SAMHSA) funds.
- Of the total $1,966,144 funding awarded, $1.8 million will go towards contracted services provided by the Felton Institute, $176,418 will be used to fund 0.25 of a new TAY Clinical Care Coordinator position with BHS and $300,000 will go towards administrative costs.
- Of the contracted services costs, approximately $1.4 million will fund personnel salaries and benefits, and $425,216 will be used towards non-personnel costs associated with the program.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Administrative Code Section 10.170-1 states that accepting Federal, State, or third-party grant funds in the amount of $100,000 or more, including any City matching funds required by the grant, is subject to Board of Supervisors approval.

BACKGROUND

MHSOAC Early Psychosis Intervention Plus Grant

The Mental Health Services Oversight Accountability Commission is a state agency that oversees the implementation of the Mental Health Services Act. Authorized by Assembly Bill 1315, the agency released a grant notice in early 2020 to provide funding for the expansion of integrated care to individuals experiencing a first episode of psychosis, titled the "Early Psychosis Intervention Plus (EPI Plus) Program." The funding program is designed to support community-level early psychosis and mood disorder detection and intervention programs for adolescents and young adults.[1] On June 5, 2020, the San Francisco Department of Public Health's Behavioral Health Services (BHS) submitted an application for $1,996,144 in EPI Plus grant funding to further augment their existing Early Psychosis Intervention Plus program for a 4-year period of September 1, 2020 through August 31, 2024. BHS received notice of the award on August 27, 2020. Four other California counties also received funding under this grant.

Felton Institute's PREP (Prevention and Recovery in Early Psychosis) Program

The Department's existing Early Psychosis Intervention Program is designed to address early psychosis among young people in conjunction with the County's Transitional Aged Youth (TAY) System of Care. The San Francisco TAY System facilitates services to youth ages 16-25 with serious and persistent mental health issues. The Department's primary partner in program delivery is the Felton Institute, which was selected in 2017 through a competitive solicitation process to provide early psychosis intervention in San Francisco.[2] According to the Department, BHS may issue solicitations that provide multiple funding awards under one solicitation within the same category and sub-category of services, and then select one or more applicants to provide services. According to Ms. Mimi Fung, Administrative Analyst with the Department of Public Health, the Felton Institute was the only applicant for the Early Psychosis and Recovery Project and received a score of 92 out of 100 points. According to the FY 2018-19 monitoring report for the PREP program, the Felton Institute achieved an overall program rating of "4", which means "commendable/exceeds standards."[3] The contractor is scored in the following four categories: program performance, program deliverables, program compliance and client satisfaction. The contractor achieved a rating of "4" in three of the four categories, except for client satisfaction which was rated a "3" (acceptable/meets standards).

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[1] MHSOAC "Early Psychosis Intervention Plus (EPI Plus) Program Description."

[2] The Felton Institute was awarded the contract through RFQ #15-2017, "Transition Age Youth System of Care Request for Qualifications".

[3] The FY 2019-20 program monitoring report was not yet available.

Felton Institute Contract #1000009936

The total contract not-to-exceed amount awarded to the Felton Institute is $36,533,164 for July 1, 2018 through June 30, 2022 and covers the administration of 15 different behavioral health programs. The Board of Supervisors retroactively approved this contract in September 2018 (File 18-0660).

DETAILS OF PROPOSED LEGISLATION

The proposed resolution retroactively authorizes the Department of Public Health to accept and expend a grant in the amount of $1,996,144 from the Mental Health Services Oversight and Accountability Commission for participation in program entitled "Early Psychosis Intervention (EPI) Plus," for the period of September 1, 2020 through August 31, 2024.

According to the Department, although the letter of funding was received August 27, 2020 for the project start date of September 1, 2020, the Department did not submit the proposed resolution to the Board of Supervisors for approval until December 2020. As noted below, the State has not yet certified the agreement and the Department has not yet begun the EPI Plus program.

Services Provided

The existing PREP program model emphasizes the use of a team of specialists who work with the client to create a personal treatment plan. Treatment options can include medication management, psychotherapy, case management, work or education support and family education or support.[4] The proposed EPI Plus program will focus on improving access to services for Transitional Aged Youth (age 14-25) in San Francisco.[5] With the additional funding provided through the EPI Plus program, BHS and the Felton Institute will provide the additional following services:

- Expanded incorporation of substance use assessment and treatment at all levels of project services,
- The addition of new bilingual/bicultural staff,
- Expanded and enhanced community education and outreach to help more families and youth-serving agencies and adults identify young people exhibiting systems of early psychosis, and
- Increased use of telehealth and telepsychology approaches (including apps) to further improve the retention of young people and families in early psychosis intervention programs.

[4] Source: National Institute of Mental Health: "What is Coordinated Specialty Care?"

[5] San Francisco Department of Public Health. Behavioral Health Services. Mental Health Services Oversight and Accountability Commission (MHSOAC). Early Psychosis Intervention Plus Grant Application.

The Department anticipates that it will be able to increase the number of clients served by the program by 50 percent (from 40 to 60 total).

Timeline

According to Ms. Mimi Fung, Administrative Analyst with the Department of Public Health, the State has not yet certified the contract and the Department has not been able to start the EPI Plus program. However, it is anticipated that the state will certify the contract within the next one to two months. According to Ms. Fung, the end date of the program may be pushed back accordingly, as previous state MHSOAC grants have allowed the end dates to be pushed back due to delayed start dates. As such, the Department anticipates that this new grant will last a full four years.

Impact of COVID-19

According to Mr. Gregory Wong, Administrative Analyst with the Department of Public Health, the existing early psychosis intervention program has adapted to the pandemic by incorporating the use of telehealth and telephone services when applicable. The team still continues to work face-to-face with clients using appropriate COVID-19 safety measures as deemed necessary.

FISCAL IMPACT

The proposed grant requires $4,341,655 in local matching funds. The local matching funds are not new funding but are existing funds used for the purpose of this grant. The entire program budget for the 4-year period (from September 1, 2020 through August 31, 2024) is $6,337,799, which includes grant funds of $1,996,144 and $4,341,655 in State and federal funds. State funds consist of Medi-Cal and State Mental Health Services Act (MHSA) funds, and federal funds consist of Substance Abuse and Mental Health Services Act (SAMHSA) funds.

