CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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February 19, 2021

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: February 24, 2021 Budget and Finance Committee Meeting

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Item 2 File 21-0070	Department: San Francisco International Airport

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves the issuance and re-issuance from time-to-time of $100 million in additional Airport Subordinate Commercial Paper Notes for any lawful Airport purpose. Approval of the proposed resolution would authorize an increase in the Airport's Commercial Paper Program from $500 million to $600 million.

Key Points

- Commercial Paper (CP) is a short-term debt instrument with maturities ranging from 1 and 270 days. The Airport has typically used CP notes as a low cost source of short term financing for its capital improvement projects. CP notes may also be used to pay Airport operating expenses, to refinance outstanding bonds, or for other lawful Airport purposes.
- The Airport plans to issue CP notes to provide interim financing for the Capital Improvement Plan. The Airport's municipal bond advisor has estimated that deferring long-term bond issuance from April 2021 to August 2021, and financing capital projects beginning April 2021 through issuance of CP notes will reduce debt servicing costs by $897,946 for FY 2020-21, and $312,296 for FY 2021-22, for a total two-year savings of $1,210,242.

Fiscal Impact

- According to Airport staff, the increase in the CP authorization from $500 million to $600 million will improve the Airport's overall liquidity and financial position. Because liquidity and financing flexibility are factors that enter into the credit rating assigned to Airport debt by the major credit rating agencies, increasing CP authorization protects the Airport's current credit rating during the time when the Airport is experiencing short-to-medium term revenue uncertainty.

Policy Consideration

- The increase in the amount of outstanding CP notes entails certain risks. If market conditions deteriorate, the Airport could be forced to rollover CP notes at a higher interest rate, and in the event of a financial crisis, could experience difficulties accessing the commercial paper markets.
- According to Airport staff, the Airport believes that recent actions by the Federal Reserve to ensure that capital markets remain available to municipal borrowers will allow the Airport to continue to access the CP market, and that short-term interest rates on CP notes are unlikely to increase in the near- to medium- term. Airport staff consider the rollover and refinancing risk to be low at present.

Recommendations

- Amend the proposed resolution to request the Airport Director to submit a written update on the financial condition of the Airport as it pertains to the CP program in June 2021.
- Approve the proposed resolution as amended.

MANDATE STATEMENT

Section 4.115 of the Charter provides that the Airport Commission has the exclusive authority to plan and issue Airport revenue bonds (including Commercial Paper) for Airport-related purposes, subject to Board of Supervisors approval.

BACKGROUND

On January 19, 2021, the Airport Commissions adopted a resolution to authorize an increase in the total amount of available outstanding principle of Commercial Paper the Airport may issue from the current maximum amount of $500,000,000 to $600,000,000, an increase of $100,000,000. The Airport is now seeking Board of Supervisor approval of this increase in the maximum capacity on Airport issuance of Commercial Paper. The Board authorized the Airport Commercial Paper Program in 1997 (Resolution No. 620-97), and in 2017 authorized an increase in the total aggregate amount of Commercial Paper principal the Airport may issue from $400,000,000 to $500,000,000 (Resolution No. 156-17).

The SFO Commercial Paper program

Commercial Paper (CP) is a short-term debt instrument with maturities ranging from 1 and 270 days. The Airport has typically used CP notes as a low cost source of short term financing for its capital improvement projects. CP notes may also be used to pay Airport operating expenses, refinance outstanding bonds, or for other lawful Airport purposes.

CP notes are backed by letters of credit committed by banks, which offer security to the note holders that principal can be repaid in full when the notes are due. CP notes are often reissued (rolled over) at maturity at the prevailing market interest rate. Because CP notes are short-term obligations backed by letters of credit from major banks, CP can generally be issued at significantly lower interest rates than the rates paid on long-term debt. As seen in Exhibit 1 below, market rates on CP notes are consistently below long-term bond rates. The cost and time required to issue CP is similarly less than is the case with General Airport Revenue Bonds (GARBs), and thus provides a flexible, low cost as-needed financing source.

Exhibit 1: Recent Airport Issuances of Commercial Paper

Issue Date *	CP Amount	CP Interest Rate	Long-Term Bond Rates	Long Term Bond vs. CP rate
7/18/19	$4,700,000	1.24%	2.82%	1.58%
7/18/19	$14,075,000	1.24%	2.82%	1.58%
7/18/19	$600,000	2.30%	2.82%	0.52%
8/8/19	$30,000,000	2.16%	2.56%	0.40%
11/18/20	$7,825,000	0.20%	2.08%	1.88%
11/18/20	$51,125,000	0.19%	2.08%	1.89%
1/27/21	$96,810,000	0.15%	1.98%	1.83%
1/27/21	$117,140,000	0.16%	1.98%	1.82%
1/27/21	$16,050,000	0.15%	1.98%	1.83%

* Source: Airport. This table provides a summary of SFO's CP issuances, excluding rollover of existing notes

Funding procured through CP issuance can be used for "any lawful Airport purpose". The types of restrictions that apply to project bond finance do not apply to uses of money raised through CP issue. The CP program provides the Airport with the ability to issue CP notes on an as-needed basis to cover both known and unforeseen needs for short-term financing.

