

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

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292
 FAX (415) 252-0461

February 5, 2021

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst 

SUBJECT: February 10, 2021 Budget and Finance Committee Meeting

TABLE OF CONTENTS

Item	File	Page
5, 6, 7 ,8	20-1321 Lease Amendment - Air Sun J.V. - Terminal 3 Concourse Specialty Store Lease No. 09-0176 - Term Extension	
	20-1345 Lease Amendment - Gotham Enterprises, LLC - Specialty Coffee Facilities - Term Extension	
	20-1346 Lease Amendment - D-Lew Enterprises, LLC - Domestic Terminal Food and Beverage Program - Term Extension	
	20-1347 Lease Amendment - InMotion Entertainment Group, LLC - Electronics and Technology Stores - Term Extension	1
9	21-0082 Authorizing Expenditures - SoMa Community Stabilization Fund - Nonprofit-Owned Facility - \$3,000,000	4
11	20-1364 Appropriation - General Reserve - Mayor’s Office of Housing and Community Development - \$5,700,000 for Rent Relief - \$5,700,000 for Social Housing - FY2020-2021.....	12

Items 5, 6, 7 and 8 Files 20-1321, 20-1345, 20-1346 and 20-1347	Department: San Francisco International Airport (Airport)
EXECUTIVE SUMMARY	
<p>Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolutions would approve concession lease amendments between San Francisco International Airport (Airport) as landlord and the following tenants: (i) Air Sun J.V. (File 20-1321); (ii) Gotham Enterprises, LLC (File 20-1345); (iii) D-Lew Enterprises, LLC (File 20-1346); and (iv) InMotion Entertainment Group, LLC (File 20-1347). The amendments would each extend the term of each lease three years through December 2023 with no change to the Minimum Annual Guaranteed (MAG) rent. <p>Key Points</p> <ul style="list-style-type: none"> • The Airport has plans to renovate Terminal 3, between Gates F1 and F4 (T3 West Project), including a new concessions program to replace existing stores and restaurants in the area. The T3 West Project was anticipated to begin in 2020, and several concession tenants were granted lease extensions through December 2020 to provide uninterrupted service until construction commenced. • Due to the COVID-19 pandemic, the Airport has postponed the commencement of the T3 West Project. To preserve customer service and maintain revenue, the Airport has negotiated lease amendments with four concession tenants: (i) Air Sun J.V.; (ii) Gotham Enterprises, LLC; (iii) D-Lew Enterprises, LLC; and (iv) InMotion Entertainment Group, LLC. The amendments would each extend the term of each lease by three years through December 2023 with no change to the MAG rent. The Airport Director would be able to terminate each lease by providing six months advance written notice, to allow for flexibility around the timeline of the T3 West Project. <p>Fiscal Impact</p> <ul style="list-style-type: none"> • Over the three-year term of the proposed lease extensions, the value of the MAG rent is at least \$1,796,826. • The leases contain a provision that suspends the MAG if enplanements drop below 80 percent of reference year 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, the tenants pay percentage rent, which may be lower than the MAG. MAG rents are currently suspended due to the impact of COVID-19 on air travel. <p>Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolutions. 	

MANDATE STATEMENT

City Charter Section 9.118(c) states that (1) any lease of real property for ten or more years, including options to renew, (2) have anticipated revenues to the City of \$1,000,000, or (3) the modification, amendment or termination of these leases is subject to Board of Supervisors approval.

BACKGROUND

The San Francisco International Airport (Airport) has plans to renovate Terminal 3, between Gates F1 and F4 (T3 West Project), including a new concession program to replace existing stores and restaurants in this area. The T3 West Project was anticipated to begin in 2020, and several concession tenants were granted lease extensions through December 2020 to provide uninterrupted service until construction commenced, as follows:

1. In July 2018, the Board of Supervisors approved lease amendments with D-Lew Enterprises, LLC (File 18-0209), In Motion Entertainment Group, LLC (File 18-0210), and Gotham Enterprises, LLC (File 18-0211).
2. In May 2019, the Board of Supervisors approved a lease amendment with Air Sun J.V. (File 19-0386).