According to Ms. Mimi Fung, the additional $2 million in grant funding will primarily be used to increase the number of clients served from 40 clients per fiscal year to 60 clients per fiscal year, for an additional 20 clients served. The additional funding will also allow the existing program to attain full adherence and fidelity to the Coordinated Specialty Care (CSC) model, which is already used by the Felton Institute.[6] Exhibit 1 below summarizes the sources and uses of the program budget.

[6] The Coordinated Specialty Care Model emphasizes shared decision-making and collaborative treatment planning, and may include any combination of the following treatment methods: Assertive case management, individual and/or group psychotherapy, supported employment and education services, family education and support, and low doses of select antipsychotic agents. Source: San Francisco Department of Public Health. Behavioral Health Services. Mental Health Services Oversight and Accountability Commission (MHSOAC). Early Psychosis Intervention Plus Grant Application.

Exhibit 1. PREP Program Budget Overview for September 2020 through August 2024

	Sources			
Uses	**EPI Grant**	**State**	**Federal**	**Total**
Personnel (Salaries & Fringes)				
SFDPH TAY System of Care Coordinator	176,418			176,418
Felton Institute Contractual Services	1,520,305	2,595,824	1,745,831	5,861,960
Administrative/Indirect Cost	299,421			299,421
Total	$1,996,144	$2,595,824	$1,745,831	**$6,337,799**

Source: Behavioral Health Services

As shown above, the majority of the funding ($5.9 million) will be used towards contracted services provided through the Felton Institute. Approximately $300,000 will be used to cover administrative costs, which includes indirect costs and overhead (limited to 15 percent). $176,418 will be used to fund .25 FTE of the TAY Clinical Services Coordinator. The remaining 0.75 FTE of this position will be funded through existing Departmental budget sources, including $535,254 in MH MHSA TAY program funding. According to Mr. Wong, this position has not yet been filled and is in the process of being posted. Exhibit 2 below shows the proposed use of EPI grant funds over the 4-year term.

Exhibit 2. Detailed EPI Plus Grant Program Budget

Expense	**Grant Year**				
	9/1/20-8/31/21	**9/1/21-8/31/22**	**9/1/22-8/31/23**	**9/1/23--8/31/24**	**Total**
DPH Personnel					
TAY Clinical Care Coordinator (.025 FTE)	$41,974	$43,497	$44,801	$46,146	$176,418
Contracted Services					
Felton Institute Staff (Contractors)[7]					
Division Director	7,500	7,500	7,500	7,500	30,000
Program Manager	9,300	9,300	9,300	9,300	37,200
Clinical Supervisor/Team Leader	17,000	17,000	17,000	17,000	68,000
Bilingual Staff Therapist	60,000	80,000	80,000	80,000	300,000
Bilingual Employment and Education Specialist	33,750	45,000	45,000	45,000	168,750
Family Peer Specialist	41,250	55,000	55,000	55,000	206,250
EP Training and Evaluation Manager	52,500	70,000	70,000	70,000	262,500
Contracted Services Benefits	66,390	85,140	85,140	85,140	321,810
Non-Personnel Costs					
Peer Participation Honoraria	5,400	7,200	7,200	7,200	26,180
Community Outreach and Education Events	1,350	1,800	1,800	1,800	6,750
Outreach Materials Production and Printing	450	600	600	600	2,250
Graphic Art and Web Development	5,400	5,400	5,400	2,700	18,900
Phone-App Based Telehealth and Teletherapy		26,103	14,181	6,681	46,965

[7] Four Felton Institute staff positions (the Bilingual Staff Therapist, the Bilingual Education Specialist, the Family Peer Specialist and the EP Training and Evaluation Manager) will not be hired until month 4 of the program.

Expense	Grant Year				
	9/1/20-8/31/21	9/1/21-8/31/22	9/1/22-8/31/23	9/1/23--8/31/24	Total
Telehealth-Related Participant Incentives		4,500	9,000	9,000	22,500
Local Transportation	450	600	600	600	2,250
Administration/Indirect Costs	60,334	80,936	79,857	78,294	299,421
Total Proposed Grant Request	**$403,048**	**$539,576**	**$532,379**	**$521,961**	**$1,996,144**

Source: Behavioral Health Services

Of the total proposed $2 million grant request, $1.8 million will be used towards contracted services, $176,418 will be used to fund 0.25 of the TAY Clinical Care Coordinator position with BHS and $300,000 will go towards administrative costs. Of the contracted services, approximately $1.4 million will fund personnel salaries and benefits, and $425,216 will be used towards non-personnel costs including the incentive program, outreach events, and graphic art/web development consultant services. Exhibit 3 provides additional detail regarding the other funding sources.

Exhibit 3. Overview of Early Psychosis Program Funding Sources

Funding Source	Amount
Federal	
SAMHSA BEAM UP Grant	$564,559
SAMHSA Adult SOC Grant	1,181,272
State	
EPI Grant	1,996,144
Medi-Cal Reimbursements	520,000
MH MHSA TAY Program Funding	1,555,824
MH MHSA TAY Program Match	520,000
Total	**$6,337,799**

Source: Behavioral Health Services

Including the EPI Plus Grant funding, state sources provide approximately $4.6 million to the program (approximately 72 percent) and federal sources provide approximately $1.7 million (approximately 28 percent).

RECOMMENDATION

Approve the proposed resolution.

Item 5 File 20-1397	Department: Municipal Transportation Agency (MTA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize the sale and issuance of not to exceed $185,000,000 aggregate principal amount on a tax-exempt or taxable basis of refunding revenue bonds by the Municipal Transportation Agency to refinance all or a portion of outstanding bonds.

Key Points

- In 2007, San Francisco voters approved Proposition A, authorizing MTA to issue revenue bonds and other forms of indebtedness to finance transit, parking and other capital improvement projects, subject to Board of Supervisors' approval.
- MTA and their financial advisors have determined that the agency may achieve significant debt service savings by refinancing all or a portion of the outstanding par for the following revenue bonds: (1) Series 2012A; (2) Series 2012B; (3) Series 2013; and (4) Series 2014.
- MTA needs to refinance and issue refunding bonds to achieve debt service savings due to historically low interest rates, and to support the agency's operating budget, the revenues of which have been severely impacted by the Covid-19 health crisis. The debt service savings, near term savings from debt service reserve releases, and principal and interest releases will be carried forward to FY 2021-22 to help close MTA's currently estimated $63 million operating deficit in that same fiscal year.