Because CP typically has lower financing costs and greater flexibility regarding the timing of issuance, the Airport will often utilize the CP program to pay for initial capital costs for its capital improvement program. The CP notes are subsequently refinanced through the issuance of long-term bonds. This reduces total costs of debt servicing. The subsequent retirement of CP obligations restores the capacity to issue future CP notes as a flexible source of low cost financing. The Airport has historically sought to maintain the reserve capacity in the CP program between $100 million and $200 million. Unutilized borrowing capacity provides protection against unforeseen contingencies such as the current revenue loss due to the COVID-19 pandemic.

Maintaining an ample reserve of secured short-term borrowing capacity is viewed favorably by the major credit rating agencies, as it provides assurance to bond buyers that the Airport will continue to meet debt-servicing obligations in the event of a major financial emergency.

At the present time, the Airport has a total of $292 million in CP outstanding and $208 million in available CP capacity.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves the issuance and re-issuance from time-to-time of $100 million in additional Airport Subordinate Commercial Paper Notes for any lawful Airport purpose. Approval of the proposed resolution would authorize an increase in the Airport's Commercial Paper Program from $500 million to $600 million.

Impact of Covid-19 on Airport Capital Improvement Plan and long-term debt programs

In response to the major downturn in revenues due to the global pandemic, the Airport instituted an administrative reduction from $7.8 billion to $5.7 billion in the Capital Improvement Plan project budget. Major suspended projects include Terminal 3 West Renovation ($860 million), Terminal 1 North ($222 million) and International Terminal Phase 2 ($141 million). Approximately $5.4 billion of project contracts have been awarded to date. According to Mr. Patrick Liberatore (Debt Manager, Business and Finance), as of February 5, 2021 this leaves a balance of approximately $300 million of already authorized and committed projects that need to be financed.

Infrastructure Plan

In June 2020, the Airport Commission approved a $380 million Infrastructure Plan. The Commission previously approved $571 million in infrastructure projects in March 2019, but due to COVID-19, the Airport suspended infrastructure projects totaling $191 million, with the balance of the $380 million approved by the Commissions on June 2, 2020 slated to move forward.[1],[2]

According to the June 2, 2020 Airport Commission memorandum, despite the sharp decline in flight volume and revenue earnings beginning in March 2021, the Airport plans to move forward with $380 million of previously authorized infrastructure spending given that conducting maintenance and repair of existing capital infrastructure requires closure of taxiways and runways, as well as other Airport facilities, resulting in extensive flight delays. The current reduction in air traffic will allow the Airport to conduct needed infrastructure upgrade and repair without disrupting existing operations. It may also reduce the time to completion. In anticipation of recovery in passengers and revenue beginning in 2022, the Airport believes the pandemic provides an opportune time for undertaking needed infrastructure maintenance.

Plan of Finance

The Airport plans to issue CP notes to provide interim financing for the Capital Improvement Plan. CP notes will be allocated to complete work on terminal projects, including Harvey Milk Terminal 1, and runway, taxiway, and other projects, such as airfield and utility improvements. CP debt will be refinanced through issuance of long-term General Airport Revenue Bonds. At the present time, the Airport is expecting that $85 million of the $300 million in planned Capital Improvement Plan expenditures will be funded with grants, and $215 million will be funded through issuance of General Airport Revenue Bonds previously authorized by the Board of Supervisors.

Savings from the Airport's financing plan

The Airport's municipal bond advisor has estimated that deferring long-term bond issuance from April 2021 to August 2021, and financing outlays on construction beginning April 2021 through issuance of CP notes will reduce debt servicing costs by $897,946 for FY 2020-21, and $312,296 for FY 2021-22, for a total two-year savings of $1,210,242. Over the 30-year term of the revenue bonds, total estimated debt savings would be $2,291,040.[3]

If the Airport were to defer long-term bond issuance from April 2021 to April 2025, and financed outlays on construction beginning April 2021 by issuing CP notes, debt service costs

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[1] The Infrastructure Plan is a distinct sub-component of the overall CIP, and has a separate source of authorized funding. Capital projects authorized as part of the Ascent Program are not available to pay for projects included within the SFO Infrastructure Plan

[2] On June 2, 2020 the Airport Commission approved a staff recommendation to increase the infrastructure program funding authorization to $571 million, an increase of $220 million from the previously approved amount of $351 million. Subsequent to the approval of this recommendation, the ongoing decline in revenue has resulted in the Airport suspending $191 million of the $571 in approved infrastructure projects, leaving $380 million in previous scheduled and/or ongoing projects that are slated to continue to move forward. The approved $380 million in infrastructure projects is an increase of $29 million from the amount approved prior to COVID-19 of $351 million.

[3] The municipal bond advisor's financial scenarios assume issuance of $262 million of General Airport Revenue Bonds. As noted above, the Airport proposes financing the $300 million Capital Improvement Plan through issuance of $215 million in GARBs and $85 million in grants.

through FY 2024-25 would be reduced by an estimated $37.1 million. Over the 30-year term of the revenue bonds, total estimated debt savings would be $12.2 million.