Due to the COVID-19 pandemic, the Airport has postponed the commencement of the T3 West Project. To preserve customer service and maintain revenue, Airport staff has negotiated lease amendments with these four tenants, extending the leases through December 2023. In September 2020, the Airport Commission approved the four lease amendments.

DETAILS OF PROPOSED LEGISLATION

The proposed resolutions would approve the following concession lease amendments at the Airport:

1. Amendment No. 2 to the Specialty Store Lease with Air Sun J.V., a joint venture between Luxottica of America, Inc. and Corliss Stone-Littles, LLC (Sunglass Hut, File 20-1321);
2. Amendment No. 3 to the Specialty Coffee Facilities Lease with Gotham Enterprises, LLC (Peet's Coffee and Tea, File 20-1345);
3. Amendment No. 2 to the Food and Beverage Lease with D-Lew Enterprises, LLC (Yankee Pier, File 20-1346); and
4. Amendment No. 3 to the Electronics and Technology Stores Lease with InMotion Entertainment Group, LLC dba InMotion (InMotion Entertainment, File 20-1347).

The proposed lease amendments would extend each lease by three years through December 2023 with no change to the Minimum Annual Guaranteed (MAG) rent. The Airport Director would be able to terminate each lease by providing six months advance written notice, to allow for flexibility around the timeline of the T3 West Project. Other lease terms would not change under the proposed amendments.

According to Ms. Cheryl Nashir, Director of Revenue Development and Management, the timeline of the T3 West Project has not been determined, but it could be delayed beyond the three-year period of the proposed lease extensions. Due to the uncertainty of the project timeline, as well as poor market conditions under COVID-19, Ms. Nashir recommends proceeding with the proposed lease amendments rather than conducting a Request for Proposals (RFP) to select new tenants for the concession spaces.

FISCAL IMPACT

Under the proposed lease amendments, the Airport would receive the greater of MAG rent or percentage rent based on gross revenues. Over the three-year term of the lease extensions (January 2021 through December 2023), the value of the MAG rent is at least \$1,796,826, as shown in Table 1 below.

Table 1: MAG Rent Paid by Tenant

Tenant	MAG Rent	MAG Rent over 3-Year Term
Air Sun J.V. (File 20-1321)	\$198,677	\$596,030
Gotham Enterprises (File 20-1345)	28,946	86,839
D-Lew Enterprises (File 20-1346)	165,337	496,010
InMotion Entertainment (File 20-1347)	205,983	617,948
Total	\$598,942	\$1,796,826

Source: Airport

MAG Suspension

The leases contain provisions that suspend the MAG rent if enplanements drop below 80 percent of reference year levels for three consecutive months, consistent with Airport policy.¹ The MAG is then reinstated if enplanements increase back to at least 80 percent of reference year levels for two consecutive months. When the MAG is suspended, tenants still pay percentage rent, which may be lower than the MAG. MAG rents are currently suspended due to the impact of COVID-19 on air travel.

RECOMMENDATION

Approve the proposed resolutions.

¹ For the Gotham Enterprises and D-Lew Enterprises leases, the reference year is 2002. For the Air Sun J.V. lease, the reference year is 2008. For the InMotion Entertainment lease, the reference year is 2009.