Fiscal Impact

- According to good faith estimates from MTA's Municipal Advisor Backstrom, McCarley Berry & Co, the revenue bond refunding authorized by the proposed resolution would result in an estimated $22.2 million of debt service savings over the 20-year period from 2024 through 2044. Using an estimated annual discount rate of 2.33 percent, the MTA would have total savings of approximately $22 million in net present value. According to RBC Capital Markets, the underwriter for the bond transaction, based on current market conditions the Series 2021 bonds would have an estimated average coupon rate of 2.44 percent, which will be lower than the average 5 percent coupon rate of the Series 2012A, Series 2012B, Series 2013, and Series 2014 bonds.
- The refunding is structured to provide the MTA with $22.5 million in up-front savings in FY 2020-21 from the release of currently obligated debt service reserves and principal and interest. This will provide MTA with greater funding for operations given enterprise revenue losses associated with the Covid-19 pandemic. The refunding bonds are expected to be sold during the week of February 8, 2021.
- MTA will repay the bonds from MTA gross annual pledged revenues, which totaled approximately $764,755,363 in FY 2019-20 and is projected to decrease by $221,240,946 to $543,514,417 in FY 2020-21

Recommendation

Approve the proposed resolution.

MANDATE STATEMENT

Charter Section 8A.102(b)(13) authorizes the San Francisco Municipal Transportation Agency (MTA) to incur debt and issue bonds, notes, certificates of indebtedness, commercial paper, financing leases, certificates of participation and other debt instruments without further voter approval, subject to Board of Supervisors approval. Charter Section 8A.102(b)(13) requires that (1) the Controller must first certify that MTA has sufficient unencumbered fund balances available in the appropriate fund to meet all payments on debt obligations as they become due; and (2) any debt obligation, if secured, is secured by revenues or assets under the jurisdiction of the MTA.

BACKGROUND

In 2007, San Francisco voters approved Proposition A, authorizing MTA to issue revenue bonds and other forms of indebtedness to finance transit, parking and other capital improvement projects, subject to Board of Supervisors' approval.

In 2012, the MTA issued bonds (Series 2012A) for $37,960,000 to refund outstanding revenue bonds. In 2012, the MTA also issued revenue bonds (Series 2012B) for $25,835,000 to finance (1) Systemwide Transit Access and Reliability (Transit Signal Priority) Program, (2) Muni Metro Sunset Tunnel Rail Rehabilitation, (3) Muni Metro Turnback Rehabilitation, (4) Muni Metro System Public Announcement and Public Display System Replacement, (5) Muni System Radio Replacement Project, (6) Muni Green Light Rail Facility Rehabilitation, and (7) major rehabilitation, preservation, and improvement of existing parking facilities.

In 2013, the MTA issued revenue bonds (Series 2013) for $75,440,000 to fund capital projects for (1) pedestrian safety and traffic signals, (2) street and bicycle projects, (3) transit system improvements, (4) parking garage and Muni facility improvements, and (5) light rail vehicle procurement.

In 2014, the MTA issued revenue bonds (Series 2014) for $70,605,000 to fund capital projects for (1) pedestrian safety and traffic signals, (2) transit system improvements, (3) street and bicycle projects, (4) facility improvements, and (5) light rail vehicle procurement.

In 2017, the MTA issued revenue bonds (Series 2017) for $177,830,000 to finance (1) Muni Light Rail Vehicle (LRV) Procurement, (2) Van Ness Bus Rapid Transit Project/Improvement Project, (3) Mission Bay Transportation Capital Improvements for the Chase Center, (4) Pedestrian Safety and Traffic Signal Improvements, (5) Transit System Safety and Spot Improvements, (6) Complete Street Capital Improvements, and (7) Facility Improvements.

According to Mr. Samuel Thomas, MTA Manager of Analysis and Controls Office, the agency and their financial advisors have determined that MTA may achieve significant debt service savings by refinancing all or a portion of the outstanding par for the following revenue bonds: (1) Series 2012A; (2) Series 2012B; (3) Series 2013; and (4) Series 2014. Series 2017 Revenue Bonds are not being refunded as a refunding will not result in cost savings for the MTA. On December 5, 2020, the MTA Board approved the issuance of not to exceed $185,000,000 aggregate principal amount of refunding revenue bonds to refinance all or a portion of the Series 2012A, Series 2012B, Series 2013, and Series 2014 revenue bonds.

As shown in Table 1 below, MTA expects to refund $156,210,000 in outstanding par for the selected bonds. The original bonds will be legally defeased at closing and called for redemption at their first optional call dates.

Table 1. Outstanding Bonds to be Refunded

Bond	Original Par Amount	Outstanding Par Amount
Series 2012A	$37,960,000	$11,690,000
Series 2012B	$25,835,000	$25,835,000
Series 2013	$75,440,000	$56,190,000
Series 2014	$70,605,000	$62,495,999
Total	**$209,840,000**	**$156,210,000**

Source: Municipal Transportation Agency

According to Mr. Thomas, proceeds of the bonds to be refunded have been fully expended except for a de minimis balance for Series 2013, and a $4,400,000 balance for Series 2014 which is projected to be fully expended by the end of FY 2020-21.[1]

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would:

1) Authorize the sale, issuance and execution of not to exceed $185,000,000 aggregate principal amount on a tax-exempt or taxable basis of refunding revenue bonds by the Municipal Transportation Agency to refinance all or a portion of outstanding bonds;
2) Approve the form of certain financing documents including the bond purchase contract, the fifth supplement to indenture of trust, one or more escrow agreements, and a continuing disclosure certificate;
3) Authorize the taking of appropriate actions in connection therewith; and related matters approving the forms of documents;
4) Set a maximum interest rate of 12 percent per year on the bonds;

[1] Mr. Thomas states that the remaining balance is a result of dollars that were not expended on certain projects that are now in administrative closeout. The closeout process requires certain accounting steps in coordination with the Department of Public Works (DPW). MTA is working with DPW to close the projects and transfer remaining 2014 dollars to other projects for full spend-down. Mr. Thomas states that the MTA Bond Oversight Committee is aware of the current process and MTA estimates full expenditure by the end of FY 2020-21.