Additional use of CP issuance and projected outstanding amounts

As noted above, the Airport has outstanding CP notes of $292 million and available CP capacity of $208 million. The Airport is planning to issue additional CP notes in calendar year 2021 to fund ongoing capital projects. As shown in Exhibit 2 below, these issuances will result in a net increase in outstanding CP notes in October 2021 of $322 million, reducing available CP capacity to $178 million. According to the Airport, the available CP capacity of $178 million as of October 2021 represents less than 8 weeks of Airport expenses; the addition of $100 million to the CP Program would add 4 weeks of expenses coverage, providing the Airport 12 weeks in expense coverage.

Exhibit 2: Current and Projected CP Issuance ($ millions)

		Unused Capacity	
Date	**Outstanding***	**$500 Million CP Program**	**$600 Million CP Program (Proposed Resolution)**
9/12/19	$0	$500	
11/28/20	$62	$438	
1/27/21	$292	$208	$308
4/30/21	$222	$278	$378
10/31/21	$322	$178	$278

* Outstanding includes $170 million issued to defease outstanding bonds for near-term savings and $200 million for interim financing of the Capital Improvement Plan
Source: Airport

FISCAL IMPACT

Increasing the authorization will strengthen SFO's liquidity position

According to Airport staff, the increase in the CP authorization from $500 million to $600 million will improve the Airport's overall liquidity and financial position. Because liquidity and financial flexibility are factors that enter into the credit rating assigned to Airport debt by the major credit rating agencies, increasing CP authorization protects the Airport's current credit rating during the time when the Airport is experiencing short-to-medium term revenue uncertainty.

As seen in Exhibit 2 above, if the Board approves the additional $100 million in CP Program capacity, this will provide the Airport with a total of $278 million in available borrowing capacity as of October 31, 2021. This amount is nearly triple the $100 million in unused CP capacity the Airport has historically sought to maintain to provide adequate liquidity protection. Given recent revenue losses, and the possibility of a prolonged slump in the aviation and hospitality sectors, increasing the maximum CP capacity will ensure the Airport's ability to cover core operating and debt servicing costs, and secure low-cost financing for capital projects.

Because CP notes are secured by bank committed letters of credit, they represent a low risk form of debt that can be issued on an "as-needed" basis. Increasing the CP Program's capacity provides additional assurance to bond buyers of the Airport's ability to honor debt servicing commitments. This can reduce bond buyers' perception of credit risk, and should favor the ability to obtain lower interest rates on future issuances of long-term debt.[4]

Potential Risks of Issuing CP for Operating Expenses

As shown in Exhibit 3 below, the Airport's actual enplanements in the first quarter of FY 2020-21 were 83 percent less than the budget, contributing to a 13 percent reduction in revenues offset by a 19 percent reduction in expenditures.

Exhibit 3: Airport FY 2020-21 1st Quarter (Unaudited) Report ($ 000s)

	Budget	Actual (est.)	Variance	Percent Change
Enplaned passengers	7,384	1,286	(6,098)	(83%)
Landed Weight (mil tons)	10,229	3,677	(6,552)	(64%)
Revenue	$315,262	$274,696	-$40,566	(13%)
Expenditures	$325,513	$262,270	-$63,243	(19%)
Surplus (Deficit)	($10,251)	$12,426	$22,677	

Source: Airport

The timing of the return of air travel and revenue to pre-pandemic levels is uncertain.[5] As noted above, the Airport states that the additional $100 million in CP capacity could provide operating expense coverage up to 12 weeks.

The increase in the amount of CP notes that are outstanding entails certain risks. If market conditions deteriorate, the Airport could be forced to rollover CP notes at a higher interest rate, and during periods of heightened financial distress, such as occurred during the 2007-2008 financial crisis, could experience difficulties accessing the commercial paper markets.

According to Mr. Liberatore, the Airport believes that recent actions by the Federal Reserve to ensure that capital markets remain available to municipal borrowers will allow the Airport to continue to access the CP market, and that short-term interest rates on CP notes are unlikely to increase in the near- to medium- term. Airport staff consider the rollover and refunding risk to be low at present.

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[4] The most recent Moody's and S&P reports on the credit ratings assigned to recent Airport's bond are available at https://www.flysfo.com/sites/default/files/assets/investor/Moody%27s_Series_2020ABC_Report_07242020.pdf and https://www.flysfo.com/sites/default/files/assets/investor/SP_Series_2020ABC_Report_07242020.pdf.
See also the GARB 2020 A/B/C Official Statement for additional evidence of how the CP program enters into the estimation of the risks assigned to SFO long-term bond debt (see, for instance p 4,15,19,21, 32, 35)

[5] SFO could face additional revenue loss due to reductions in Passenger Flight Charges paid by airline operators. According to Mr. Liberatore and Ms. Ronda Chu (Capital Finance Director/Acting Budget Director), the Airport has been lowering PFCs rates, and additional adjustments could be needed to avert airline operators re-routing flights through terminals operated by regional competitors.

Because the proposed increase in the Airport's Commercial Paper Program from $500 million to $600 million increases CP capacity to cover Airport expenses in the event of an operating shortfall and is not likely to result in increased interest costs, the Budget and Legislative Analyst recommends approval of the proposed resolution.