<p>Item 9 File 21-0082</p>	<p>Department: The Mayor’s Office of Housing and Community Development (MOHCD)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would authorize MOHCD to expend \$3,000,000 from the SoMa Community Stabilization Fund to provide grant funding to acquire and/or renovate a nonprofit-owned facility in the South of Market (SoMa) neighborhood, in accordance with the purposes and goals for the funding set forth in the Strategic Plan and the Funding Recommendations approved by the SoMa Community Stabilization Fund Advisory Committee. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • MOHCD proposes to use \$3 million (from a total of \$6 million) transferred from the Rincon Hill Community Improvements Impact Fund to the SoMa Community Stabilization Fund to support the West Bay Pilipino Multi Service Center’s commercial real estate acquisition and rehabilitation project at 150-154 7th St. The West Bay Pilipino Multi Service Center is an academic enrichment and advocacy nonprofit based in SoMa. • The West Bay Pilipino Multi Service Center entered into a Purchase & Sale Agreement for the new site at 150-154 7th St. for \$3,125,000, with an initial deposit of \$90,000. Relocation from the existing site to 150-154 7th St. would increase the square footage available to the West Bay Center by 2,215 sq. ft. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • Total project costs are approximately \$6.2 million, including \$3.3 million in acquisition costs and \$2.9 million in renovation costs. The funding provided through the SoMa Community Stabilization Fund would close the \$2,281,069 gap for site acquisition and contribute \$718,931 towards construction costs. • Approximately \$1.9 million in total fundraising revenue to support the construction and operating reserve has not been confirmed as a funding source. The total minimum amount that West Bay needs to prepare the building for services is \$1.26 million by early 2022. West Bay is currently seeking loans from potential lenders to cover potential funding gaps, should they fail to meet their fundraising goals. <p style="text-align: center;">Policy Consideration</p> <ul style="list-style-type: none"> • The City’s contribution toward the purchase and renovation of 150-154 7th Street is \$3,647,396, which includes the \$3 million from the SOMA Community Stabilization Fund and \$647,396 from the Office of Economic and Workforce Development. <p style="text-align: center;">Recommendations</p> <ul style="list-style-type: none"> • The Board of Supervisors should (a) amend the proposed resolution to request that MOHCD include in the Declarations of Restrictions a provision that (i) ensures the use of the property for nonprofit purposes, and (ii) provides for repayment of the City’s \$3.6 million contribution in the event that the property is sold at a future date at market rate; and (b) approve the proposed resolution as amended. 	

MANDATE STATEMENT

In accordance with Planning Code Section 418.7, all funds in the South of Market Area (SOMA) Community Stabilization Fund are to be expended to address the effects of destabilization on residents and businesses in SOMA due to new residential development in the Rincon Hill Area. SOMA Community Stabilization Fund expenditures are administered by the Mayor's Office of Housing and Community Development (MOHCD), subject to approval by resolution of the Board of Supervisors.

BACKGROUND

The Board of Supervisors approved a new Section 418 in the City's Planning Code in 2005 which, among other provisions, (a) established the Rincon Hill Downtown Residential District, (b) imposed a Rincon Hill Community Infrastructure Fee, (c) created a Rincon Hill Community Improvement Fund for the deposit of the Rincon Hill Community Infrastructure Fees collected, (d) imposed a SoMa Community Stabilization Fee of \$14 per square foot (subsequently amended down to \$10.9 per square foot by the Board of Supervisors under Ordinance 270-10) on developers who build new residential development within the Rincon Hill Downtown Residential District¹, (e) created the SoMa Community Stabilization Fund for the deposit of SoMa Community Stabilization Fees collected, and (f) established a SoMa Community Stabilization Fund Community Advisory Committee (CAC) to advise the MOHCD and the Board of Supervisors on the uses of the SoMa Community Stabilization Fund (File 05-0865, Ordinance 217-05).

The Planning Code stipulates that dollars from the SoMa Community Stabilization Fund are to be expended to provide assistance to SoMa residents including affordable housing, community asset building, employment development, job growth and job placement, and other services to address impacts of destabilization.

In 2008, the Board of Supervisors approved a resolution (a) approving the SoMa Community Stabilization Fund Strategic Plan; (b) authorizing MOHCD to administer the SoMa Community Stabilization Fund in accordance with this strategic plan; and (c) authorizing MOHCD to work with the CAC to issue Requests for Proposals (RFPs) for non-profit agencies to provide services addressing the effects of destabilization on residents and businesses in SoMa, consistent with the Community Stabilization Fund Strategic Plan (File 08-0544, Resolution 216-08).