5) Adopt finding that the authorization and issuance of refunding revenue bonds by the agency is not a project under the California Environmental Quality Act (CEQA), CEQA Guidelines, and San Francisco Administrative Code, Chapter 31.

According to Mr. Thomas, MTA needs to refinance and issue refunding bonds to achieve debt service savings due to historically low interest rates, and to support the agency's operating budget, the revenues of which have been severely impacted by the Covid-19 health crisis. The debt service savings, near term savings from debt service reserve releases, and principal and interest releases will be carried forward to FY 2021-22 to help close MTA's currently estimated $63 million operating deficit in that same fiscal year.

Table 2 below outlines the estimated sources and uses of the proposed bond refinance.

Table 2: Estimated Sources and Uses of Proposed Bond Refinance

Estimated Sources:	**Series 2021A**	**Series 2021B**	**Total**
Par Amount	166,670,000	7,470,000	$174,140,000
Premium[2]		2,209,626	$2,209,626
Total Estimated Sources:	**$166,670,000**	**$9,679,626**	**$176,349,626**
Estimated Uses:			
Refunding Escrow Deposits[3]	$165,630,957	$9,631,422	$175,262,379
Cost of Issuance	651,788	29,212	681,000
Underwriter's Discount	387,086	17,349	404,435
Additional Proceeds	169	1643	1812
Total Estimated Uses:	**$166,670,000**	**$9,679,626**	**$176,349,626**

Source: Municipal Transportation Agency

According to Mr. Thomas, the proposed issuance amount of $176,349,626 is based on market conditions as of December 18, 2020. In addition to the issuance amount, the proposed resolution's not-to-exceed amount of $185 million includes an approximately $9 million in a reserve for market uncertainty to provide room for bond market fluctuations, a standard practice in debt transactions.

FISCAL IMPACT

According to good faith estimates[4] from MTA's Municipal Advisor Backstrom, McCarley Berry & Co, the revenue bond refunding authorized by the proposed resolution would result in an estimated $22.2 million of debt service savings over the 20-year period from 2024 through 2044.

[2] The premium is the amount that investors would be willing to pay more than the face value of the bonds. With premium bonds, investors receive a higher interest rate in exchange for paying a premium at issuance.

[3] The amount of required deposit into an irrevocable escrow account that will be applied to the purchase of escrow securities at, or prior to, bond closing. The amount of the purchased escrow investments along with accrued interest will be precisely sufficient to redeem the refunded bonds at the first available redemption date for each respective refunded bonds.

[4] Based on estimates of market conditions as of December 18, 2020

Using an estimated annual discount rate of 2.33[5] percent, the MTA would have total savings of approximately $22 million in net present value. According to RBC Capital Markets, the underwriter for the bond transaction, based on current market conditions the Series 2021 bonds would have an estimated average coupon rate[6] of 2.44 percent, which will be lower than the average 5 percent coupon rate of the Series 2012A, Series 2012B, Series 2013, and Series 2014 bonds.

Further, the refunding is structured to provide the MTA with $22.5 million in up-front savings in FY 2020-21 from the release of currently obligated debt service reserves and principal and interest. This will provide MTA with greater funding for operations given enterprise revenue losses associated with the Covid-19 pandemic. The refunding bonds are expected to be sold during the week of February 8, 2021. Annual estimated debt service payments and savings are shown in Table 3 below.

Table 3. MTA Debt Service Payments and Savings

Date	Current Prior Debt Service Payment	Estimated New Refunding Debt Service Payment	Estimated Gross Savings	Estimated Net Present Value Savings[7]
6/30/2021	$9,631,422	-	$9,631,422	$9,622,739
6/30/2022	13,464,244	3,660,959	9,803,284	9,590,518
6/30/2023	13,281,994	10,523,918	2,758,076	2,650,676
6/30/2024	13,279,494	13,274,518	4,976	22,736
6/30/2025	13,286,744	13,282,794	3,950	19,867
6/30/2026	13,280,294	13,276,081	4,213	18,351
6/30/2027	13,282,294	13,278,865	3,429	15,977
6/30/2028	13,281,556	13,277,613	3,944	14,861
6/30/2029	13,282,294	13,279,568	2,726	12,342
6/30/2030	13,282,156	13,275,667	6,489	14,089
6/30/2031	13,284,056	13,283,203	853	8,235
6/30/2032	13,279,475	13,277,517	1,958	8,522
6/30/2033	13,283,100	13,282,304	797	6,407
6/30/2034	7,306,350	7,305,929	422	4,903
6/30/2035	7,303,750	7,299,521	4,230	7,199
6/30/2036	7,305,750	7,304,725	1,026	4,369
6/30/2037	7,306,000	7,305,803	198	3,293
6/30/2038	7,304,000	7,298,978	5,023	6,133
6/30/2039	7,304,250	7,302,368	1,883	3,568
6/30/2040	7,301,000	7,300,538	463	2,193
6/30/2041	7,298,750	7,298,488	263	1,613

[5] This is the all-in True Interest Cost which includes the cost of issuance. Pursuant to City's Debt Policy, the all-in True Interest Cost is to be used as the discount rate for purposes of calculating net present value in bond refunding.

[6] The coupon rate is the nominal fixed rate and will not change over the life of the bond. The average coupon rate is a weighted average of all the individual coupon rates of the various maturities from 2023 thru 2044.

[7] Estimated annual discount rate is 2.33 percent

Date	Current Prior Debt Service Payment	Estimated New Refunding Debt Service Payment	Estimated Gross Savings	Estimated Net Present Value Savings[7]
6/30/2042	7,306,750	7,306,073	678	1,403
6/30/2043	4,503,750	4,502,605	1,145	1,233
6/30/2044	4,504,500	4,503,285	1,215	990
Total	**$243,943,972**	**$221,701,314**	**$22,242,658**	**$22,042,216**

Source: Municipal Transportation Agency

The maximum interest rate that refunding bonds can be sold, pursuant to Section 43.13.4(b) of the Administrative Code, is 12 percent. The estimated true interest cost (TIC) on the refunding bonds is 2.29 percent (based on market conditions as of December 18, 2020). The prior bonds carry original average interest rate of approximately 5 percent. The refunding bonds will be issued as fixed rate bonds. The term of the proposed refunding bonds does not exceed the original terms of the bonds to be refunded, in accordance with MTA debt policy.