RECOMMENDATIONS

1. Amend the proposed resolution to request the Airport Director to submit a written update on the financial condition of the Airport as it pertains to the CP program in June 2021.
2. Approve the proposed Resolution as amended.

Item 3 File 21-0118	**Department:** Mayor's Office of Housing and Community Development (MOHCD), Real Estate Division (RED)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve and authorize the Director of Property to convey a portion of City-owned property at 240 Van Ness Avenue in exchange for property at 234 Van Ness Avenue with 234 Van Ness, LLC, reconfigure the properties, adopt findings that the conveyance and exchange is consistent with the General Plan and eight priority policies of Planning Code Section 101.1, authorize the Director of Property to execute documents, make certain modifications, and take all actions necessary or advisable to effectuate the purposes of the resolution, and adopt findings under the California Environmental Quality Act (CEQA).

Key Points

- The City owns adjacent surplus properties at 240 Van Ness Avenue, 155 Grove Street, and 165 Grove Street. In December 2019, the Board of Supervisors approved an Exclusive Negotiating Agreement with Mercy Housing California to develop affordable housing on the parcels through a future ground lease.
- The City has agreed to exchange a 2,725 square foot portion of the 240 Van Ness property for the equal 2,725 square foot 234 Van Ness property, owned by with 234 Van Ness, LLC, and controlled by Mr. Patterson McBaine. The exchange would enable the Mayor's Office of Housing and Community Development (MOHCD) to build approximately 100 units of below market rate housing on the City's three adjoining parcels. The property conveyed to 234 Van Ness, LLC would be adjacent to the 250 Van Ness property also owned by Mr. McBaine, allowing for future development on the two parcels.

Fiscal Impact

- The proposed transaction is an even exchange of property without a financial cost. The estimated cost to the City for closing costs and title insurance is approximately $20,000.
- The anticipated ground lease with Mercy Housing California would have annual base rent of $15,000, without inflation adjustments. Over the initial 75-year term of the lease, the City would receive $1,125,000 in rent. If the option to extend for an additional 24 years is exercised, the City would receive an additional $360,000, for total rent of $1,485,000.
- MOHCD is anticipated to contribute approximately $13,000,000 for the affordable housing development from Inclusionary Housing Funds.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

Administrative Code Section 23.3 states that the Board of Supervisors must approve acquisitions and conveyances of real property by resolution. An appraisal of the property is required if the Real Estate Division determines that the fair market value is greater than $10,000 and an appraisal review if the fair market value is greater than $200,000

BACKGROUND

The City owns an approximately 5,450 square foot property at 240 Van Ness Avenue, containing a vacant two-story commercial building (shown as "Parcel 2" in the attached Exhibit A). The City also owns adjacent properties at 155 and 165 Grove Street, totaling 8,365 square feet, containing a vacant one-story commercial building and a community garden (shown collectively as "Parcel 1" in the attached Exhibit A). The City has determined these parcels to be surplus property. In December 2019, the Board of Supervisors approved an Exclusive Negotiating Agreement (ENA) with Mercy Housing California to develop affordable housing on the parcels through a future ground lease (File 19-1111).

234 Van Ness, LLC, controlled by Mr. Patterson McBaine, owns an approximately 2,725 square foot property at 234 Van Ness Avenue, containing a vacant two-story commercial building (shown as "Parcel 3" in the attached Exhibit A). Mr. McBaine also owns an approximately 4,725 square foot property at 250 Van Ness Avenue (also known as 171 Grove Street), containing a vacant two-story commercial building (shown as "APN 0811-020" in the attached Exhibit A).

The City and 234 Van Ness, LLC have agreed to exchange properties of equal area. The City has agreed to convey approximately 2,725 square feet of the 240 Van Ness property in exchange for the 234 Van Ness property. An appraisal conducted by R. Blum and Associates determined that the two properties are equal in value, affirmed in an appraisal review by J Kaeuper & Company.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve and authorize the Director of Property to convey a portion of the City-owned property at 240 Van Ness in exchange for the property at 234 Van Ness with 234 Van Ness, LLC. The proposed resolution would also reconfigure the 234 Van Ness and the portion of 240 Van Ness retained by the City into a single developable parcel; adopt findings that the conveyance and exchange is consistent with the General Plan and eight priority policies of Planning Code Section 101.1; authorize the Director of Property to execute documents, make certain modifications, and take all actions necessary or advisable to effectuate the purpose of the resolution; and adopt findings under the California Environmental Quality Act (CEQA).

The exchange would enable the Mayor's Office of Housing and Community Development (MOHCD) to develop affordable housing on the City's three adjoining properties (shown as "Parcel A" in the attached Exhibit B). The property conveyed to 234 Van Ness, LLC (shown as "Parcel B" in the attached Exhibit B) would be adjacent to the 250 Van Ness property also owned by Mr. McBaine, allowing for future development on the two parcels.

According to Ms. Amy Chan, MOHCD Director of Policy and Legislative Affairs, the City will enter into an option to ground lease with Mercy Housing in Spring 2021, and a ground lease in 2022, prior to construction start. The ground lease would have annual base rent of $15,000, without annual inflation adjustments, and a term of 75 years with an option to extend for an additional 24 years. Mercy Housing would construct approximately 100 units of below market rate housing in seven stories. Construction is anticipated to begin in January 2023 and take approximately two years to complete.