The CAC revised the Community Stabilization Fund Strategic Plan in 2011 to articulate four goals, which include:

1. Strengthen community networks and infrastructure to build neighborhood unity, self-determination and equity in SoMa
2. Support economic and workforce development for low-income residents and businesses that serve the SoMa community
3. Increase access to perpetually affordable housing opportunities for existing SoMa residents

¹ The Rincon Hill Downtown Residential District is the area bounded by Folsom Street, The Embarcadero, Bryant Street, and Essex Street.

4. Improve the infrastructure and physical environment

RFP Process

In November 2020, MOHCD issued an RFP entitled “SoMa Community Stabilization Fund Capital Projects” for community-based organizations seeking grant assistance from the SoMa Community Stabilization Fund. The RFP provided up to \$3 million in grant funding to support a commercial real estate acquisition project or projects that create new, nonprofit-owned space in the SoMa. MOHCD prioritized projects that serve the low-income and historically underserved communities in SoMa, particularly those that represented by the neighborhood’s cultural Districts.² According to Ms. Claudine del Rosario, SoMa Fund Director, MOHCD chose to award this funding as grant funding (as opposed to a loan) because it likely wouldn’t be feasible for small nonprofits with relatively small budgets to carry a loan in the amount required for acquiring a new space.

MOHCD received five proposals. Out of the five proposals, only three were evaluated and scored.³ See Table 1.

Table 1. RFP Proposals and Scores

Organization	Score
West Bay Pilipino Multi Service Center	90
APILO ⁴	67
Asian Inc.	65

Source: Received from MOHCD

The proposals were evaluated by two CAC members and one MOHCD staff member.⁵ Out of the proposals that were scored, the West Bay Pilipino Multi Service Center had the highest score, with 90 out of a total 100 points.⁶ The remaining scored proposals were also for community infrastructure projects located in SoMa, specifically located at 1121 Mission Street for Asian Pacific Islander Legal Outreach (APILO) and 1167 Mission Street for Asian, Inc.

MOHCD selected the proposal to acquire and rehabilitate new nonprofit space for the West Bay Pilipino Multi-Service Center (West Bay Center), a SoMa-based nonprofit organization.

West Bay Pilipino Multi Service Center

The West Bay Center, based in SoMa, provides after-school programming on academic enrichment, mentorship, college preparatory activities, case management services and senior support services. The Center also provides advocacy on various issues including housing, health,

² MOHCD prioritizes nonprofits representing important SoMa cultural communities, which includes Filipinos and the lesbian, gay, bisexual, transgender, and queer (LGBTQ) community.

³ According to MOHCD, two of the proposals received were nonresponsive to communication requests and were not scored by the review panel.

⁴ Asian Pacific Islander Legal Outreach

⁵ The MOHCD staff member is the Director of Housing.

⁶ Proposals were scored on Project Design (50 points), Organizational Capacity (30 points) and Project Budget (20 points).

employment, criminal justice and discrimination that impact the socio-economic disadvantaged population of San Francisco, with a special emphasis on Filipino residents. Of the total 143 youth, families and seniors that attend West Bay's programming, more than 84 percent live in SoMa. The West Bay Center is currently contracted with the Department of Children, Youth and their Families (DCYF) to provide programming for youth for time out of school, afterschool and summers for an approximate amount of \$445,000 annually. The most recent fiscal monitoring report conducted by DCYF for FY 19-2020 found that the West Bay Center is in compliance.⁷ West Bay also receives outside non-City funds to provide family support services.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize MOHCD to expend \$3 million from the SoMa Community Stabilization Fund to acquire and/or renovate a nonprofit-owned facility in the South of Market neighborhood, in accordance with the purposes and goals for the funding set forth in the Strategic Plan and the Funding Recommendations approved by the SoMa Community Stabilization Fund Community Advisory Committee.

Funding Source

In addition to the SoMa Community Stabilization Fund, Ordinance No. 217-05 also established the Rincon Hill Community Improvements Fund for the deposit of the Rincon Hill Community Infrastructure Impact Fees. Section 418.5(2) of the Administrative Code authorized the transfer of \$6 million from the Rincon Hill Community Improvements Fund to the SoMa Community Stabilization Fund to be used exclusively for SoMa open space facilities development, community facilities development, pedestrian safety infrastructure and affordable housing in SoMa. This resolution would authorize the release of \$3 million from this set aside funding.