Principal repayment will not begin until FY 2023-24 to provide the MTA with maximum budget relief to cope with the impact of Covid-19. However, interest will still be paid semi-annually to bondholders, due March 1 and September 1 of each year, commencing on September 1, 2021.

The final maturity of the refunding bonds will be March 1, 2044. According to Mr. Thomas, debt service is already budgeted by the MTA in FY 2020-21 and FY 2021-22 for the existing Series 2012, 2013 and 2014 bonds that are being refunded. Because the MTA expects to obtain savings from the transaction, planned expenditures will not rise. Consequently, an additional appropriation will not be required because costs will not exceed the currently appropriated amounts.

Negotiated Sale of Bonds

Mr. Thomas states that the bonds will be sold through a negotiated process led by underwriters. According to Mr. Thomas, the Covid-19 pandemic has caused serious bond market dislocation for the entire transportation sector. Early in the pandemic, transit and airport issuers were effectively shut out of the capital market due to Covid-19-related concerns, or had to pay very high interest rates. In the current market, Mr. Thomas believes investors will demand a material penalty for the MTA's revenue bonds if they are not given time to review and understand the agency's financial position and credit. Further, a competitive sale may result in higher interest rates for the MTA and much higher underwriter's discount to compensate for greater market risk and lack of opportunity to review the credit. Pricing levels will be commensurate with other market transactions with comparable credit quality and related sector of the municipal bond market. According to Mr. Thomas, market benchmarks will be utilized to ensure the total interest cost to the City is the lowest achievable levels based on market conditions at the time of pricing.

Pledged Revenues

MTA will repay the bonds from MTA gross annual pledged revenues, which totaled approximately $764,755,363 in FY 2019-20 and is projected to decrease by $221,240,946 to $543,514,417 in FY 2020-21, as summarized in Table 4 below.

Table 4: MTA's Gross Pledged Revenues

Revenue Sources	FY 2018-19 (Actuals)	FY 2019-20 (Actuals)	FY 2020-21 (Projected)
Passenger Fares (fixed route and paratransit)	$197,109,784	$154,100,412	$20,304,573
Traffic Fines, Fees, Permits and Taxi	151,066,069	116,027,827	101,938,885
Parking Meters	61,264,074	43,912,682	38,284,557
Parking Garages	72,412,231	56,049,361	40,085,535
Other (includes rent, advertising and interest)	50,477,804	39,888,998	29,500,804
AB 1107[8]	46,776,462	44,485,548	42,098,816
State Transit Assistance (STA)	64,726,627	61,227,565	46,270,753
Transportation Development Act (TDA)	46,162,703	49,434,104	41,063,438
Federal Pandemic Support (CARES Act)	0	199,628,866	176,583,108
TNC Congestion Mitigation Tax	0	0	7,383,949
Total	**$689,995,754**	**$764,755,363**	**$543,514,417**[9]

Source: Municipal Transportation Agency

MTA does not include General Fund Baseline Transfer, General Fund Transfer in Lieu of Parking Tax or restricted grant funds in the revenues pledged to repay these bonds. According to the official statement for the revenue bonds, MTA is not obligated to pay principal or interest on the bonds from any source of funds other than pledged revenues, such that the City's General Fund is not liable for payment of the principal or interest on the subject bonds.

Debt Service as a Percent of Operating Expenses

MTA implemented and updated debt policies in 2011 and 2013 which established MTA's process, guidelines, restrictions, and financial criteria for issuing debt to fund capital projects. According to MTA's debt policy, aggregate annual debt service on long-term debt should not exceed 5 percent of MTA's annual operating expenses. According to Mr. Thomas, combined annual debt service of the existing Series 2017 Bonds (not being refunded) and Series 2021 refunding bonds will not exceed 2.0 percent of MTA's annual operating budget over the 24-year term of the refunding bonds.

RECOMMENDATION

Approve the proposed resolution.

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[8] This is the half-cent sales tax collected in Alameda, Contra Costa and San Francisco counties. The state government allocates 75 percent of these funds to BART and the remaining 25 percent to the Metropolitan Transportation Commission, which allocates its share of the funds evenly between the San Francisco MTA and AC Transit.

[9] Total may not add due to rounding.

Item 6 **Files 20-1365**	**Department:** Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves an amended and restated loan agreement between the MOHCD and BRIDGE-Potrero Community Associates, LLC to finance Phase 2 infrastructure by increasing the loan by $22,701,134 to a total not-to-exceed amount of $29,141,134.

Key Points

- Potrero HOPE SF is a 38 acre site that will provide up to 1,700 units of housing by replacing the 619 units of public housing on the site, adding over 180 affordable residential units (up to 60 percent AMI), and developing up to 800 market rate units. MOHCD selected BRIDGE Housing as the non-profit developer of the Potrero site through a competitive process. Phase I infrastructure and construction of 72 units was completed in June 2019.
- Phase 2 Infrastructure of the Potrero HOPE SF project will construct infrastructure improvements on 3.96 acres of land along the southern part of the site that covers affordable housing (Block B) and market rate housing (Block A.) Funding for Phase 2 will be used for excavating and removing existing utilities, installing new utilities, demolishing and upgrading existing streets, and constructing a new public mini park.
- In November 2020, the Citywide Affordable Housing Loan Committee recommended a modification of the original loan to increase the loan amount by $22,701,134 to a total not-to-exceed amount of $29,141,134. To date the City had committed $6,440,000.

Fiscal Impact

- HCD awarded BRIDGE grants totaling $13.2 million for Phase 2 infrastructure costs. After BRIDGE receives this grant funding and repays MOHCD, the residual MOHCD loan will total $15,942,134.
- Sources of the loan include: 2015 General Obligation Bonds, The Low and Moderate Income Housing Asset Fund, the Citywide Affordable Housing Fund, and Condo Conversion Fees.

Policy Consideration

- Project delays have contributed to an estimated increase in Phase 2 infrastructure costs. MOHCD is expected to close permanent financing on Potrero Block B between August and October of 2021 and will need to request gap loan approval from the Board of Supervisors. As part of that approval, the Board should request that MOHCD provide an update on Potrero HOPE SF financing and development, and BRIDGE compliance with Loan Agreement conditions to provide sufficient project management.