FISCAL IMPACT

The proposed transaction is an even exchange of property between the City and 234 Van Ness, LLC without a financial cost. According to Mr. Joshua Keene, Real Estate Division Special Projects and Transactions Manager, the estimated cost to the City for closing costs and title insurance is approximately $20,000.

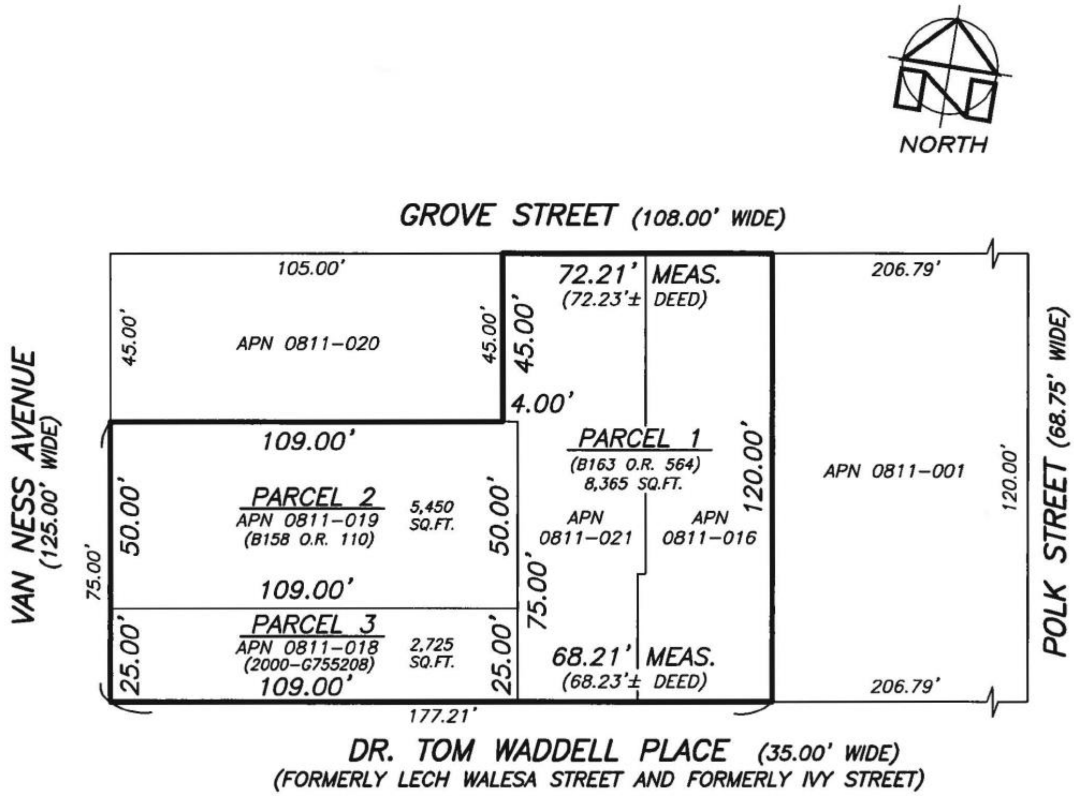
The anticipated ground lease would have annual base rent of $15,000. Over the initial 75-year term of the lease, the City would receive $1,125,000 in rent. If the option to extend for an additional 24 years is exercised, the City would receive an additional $360,000, for total base rent of $1,485,000. According to Ms. Chan, the City may also receive residual rent if the project generates positive cashflow, but that is not anticipated at this time.

According to Ms. Mara Blitzer, MOHCD Director of Housing Development, the total project budget for the affordable housing development is approximately $88,269,116. MOHCD is anticipated to contribute approximately $13,000,000 to the project from Inclusionary Housing Funds.

RECOMMENDATION

Approve the proposed resolution

EXHIBIT A



GENERAL NOTES

1. ALL PROPERTY LINE ANGLES ARE 90 DEGREES UNLESS NOTED OTHERWISE.
2. DIMENSIONS ARE IN FEET AND DECIMALS THEREOF.

LEGEND

APN ASSESSOR'S PARCEL NUMBER
MEAS. MEASURED
O.R. OFFICIAL RECORDS
PERIMETER BOUNDARY LINE OF EXISTING PARCELS 1, 2 & 3
EXISTING LOT LINE