150-154 7th St Property

The West Bay Center is currently operating out of a commercial space located at 175 7th St. across the street from the acquisition site. The nonprofit also borrows space from the Recreation and Parks Department as needed. The 175 7th St site is 1,500 square feet and the borrowed Rec Center space totals 2,500 square feet, for a total amount of 4,000 square feet available to the nonprofit. The Center does not currently pay rent; however, the lease expires in June 2021 and the nonprofit would be unable to pay market rent, estimated at \$63,000 annually.⁸

In 2019 the West Bay Center conducted a space needs assessment, which found a new building would need to be at least 4,800 square feet to accommodate the Center's basic programming needs and ideally, 6,200 to meet the needs of all daily programs. The needs assessment also found that the new site must be within 0.25-mile proximity from its current location due to the high number of clients that live in close proximity to the existing center.

⁷ The nonprofit did receive "Not Yet in Conformance" findings for the categories "Board Oversight" and "Audited Financial Statements" in FY 18-2019."

⁸ \$3.50/square foot x 1,500 square feet x 12 months. Source: West Bay Pilipino Center Proposal.

The West Bay Center into a Purchase & Sale Agreement for the site at 150-154 7th St. with 150-7th St Property, LLC as seller in February 2020 for \$3,125,000, with an initial deposit of \$90,000.⁹ An appraisal for the site is currently being conducted. The appraisal is expected to be available in early/mid-March. In July 2020, the site was assessed by the engineering firm Marx Okubo & Associates, which found the property to be in overall fair condition but in need of some renovations, including roof replacement, repainting and ceiling repair.¹⁰

150-154 7th Street has three ground floor spaces and one upstairs space, totaling 7,500 square feet, which includes 1,285 square feet of commercial space that is currently home to a small business.¹¹ West Bay would occupy 6,215 square feet of the upstairs and downstairs spaces. The remaining 1,285 square feet would be occupied by the business. The West Bay Center would continue to lease the commercial space to the existing tenant at below market rate. The relocation from 175 7th St. to 150-154 7th St. would increase the square footage available to the Center by 2,215 sq. ft.

FISCAL IMPACT

The proposed resolution would authorize MOHCD to expend \$3 million from the total \$6 million that was transferred from the Rincon Hill Community Improvements Impact Fund to the SoMa Community Stabilization Fund, as authorized by Administrative Code Section 418.5. MOHCD projects a remaining fund balance of \$3.7 million in the SoMa Community Stabilization Fund. See table 2 below.

Table 2: SoMa Community Stabilization Fund Balance

	SoMa Community Stabilization Fund
Revenues	\$33,190,317
Expenditures through 6/30/20	(22,888,565)
Encumbered Funds	(823,132)
Expenditures Approved by BOS but Unencumbered	(5,000,000)
Small Sites Pool	(364,997)
Strategic Assessment	(100,000)
Transferred from Rincon Hill Community Fund	6,000,000
Planned Expenses	
Capital Projects Funding Swap ¹²	(995,000)
RFP for nonprofit acquisition and rehabilitation	(3,000,000)
Capacity Building	(1,800,000)
Two-year Administrative Costs	(500,000)
Remaining Balance	\$3,718,623

Source: Received from MOHCD

⁹ $3,125,000/7,500 = \$417/\text{sq ft.}$

¹⁰ Marx & Okubo Associates Environmental Report of 150 7th St, prepared for Westbay Pilipino Multi Services Corporation on July 23, 2020.

¹¹ The 1,285 sq. foot commercial space on the right side of the building is home to the 7th Mission Restaurant, an over 20-year old SoMa small business.

¹² According to Ms. Del Rosario, the Capital Projects Funding Swap line item is available for use

Projected revenues are not included in the fund balance, however MOHCD anticipates approximately \$7 million in fee revenues through the end of FY 2020-21. The \$3 million nonprofit acquisition and rehabilitation project would be the first expenditure from the total \$6 million transferred from the Rincon Hill Community Improvements Fund to the SoMa Community Stabilization Fund.