Recommendation

- The proposed Loan Agreement to provide permanent gap financing to Phase 2 of Potrero HOPE SF is consistent with prior Board actions, the Budget and Legislative Analyst recommends approval.

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

In 2007, the San Francisco Housing Authority in partnership with the Mayor's Office of Housing and Community Development (MOHCD) launched the HOPE SF initiative to revitalize the City's most distressed public housing sites into mixed-income communities comprised of affordable housing, including replacement units for existing public housing and new affordable units, and production of market rate housing. Potrero Terrace and Annex ("Potrero") is one of the four HOPE SF sites undergoing revitalization as part of the HOPE SF initiative. Potrero is located on the south slope of Potrero Hill and was comprised of 619 units of public housing across 38 acres.

In 2007 the San Francisco Housing Authority released a Request for Qualifications for developers to develop the Potrero HOPE SF sites. In 2008, the Housing Authority selected BRIDGE Housing Corporation and BRIDGE Urban Infill Land Development LLP to develop the master development plan for the Potrero site. In 2010, the Master Plan for the site was finalized and the project began its environmental review and land use approval process with the Planning Development. BRIDGE established a separate entity named BRIDGE-Potrero Community Associates, LLC to plan and develop the project. In March 2015, BRIDGE-Potrero Community Associates, LLC entered into a Second Amended and Restated Exclusive Negotiating Rights Agreement with the San Francisco Housing Authority for exclusive rights to negotiate development of the Potrero project.

In 2017, the Board of Supervisors approved a development agreement (File No. 16-1164) and a master development agreement (File No. 16-1356) between the San Francisco Housing Authority, the City, and BRIDGE to develop the Potrero HOPE SF project. The proposed Potrero development will provide up to 1,700 units of housing by replacing the 619 units of public housing on the site, adding over 180 affordable residential units (up to 60 percent AMI), and developing up to 800 market rate units. The master plan also includes developing new street and utility infrastructure, 3.5 acres of new open spaces, and an estimated 50,000 square feet of new neighborhood space.

The Potrero HOPE SF project is being developed across five main phases over 25 years. In June 2019, the Phase I infrastructure and construction of 72 units of affordable housing development (1101 Connecticut) was completed.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution (i) approves and authorizes the Director of MOHCD to execute an amended and restated loan agreement with BRIDGE-Potrero Community Associates, LLC, to finance the second phase of the infrastructure improvements and housing development by increasing the loan amount by $22,701,134 to a total not-to-exceed amount of $29,141,134; and, (ii) adopts findings that the loan agreement is consistent with the Mitigation Monitoring and Reporting Program under CEQA, the General Plan, and the eight priority policies of Planning Code, Section 101.1.

Phase 2 Infrastructure

Phase 2 Infrastructure (Phase 2) of the Potrero HOPE SF project will construct infrastructure improvements on 3.96 acres of land along the southern part of the site that covers affordable housing development on Block B (157 units) and market rate housing development on Block A (101 units).[1] Funding for Phase 2 will be used for relocation of residents within the Phase 2 footprint, predevelopment, design, engineering, permitting, bidding, construction and hazardous materials abatement related activities for the project. The scope of work for the infrastructure improvements includes but is not limited to excavating and removing existing utilities, installing new utilities (water, combined sewer, electric, etc.), installing a new retaining wall, installing an extension of Arkansas Street (25th Street through 26th Street), demolishing and upgrading existing streets, installing new irrigation and landscaping, grading to slopes matching the Master Improvement Plans, environmental screening and soil/dust management, and constructing a new public mini park.

According to MOHCD's report to the Citywide Affordable Housing Loan Committee, there were approximately eight buildings and 77 households on Phase 2 land. These households were relocated to new units completed under Phase 1 of the project or into renovated units in existing public housing on the site. In June 2020 the demolition of the eight buildings on Phase 2 land was completed and the land is now vacant and ready to begin infrastructure improvements.

According to the master development agreement, public financing for Phase 2 of the Potrero HOPE SF project was initially scheduled for FY 2017-18; however, MOHCD reports delays in the project due to development of Block X in Phase I requiring developer time and resources, project management staff turnover at BRIDGE, and delays due to infrastructure plan review and approvals and the permitting process. To help reduce any further delays due to staff turnover, the Loan Agreement includes a condition requiring BRIDGE Housing Corporation to hire a third party consultant within 30 days in the event that staff turnover continues. In the event that this is needed, BRIDGE will utilize funding from the developer fee to pay for the consultant. To date, MOHCD has been monitoring staffing monthly and has found that staffing levels are appropriate.

Gap Loan Amount

On November 20, 2020 the Citywide Affordable Housing Loan Committee recommended approval of a $22,702,134 loan for infrastructure improvements for Phase 2 of the Potrero project. This increases the not-to-exceed loan amount to $29,141,134.

[1] BRIDGE has proposed a joint venture with Strada Investment for Block A development and is seeking to increase the density of Block A to 238 market rate units (an additional 137 units than initially planned). This increased density is still under Planning Commission review and the transaction is under review.

To date, the City has committed $6,440,000 in previously approved loans for predevelopment ($2,640,000) and demolition and abatement work ($3,800,000) related to Phase 2 of the project, as detailed in Table 1 below.

Table 1. Phase 2 Infrastructure Loan Funding

Phase 2 MOHCD Loan	Amount	Terms	Status
Committed to Date			
Predevelopment	$2,640,000	55 years @ 0% Interest, deferred	Committed February 2018
Abatement/Demolition	3,800,000	55 years @ 0% Interest, deferred	Committed May 2019
Subtotal	6,440,000		
Current Request			
Infrastructure Improvements	22,701,134	55 years @ 0% Interest, deferred	Under consideration
Total	**$29,141,134**		

Source: MOHCD

Environmental Compliance

The proposed resolution also reaffirms findings that the project is consistent with the adopted Mitigation Monitoring and Reporting Program under the California Environmental Quality Act, the General Plan, and the eight priority policies of Planning Code, Section 101.1. The Board of Supervisors affirmed these findings previously in early 2017 (File No. 16-1308).