CURRENT CONFIGURATION

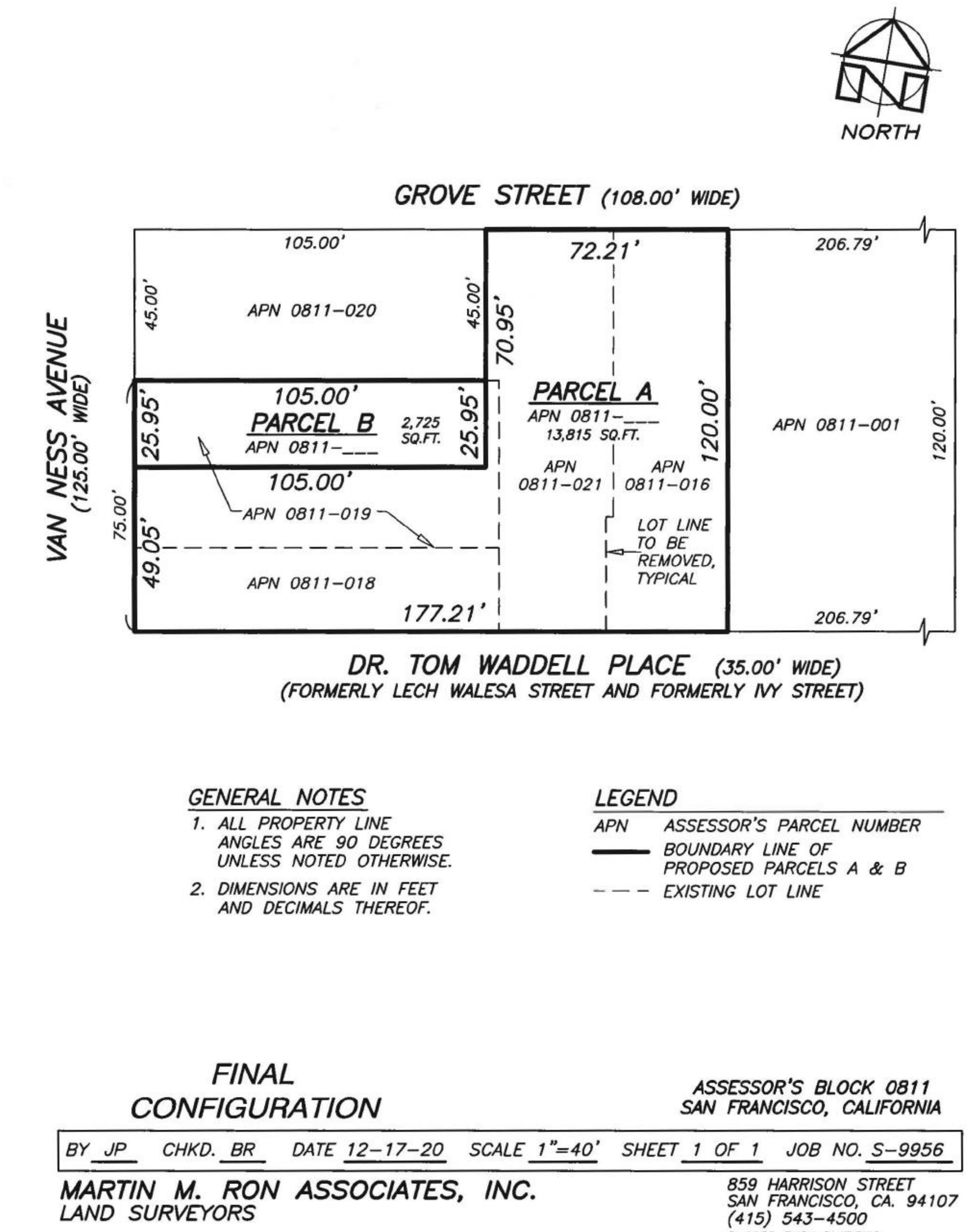
ASSESSOR'S BLOCK 0811
SAN FRANCISCO, CALIFORNIA

BY JP CHKD. BR DATE 12-17-20 SCALE 1"=40' SHEET 1 OF 1 JOB NO. S-9956

MARTIN M. RON ASSOCIATES, INC.
LAND SURVEYORS

859 HARRISON STREET
SAN FRANCISCO, CA. 94107
(415) 543-4500
S-9956_BNDY PLAT.DWG

EXHIBIT B


NORTH
GROVE STREET (108.00' WIDE)
VAN NESS AVENUE (125.00' WIDE)
POLK STREET (68.75' WIDE)
DR. TOM WADDELL PLACE (35.00' WIDE)
(FORMERLY LECH WALESA STREET AND FORMERLY IVY STREET)
105.00'
45.00'
APN 0811-020
45.00'
70.95'
72.21'
206.79'
PARCEL A
APN 0811-___
13,815 SQ.FT.
120.00'
APN 0811-001
120.00'
105.00'
25.95'
PARCEL B
2,725 SQ.FT.
APN 0811-___
25.95'
105.00'
APN 0811-021
APN 0811-016
75.00'
APN 0811-019
49.05'
LOT LINE TO BE REMOVED, TYPICAL
APN 0811-018
177.21'
206.79'
GENERAL NOTES
1. ALL PROPERTY LINE ANGLES ARE 90 DEGREES UNLESS NOTED OTHERWISE.
2. DIMENSIONS ARE IN FEET AND DECIMALS THEREOF.
LEGEND
APN ASSESSOR'S PARCEL NUMBER
BOUNDARY LINE OF PROPOSED PARCELS A & B
EXISTING LOT LINE
FINAL CONFIGURATION
ASSESSOR'S BLOCK 0811
SAN FRANCISCO, CALIFORNIA
BY JP CHKD. BR DATE 12-17-20 SCALE 1"=40' SHEET 1 OF 1 JOB NO. S-9956
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S-9956_BNDY PLAT.DWG

Item 5 **File 21-0084**	**Department:** Department of Public Health; Real Estate Division

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves the amendment to the lease between the Department of Public Health (DPH), as tenant, and Seto Trust, as landlord for 1421 Broderick (a) extending the term by three years, from February 1, 2021 to January 31, 2024; (b) increasing the annual base to $372,510, or approximately $30 per square foot; (c) modifying the early termination provision; d) revising Section 8 on the Landlord's building maintenance obligations; and (e) incorporating City contracting requirements into the lease.