Acquisition & Rehabilitation

The total project costs are approximately \$6.2 million, including \$3.3 million in acquisition costs and \$2.9 million in renovation costs, including 2-year capitalized operating reserves. The funding provided through this grant would close the \$2,281,069 gap for site acquisition and contribute \$718,931 towards construction costs. See Table 3 below.

Table 3: Projected Project Budget

Uses	SOMA Stabilization Fund	Nonprofit Sustainability Initiative	Confirmed Fundraising Sources	In-Kind Contributions (Professional Services) and Anticipated Fundraising	Total
Acquisition					
Building Purchase	\$2,281,069	\$647,396	\$196,535		\$3,125,000
Due Diligence and Closing Costs			48,119	110,610	<u>158,729</u>
Subtotal					\$3,283,729
Renovation					
Hard Costs	647,038			1,387,849	2,034,887
Soft Costs				474,487	474,487
Capitalized Operating Reserve				132,800	<u>132,800</u>
Subtotal					\$2,642,174
<u>Contingency</u>	71,893		5,347	219,216	296,456
Total	\$3,000,000	\$647,396	\$250,001	\$2,324,962	\$6,222,359

Source: West Bay Project Proposal, received from MOHCD

\$1.9 Million in Funding for Construction Has Not Been Confirmed

According to the Department, approximately \$1.9 million of total fundraising revenue to support the construction and operating reserve has not been confirmed. The West Bay Center has a phased construction budget that prioritizes renovations by necessity in the event they are unable to meet their fundraising goals. Of the \$2.6 million a budget for renovation shown in Table 2 above, approximately \$760,985 would be available for the first phase of construction. Phase 1, would involve bringing the building up to code standards and begin build out of the ground floor. An additional \$500,000 is required to complete the ground floor build out and allow West Bay to open the building for service provision. The total minimum amount that West Bay needs to raise

in order to prepare the building for public services is \$1.26 million. Assuming a July 2021 construction start, these funds would need to be drawn by the end of 2021 or early 2022. According to MOHCD staff, West Bay is currently seeking loans from potential lenders to cover potential funding gaps, should they fail to meet their fundraising goals. See below.

Table 4. Potential Phases of Construction (Hard Costs Only)

Potential Phases of Work	Description	Estimated Cost
Phase 1	Code compliance and build out of ground floor	\$760,985
Phase 2	Further build out of ground floor	500,000
Phase 3	Build out of second floor	500,000
Phase 4	Further build out of second floor	500,000
Total		\$2,260,985

Source: Received from MOHCD

According to Ms. del Rosario, West Bay has plans for a capital campaign kickoff and two major fundraising events in 2021 with the goal of raising at least \$1.5 million within the year. West Bay has identified banks, credit unions, community development financial institutions (CDFIs) or non-profit loan funds as potential lenders. West Bay is also considering seeking a Small Business Administration (SBA) loan and is currently engaged with Beneficial State Bank.

Deed Restrictions

According to Ms. Del Rosario, the Declaration of Restrictions and associated documents have not yet been drafted. The final agreement will restrict use of the property solely for nonprofit uses as described in the grant agreement and for a “Compliance Term” of no less than 20 years and up to 30 years, according to MOHCD’s requirements. In the event that West Bay fails to comply with associated regulatory obligations, the City may exercise any rights available under the agreement.

Operating Costs

As part of the application process, MOHCD reviewed the West Bay Center’s 10-year estimated operating costs, which shows yearly net operating income ranging from \$80,688 in 2022 and \$69,225 in 2031. Revenue sources include approximately \$500,000-\$600,000/year in government contracts, which have not yet been confirmed as ongoing sources of revenue, and between approximately \$45,000 to \$55,000/year in commercial rent income from leasing the commercial space to 7th Mission Restaurant.