FISCAL IMPACT

Table 2 below details the uses of the $29,141,134 in total loans for Phase 2 infrastructure construction of the Potrero project.

Table 2. Uses of Loan for Potrero Phase 2 Infrastructure

Hard Costs	
Demolition & Abatement	$4,065,000
Infrastructure Improvements	14,296,414
General Conditions, Contingency, Escalation, Insurance Program and Fees	5,543,600
Subtotal Hard Costs	23,905,014
Soft Costs	
Soft Costs*	2,792,727
Soft Cost Contingency	844,193
Developer Overhead & Profit	1,250,000
Construction Management Fees	349,200

	Subtotal Soft Costs	5,236,120
Total Uses		**$29,141,134**

*Soft Costs include: Civil Engineering, Landscape Architect, Lighting Consultant, Electrical Engineer, Structural Engineer, Utility Design & Join Trench, Architecture Phase Application Preparations, Geo Tech, Special Inspections, Environmental Consulting/Monitoring, Hazmat Testing & Reports, Relocation, Permits & City Inspections, Insurance, Legal, and Other (bird nesting survey & tree removal hearing support).

Source: MOHCD

While the overall infrastructure costs for the Phase 2 project are higher than the approximately $12.5 million spent on infrastructure costs during Phase 1, the land area in Phase 2 is over 5 times larger than Phase 1. According to Ms. Sara Amaral, Senior Project Manager at MOHCD, Phase 1 covered roughly 30,000 square feet, where Phase 2 covers 172,498 square feet, resulting in an overall lower cost per square foot for Phase 2 ($169) compared with Phase 1 ($417). Higher costs for Phase 2 are also a result of higher structural engineer costs due to the number of retaining walls and accessible public spaces that will be provided, lighting and electrical calculations for the development of the public mini park, and additional funds for coordination with the Public Utilities Commission on the electrical plan and coordinating electrical upgrades.

According to Ms. Amaral, the project anticipates beginning infrastructure construction in February 2021 with substantial infrastructure construction completed by August 2021 after which construction on the 157 unit affordable housing development (Block B) will begin. Infrastructure construction will be completed once the affordable housing development is completed in March 2023 upon which the City acceptance process of the utilities and improved rights of way begins.

Sources of Funding

Table 3 below details the sources of funding for the $29,141,134 in Phase 2 infrastructure construction costs.

Table 3. Sources of Phase 2 Infrastructure Loan

Sources		**Amount**
MOHCD Sources		
2015 General Obligation Bond (this request)[2]		$21,853,000
Condo Conversion Fees (this request)		848,134
	Subtotal This Request	22,701,134

[2] In November 2015, voters of the City of San Francisco approved Proposition A, which provided for the issuance of up to $310 million in general obligation bonds to finance the construction, acquisition, improvement, rehabilitation, preservation and repair of certain affordable housing improvements.

Citywide Affordable Housing Fund – CPMC Fund (previously committed)[3]	2,300,000
Low Moderate Income Housing Asset Funds (previously committed)[4]	4,140,000
Subtotal Previously Committed	6,440,000
Total MOHCD Sources	29,141,134
HCD Grant Award Sources for MOHCD Loan Repayment	
Infill Infrastructure Grant	11,699,000
Affordable Housing and Sustainable Communities	1,500,000
Total HCD Grants	13,199,000
Residual MOHCD Loan Amount	$15,942,134

Source: MOHCD

The California Department of Housing and Community Development (HCD) has awarded BRIDGE two grants to be used to cover Phase 2 infrastructure costs: $11.7 million from the Infill Infrastructure Grant program and $1.5 million from the Affordable Housing and Sustainable Communities grant. These funds will not be available until after infrastructure construction starts, requiring that MOHCD bridge this amount until these funds can be accessed. The proposed loan agreement includes two conditions requiring BRIDGE to work with MOHCD and HCD to draw down these grant funds around August and September 2021. After BRIDGE receives grant funding and repays MOHCD, the residual MOHCD loan will total $15,942,134. The term of the loan is for 55 years at zero percent interest and is payable in-kind through the completion and acceptance of the public infrastructure improvements. In the event that the residual amount can garner more tax credit equity for Block B, and thereby decease Block B's request from the City, MOHCD may elect to assign a portion of this loan to Block B.

According to the loan conditions in the agreement, BRIDGE will continue its work to contain costs and if updated costs estimated come in below what is approved, the MOHCD loan will be reduced.

[3] In July 2013, the Board of Supervisors approved an ordinance that required Sutter West Bay Hospital to deposit funds into the Citywide Affordable Housing Fund (CPMC Fund) (File 12-0366). The CPMC Fund funds are to be used for predevelopment and development expenses and administrative costs associated with acquisition, construction, or rehabilitation of permanently affordable housing units in San Francisco. MOHCD is authorized to administer the CPMC Fund and enforce agreements relating to them.

[4] The Low and Moderate Income Housing Asset Fund ("LMIHAF") was created in response to California Assembly Bill 1484 following the dissolution of the San Francisco Redevelopment Agency in February 2012. The LMIHAF is used to collect proceeds from former redevelopment agency housing assets transferred to the City and County of San Francisco. Monies in the LMIHAF are derived from loan repayments and other housing asset program income and must be used in accordance with California Redevelopment Law.

Sale of Block A, Market Rate Parcel

Phase 2 infrastructure improvements are on land that includes both affordable (Block B) and market rate (Block A) housing development. The Block A market rate parcel will be sold to a market rate developer. BRIDGE is currently partnered with Strada Investment Group to develop Block A. The proceeds from the sale of Block A will be distributed to MOHCD through SFHA to subsidize the Potrero HOPE SF project as outlined in the Master Development Agreement. The terms of the sale of Block A are currently being negotiated with MOHCD, the Office of Economic and Workforce Development, SFHA, Strada and BRIDGE.

Total Project Costs

Current estimated development costs as of 2020 for Potrero HOPE SF infrastructure and affordable housing are $1.3 billion, which is an increase of approximately 59 percent from the original estimated development costs in 2017 of $821 million. According to MOHCD staff, the increase in development costs are due to an increase in costs for Phase 1 development of Block X, and an increase in Phase 2 infrastructure costs due the San Francisco's high construction costs and project delays.