Key Points

- DPH leases 1421 Broderick Street for use as a licensed residential treatment facility, serving 33 adults with mental illness including those with co-occurring disorders (mental health and substance abuse), and who may or may not have a physical health condition. DPH contracts with Richmond Area Multi-Services (RAMS) for property management and services for 1421 Broderick Street residences. The original lease between DPH and Seto Trust began in 2001 and was extended until February 2021.
- The Real Estate Division negotiated an amendment, extending the lease by three years with an eye towards purchasing a property in the near future for use as a City residential healthcare facility. The original lease provided for the right of first refusal in the event that the landlord wants to sell the property. In December 2020, Real Estate Division staff asked the Seto Trust about purchasing the 1421 Broderick Street property and was told that the Seto Trust was not in a position to sell yet, but discussion could continue at a future date. The City retained the early termination option in the proposed lease amendment to allow the City the option to relocate the residential treatment services if another City space or purchase option became available.

Fiscal Impact

- The first year rent of $352,510 increases by 3 percent per year, totaling $1,151,391 over the three-year term of the proposed lease amendment. Lease expenses are General Fund and included in the Department of Public Health budget for FY 2020-21 and FY 2021-22

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Recommendations

- Amend the proposed resolution to request an annual written report from the Department of Public Health in consultation with the Real Estate Division by June of each year on options to purchase Broderick Street, other potential city or private properties available for purchase as an alternative long-term care site, and steps the Real Estate Division is taking to ensure sufficient long term care facility space at the end of the existing lease.
- Approve the proposed resolution as amended.

MANDATE STATEMENT

In accordance with City Administrative Code Section 23.27, leases, in which the City is the tenant require approval by the Board of Supervisors.

BACKGROUND

On February 1, 2001, the Department of Public Health (DPH), as tenant, entered into a lease agreement with the landlord, the Seto Family Trust, for a 12,417 square foot building located at 1421 Broderick Street. The lease is for a 33-bed licensed treatment facility serving individuals requiring non-acute medical care, and contains 18 sleeping rooms, common space, kitchen facilities and storage.

The original lease term was for ten years, from February 1, 2001 to February 15, 2011, with the option to extend the lease for one additional ten-year term. The original annual base rent was $120,000, or approximately $9.66 per square foot.

The option to extend the lease was exercised in March 2011, when the Board of Supervisors passed a resolution (File # 11-0168) extending the lease term from April 1, 2011 to March 31, 2021, on the same terms and conditions except that the annual base rent increased to $154,968 or approximately $12.48 per square foot with annual rate increases between two and six percent based on the Consumer Price Index (CPI). The resolution made no other changes to the lease agreement.

The lease agreement between Seto Family Trust and DPH authorizes DPH to contract with a property management and health care services firm. According to DPH staff, for the past 20 years, DPH has contracted with the Richmond Area Multi-Services, Inc. (RAMS), a licensed non-profit organization, to provide all services, including health care, general maintenance and repairs, janitorial services, and utilities at the Broderick Street Residential Care Facility.[1] RAMS was selected at the time based on a competitive process. Its current contract term is from July 1, 2020 to June 30, 2021.

The Broderick Street residents pay rent of $1,079 per month, based on 2021 rates set by the Social Security Administration for board and care, to RAMS directly, totaling $35,619 for all 33 residents. Rent revenues received by RAMS are not used to offset General Fund costs, such that DPH pays RAMS $1,984,588 annually for operational costs, funded by DPH primarily through Medicaid Mental Health Long Term Care, Short-Doyle Medi-Cal, State Mental Health Realignment, and County General Fund. Under the proposed extension to the existing lease agreement between DPH and RAMS for continued property management and health care services at the Broderick Street Residential Care Facility, DPH would continue to contract with RAMS to provide the needed services.

[1] The Broderick Street Residential Care Facility is licensed by the California Department of Social Services' Community Care Licensing Division to provide board and care, mental health treatment, and medical support services for homeless individuals, who are struggling with mental and medical illness. The most recent site visit was conducted on October 18, 2020, and included reviewing the facility's responsibility to monitor, test, and provide sufficient staffing for COVID protocol.