POLICY CONSIDERATION

The City's contribution toward the purchase and renovation of 150-154 7th Street is \$3,647,396, which includes the \$3 million from the SOMA Community Stabilization Fund and \$647,396 from the Office of Economic and Workforce Development. The Board of Supervisors should amend the proposed resolution to request that MOHCD include in the Declarations of Restrictions a provision that (a) ensures the use of the property for nonprofit purposes, and (b) provides for repayment of the City's \$3.6 million contribution in the event that the property is sold at a future date at market rate.

RECOMMENDATIONS

1. Amend the proposed resolution to request that MOHCD include in the Declarations of Restrictions a provision that (a) ensures the use of the property for nonprofit purposes, and (b) provides for repayment of the City's \$3.6 million contribution in the event that the property is sold at a future date at market rate.
2. Approve the proposed resolution as amended.

<p>Item 11 File 20-1364 <i>(Continued from January 27, 2021)</i></p>	<p>Department: Mayor’s Office of Housing & Community Development</p>
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EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would appropriate \$11.4 million from the General Reserve and transfer \$5.7 million to the COVID-19 Rent Resolution and Relief Fund and \$5.7 million to the Housing Stability Fund.

Key Points

- In November 2020, San Francisco voters approved Proposition I, which increased the transfer tax on high-value property transactions. According to the Controller’s FY 2020-21 Three-Month Budget Status Report, this tax is expected to generate \$11.4 million in new General Fund revenues net of baseline allocations in FY 2020-21 and these revenues were not included in the FY 2020-21 appropriation ordinance.
- In August 2020, the Board of Supervisors approved a resolution stating the Board’s intention to appropriate revenue generated by Proposition I to the COVID-19 Rent Resolution and Relief Fund and the Housing Stability Fund.

Fiscal Impact

- The \$11.4 appropriation is the amount of new General Fund revenue expected to be generated by Proposition I in FY 2020-21.

Policy Consideration

- San Francisco is expected to receive \$26.2 million in federal rental assistance funding. MOCHD is the City’s lead agency for distributing the federal rental assistance and is currently developing implementation procedures to build upon the City’s existing COVID-19 emergency rental assistance program.
- The proposed ordinance would provide \$5.7 million to the COVID-19 Rent Resolution and Relief Fund to provide grants to landlords who have unpaid rent related to COVID-19. Under the fund’s enabling legislation, such grants could cover 50 to 65 percent of unpaid rent but landlords receiving grants must waive all unpaid rent. However, grants funded by the federal rental assistance funding could cover up to 100 percent of unpaid rent, depending on local implementation procedures, which are currently under development by MOHCD. Depending on how the federal funds are distributed, the existence of the federal rental assistance program may reduce incentive for landlords to accept grants funded by the COVID-19 Rent Resolution and Relief Fund.

Recommendation

- Because the proposed ordinance is consistent with Board of Supervisors policy and because the incoming federal rental assistance will likely not be sufficient to cover all unpaid residential rent in San Francisco related to COVID-19, we recommend approval of the proposed ordinance.

MANDATE STATEMENT

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

BACKGROUND

Unpaid Residential Rent in San Francisco

In the October 27, 2020 Budget and Legislative Analyst's Office report, "Estimate of unpaid residential rent in San Francisco due to COVID-19 pandemic and related public health orders", we estimated that the unpaid residential rent in San Francisco between April 2020 and September 2020 totaled between \$81.3 million and \$196.2 million. Given the ongoing above average unemployment rate in the City, the actual amount of unpaid rent from September 2020 to present is likely higher than those estimates. In response to the pandemic, the Board of Supervisors has taken the following actions.

Funds

In November 2020, the Board of Supervisors amended Chapter 10 of the Administrative Code to create two funds: The Housing Stability Fund (File 20-1183) and the COVID-19 Rent Resolution and Relief Fund (File 20-0611).