The current estimated MOHCD subsidy as of 2020 for Potrero HOPE SF infrastructure and affordable housing development is $334 million, an increase of approximately 6 percent from the original estimated MOHCD subsidy in 2017 of $314 million. According to Ms. Amaral, project cost increases aren't reflected in a dollar-for-dollar increase to MOHCD subsidy, since increased costs will also generate additional tax credit equity.

Ms. Amaral also notes that schedules and estimated costs for all affordable developments are updated annually to reflect market assumptions of that time, namely, changes in equity pricing, which would increase or decrease the MOHCD subsidy amount, changes in overall rents, operating and services costs changes, interest rates for construction and permanent loans. Future phasing also assumes and inflation adjustor on the total development costs.

POLICY CONSIDERATION

Project Costs and Public Funding Sources

The original Development Agreement between the City, San Francisco Housing Authority, and BRIDGE estimated affordable housing development costs of $821 million, which include infrastructure costs, as noted above, of which $314 million was to be financed by City sources and $507 million was to be financed by private sources. The $314 million in estimated City financing included financing for Block X (1101 Connecticut Street), which was Phase 1 of Potrero HOPE SF but was not part of the Development Agreement.[5] Estimated City financing for

[5] Block X was previously owned by the San Francisco Unified School District (SFUSD). The Board of Supervisors approved purchase of Block X from SFUSD in February 2016 (File 16-0069) and ground leasing the parcel to Potrero Housing Associates I, LP, a California limited partnership formed by BRIDGE Housing Corporation, in June 2016 (File 16-0555). Development of Block X was completed as Phase 1 of Potrero HOPE SF.

affordable housing development and infrastructure costs covered by the Development Agreement (Phases 2 through 5) was $257.7 million, of which $138.9 million was to be sourced from the sale of market rate parcels.

The City financing of Phases 2 through 5 is now $296 million, an increase of approximately $38.2 million, from the prior estimate of $257.7 million. According to Ms. Amaral, the $296 million in City financing will be offset by additional sources of funds, including from state and federal sources as they become available, such as the funds awarded from HCD on Phase 2.

Private Financing Sources

Under the original Development Agreement estimates, private financing for affordable housing development of $507 million was to be sourced from private mortgages, deferred developer fees, and Federal Low Income Housing Tax Credits. As noted above, total estimated Potrero HOPE SF affordable housing development costs for Phases 1 through 5 increased from $821 million in 2017 to the current estimate of $1.3 billion. As a result, estimated required private financing sources (net of the City financing of $296 million) are now approximately $294.7 million. As noted above, while costs increased overall, MOHCD subsidy amount increased by 6 percent. The Sponsor and MOHCD will continue to apply for other financing sources, as funds become available, in order to offset the City contribution to the project.

Project Delays

Permanent gap financing of Phase 2 of Potrero HOPE SF, which was originally scheduled for FY 2017-18, is delayed by approximately three years, as noted above. Project delays have contributed to the estimated increase in Phase 2 infrastructure costs, as well as some infrastructure costs originally being assigned to Block B. For the future project cost increase, the Sponsor has assumed a market inflator on all costs from 2017. MOHCD is expected to close permanent financing on Potrero Block B between August and October of 2021 and will need to request gap loan approval from the Board of Supervisors. As part of that approval, the Board should request that MOHCD provide an update on Potrero HOPE SF financing and development, and BRIDGE compliance with Loan Agreement conditions to provide sufficient project management.

Because the proposed Loan Agreement to provide permanent gap financing to Phase 2 of Potrero HOPE SF is consistent with prior Board actions, the Budget and Legislative Analyst recommends approval.

RECOMMENDATION

Approve the proposed resolution.

Item 11 **File 21-0014**	**Department:** Human Services Agency

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance (i) appropriates $1,900,000 from the COVID-19 Response and Economic Loss Contingency Reserve to the Department of Disability and Aging Services in the Human Services Agency to provide assistance to restaurant and food service businesses in Chinatown in Fiscal Year (FY) 2020-2021, and (ii) authorizes the Controller to reduce appropriations and return funds to the COVID Contingency Reserve to the extent that State and/or Federal funds are available for reimbursement.

Key Points

- Section 32 of the Annual Appropriation Ordinance for FY 2020-21 and FY 2021-22 provides for the COVID-19 Response and Economic Loss Contingency Reserve. Unassigned General Fund balance of $507 million was assigned to the Reserve for the purpose of managing costs incurred by the City in response to the COVID 19 pandemic and to offset revenue shortfalls caused by the pandemic. The Reserve is also intended to offset potential loss of future reimbursements from the Federal Emergency Management Agency (FEMA).

Fiscal Impact

- According to the Controller's Office, the available balance in the COVID-19 Response and Economic Loss Contingency Reserve is $507.4 million. If the Board of Supervisors approves the proposed appropriation, the Reserve balance would still be approximately $507.2 million.

Recommendation

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

MANDATE STATEMENT

City Charter Section 9.105 states that amendments to the Annual Appropriation Ordinance are subject to Board of Supervisors approval by ordinance after the Controller certifies the availability of funds.

BACKGROUND

Section 32 of the Annual Appropriation Ordinance for FY 2020-21 and FY 2021-22 provides for the COVID-19 Response and Economic Loss Contingency Reserve. Unassigned General Fund balance of $507 million was assigned to the Reserve for the purpose of managing costs incurred by the City in response to the COVID 19 pandemic and to offset revenue shortfalls caused by the pandemic. The Reserve is also intended to offset potential loss of future reimbursements from the Federal Emergency Management Agency (FEMA).

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance (i) appropriates $1,900,000 from the COVID-19 Response and Economic Loss Contingency Reserve to the Department of Disability and Aging Services in the Human Services Agency to provide assistance to restaurant and food service businesses in Chinatown in Fiscal Year (FY) 2020-2021, and (ii) authorizes the Controller to reduce appropriations and return funds to the COVID Contingency Reserve to the extent that State and/or Federal funds are available for reimbursement.

FISCAL IMPACT

According to the Controller's Office, the available balance in the COVID-19 Response and Economic Loss Contingency Reserve is $507.4 million. If the Board of Supervisors approves the proposed appropriation, the Reserve balance would still be approximately $507.2 million.

RECOMMENDATION

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