Dedication of New General Revenues

In November 2020, San Francisco voters approved Proposition I, which increased the transfer tax on high-value property transactions. According to the Controller's FY 2020-21 Three-Month Budget Status Report, this tax is expected to generate \$11.4 million in new General Fund revenues net of baseline allocations in FY 2020-21, which were not included in the FY 2020-21 appropriation ordinance. The Controller's Statement on Proposition I in the November 2020 ballot estimates that the tax could generate \$196 million per year, on average, but that the revenue would likely be extremely volatile and could generate between \$13 million and \$346 million annually.

In August 2020, the Board of Supervisors approved a resolution stating the Board's intention to appropriate revenue generated by Proposition I to the COVID-19 Rent Resolution and Relief Fund and a Social Housing Program Fund (File 20-0708).¹

¹ In File 20-1183, the Housing Stability Fund was originally titled the Social Housing Program Fund.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would appropriate \$11.4 million from the General Reserve and transfer \$5.7 million to the COVID-19 Rent Resolution and Relief Fund and \$5.7 million to the Housing Stability Fund.

Monies in the Housing Stability Fund may be used for the acquisition, preservation, and development of affordable housing. The Mayor's Office of Housing and Community Development (MOHCD) has the authority to create rules and regulations for use of monies in the Housing Stability Fund, which are also subject to recommendations from an oversight board.

Monies in the COVID-19 Rent Resolution and Relief Fund may be used to provide grants to landlords who agree to waive unpaid rent related to COVID-19. Such grants may cover up to 50 percent of unpaid rent (and up to 65 percent for landlord with ten or fewer units) up to \$3,000 per unit per month. Landlords must waive all unpaid rent for the period covered by the grant.

Existing MOHCD COVID-19 Emergency Rental Assistance Program

In response to the pandemic, the Mayor's Office of Housing and Community Development (MOHCD) has provided \$10.2 million in grants to ten existing MOCHD non-profit service providers to distribute emergency rental assistance.² In addition, MOHCD provided \$10.4 million to non-profit service providers to provide eviction-related legal services (Tenant Right to Counsel Program). Non-profits receiving grants identify and prioritize clients for receiving rental assistance.

Federal Rental Assistance Funding

A bill passed by Congress in December 2020 provided \$25 billion for rental assistance, with distributions directly to large counties for distribution to renters and landlords. San Francisco is expected to receive \$26.2 million. MOHCD is the City's lead agency for distributing the federal rental assistance and is currently developing implementation procedures to build upon its existing COVID-19 emergency rental assistance program. According to federal guidelines, households receiving assistance must have experienced financial hardship due to COVID-19, be at risk for housing instability, and have income at or below 80 percent of area median income.

FISCAL IMPACT

As noted above, the proposed ordinance will appropriate \$11.4 million from the General Reserve and transfer \$5.7 million to the COVID-19 Rent Resolution and Relief Fund and \$5.7

² The ten non-profit providers are Catholic Charities, Collective Impact, Eviction Defense Collaborative, Homies Organizing the Mission to Empower Youth (HOMEY), La Raza Community Resource Center, Mission Neighborhood Centers, Native American Health Center, Q Foundation, Rafiki Coalition for Health & Wellness, and Young Community Developers.

million to the Housing Stability Fund. The \$11.4 appropriation is the amount of new General Fund revenue expected to be generated by Proposition I in FY 2020-21.

POLICY CONSIDERATION

The proposed ordinance would provide \$5.7 million to the COVID-19 Rent Resolution and Relief Fund to provide grants to landlords who have unpaid rent related to COVID-19. As noted above, such grants could cover 50 to 65 percent of unpaid rent but landlords receiving grants must waive all unpaid rent. However, grants funded by the federal rental assistance funding could cover up to 100 percent of unpaid rent, depending on local implementation procedures, which are currently under development by MOHCD. Depending on how the federal funds are distributed, the existence of the federal rental assistance program may reduce incentive for landlords to accept grants funded by the COVID-19 Rent Resolution and Relief Fund.

Because the proposed ordinance is consistent with Board of Supervisors policy and because the incoming federal rental assistance will likely not be sufficient to cover all unpaid residential rent in San Francisco related to COVID-19, we recommend approval of the proposed ordinance.

RECOMMENDATION

Approve the proposed ordinance.