RAMS Broderick Residential Program

The RAMS Broderick Residential Program (formerly under Direct Access to Housing) serves 33 long-term residents. Most residents are referred from the San Francisco General and Laguna Honda Hospitals. Residents must be San Francisco residents, ages 18-59 years old, with mental illness, including those with co-occurring disorders (mental health and substance abuse), and who may or may not have a physical health condition, but have difficulty remaining stable due to lack of either clinical or medical support. All residents require the level of treatment care from a licensed Adult Residential Facility setting, but not a Skilled Nursing Facility level setting. There is a special focus to serve the Asian and Pacific Islander American communities.[2]

DPH contracts with RAMS for other services under other contracts, including an adult outpatient services clinic. But the only other residential care programs operated by DPH are the Adult Residential Facility and the SF Residential Care Facility for the Elderly, which are part of the San Francisco Mental Health Rehabilitation Center located on the San Francisco General Hospital Campus at 887 Potrero.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves the amendment to the lease between the Department of Public Health (DPH), as tenant, and Seto Trust, as landlord for 1421 Broderick (a) extending the term by three years, from February 1, 2021 to January 31, 2024; (b) increasing the annual base to $372,510, or approximately $30 per square foot; (c) modifying the early termination provision; d) revising Section 8 on the Landlord's building maintenance obligations; and (e) incorporating City contracting requirements into the lease.

Three-Year Lease Term Extension

The original lease provided for one 10-year extension to February 2021. According to Mr. Joshua Keene, Real Estate Division Special Projects and Transaction Manager, the Real Estate Division negotiated an amendment, extending the lease by three years after the end of the existing lease extension with an eye towards purchasing a property in the near future for use as a City residential healthcare facility. The original lease provided for the right of first refusal in the event that the landlord wants to sell the property. In December 2020, Real Estate Division staff asked the Seto Trust about purchasing the 1421 Broderick Street property and was told that the Seto Trust was not in a position to sell yet, but discussion could continue at a future date. According to Mr. Keene, there are currently no alternative long-term plans for the property other than its continued use.

Early Termination Option

The original lease allowed the City to terminate the lease with 180-day notice; the draft amendment to the lease agreement allows the City to terminate the lease with one-year notice. According to Mr. Keene, Manager in the Real Estate Division, the City retained the early termination option, which was extended from 180 days to 365 days based on negotiations, to

[2] Appendix A4 to RAMS contract

allow the City the option to relocate the residential treatment services if another City space or purchase option became available.

Base Rent Increase to Reflect Market Value

The first year annual base rent of $372,510, which is equivalent to $30 per square foot, is a negotiated amount. According to Mr. Keene's estimates, this rate reflects fair market value. He estimated the fair market value by weighing the cost of renting medical space and residential space, based on recent City agreements that were approved by the Board of Supervisors.

Landlord's Obligations to Maintain Old Facility Included

The 1421 Broderick Street facility was built in 1965, according to the Office of the Assessor, and is not in excellent condition according to DPH operations management. Under the proposed amendment, the City's responsibility for repairs is capped at $15,000 per year. Above that amount, the landlord would be obligated to provide for maintenance and repairs to the building and major systems.

FISCAL IMPACT

The first year rent of $352,510 increases by 3 percent per year, totaling $1,151,391 over the three-year term of the proposed lease amendment. Lease expenses are General Fund and included in the Department of Public Health budget for FY 2020-21 and FY 2021-22. The City pays utilities and janitorial services through MH Long Term Care funds, estimated at $64,248 per year or $192,744 over three years. As noted above, other operating expenses are paid through the DPH contract with RAMS.

RECOMMENDATIONS

1. Amend the proposed resolution to request an annual written report from the Department of Public Health in consultation with the Real Estate Division by June of each year on options to purchase Broderick Street, other potential city or private properties available for purchase as an alternative long-term care site, and steps the Real Estate Division is taking to ensure sufficient long term care facility space at the end of the existing lease.
2. Approve the proposed resolution as amended.

Item 6 File 20-1344	Department: Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance (a) authorizes the SFPUC to become a member of a Joint Powers Authority consisting of Community Choice Aggregators in order to jointly purchase of electricity and related products and services, and (b) waives Administrative and Environment Code requirements for electricity and related product and service purchases, but not for Board of Supervisors approval for agreements of $10 million or more, or for more than 10 years.

Key Points

- CleanPowerSF is seeking to join a Joint Powers Authority (JPA) with eight other CCAs in Northern and Central California to jointly procure electrical power-producing and storage projects and services. JPAs can allow utilities to secure lower unit costs from economies of scale given the large investments needed for such projects. They are governed by State law.
- The JPA purpose is to develop, procure and operate energy-related projects and services on behalf of the participating members. While the JPA Board will approve any such projects, each member CCA has the right to participate in a "pro-rata share" of the project but is not required to do so. These projects will be governed by separate project agreements which will set out how costs and benefits are distributed, liabilities and procurement process.
- Administrative Code and Environment Code provisions that would be waived by the proposed ordinance include (a) competitive bidding, which would be subject to the procurement rules of Silicon Valley Clean energy until the JPA establishes its own competitive bidding rules; and (b) nondiscrimination in contracts and the consideration of criminal history in hiring are generally covered by state requirements that apply to all employers with five or more employees. According to SFPUC, imposition of each member's procurement and contracting rules would be infeasible in operating CC Power.
- In authorizing the SFPUC membership in the JPA, the Commission directed staff to work with other JPA members as appropriate to develop policies and guidelines for procuring products and services in a manner that "promotes the City's and SFPUC's environmental goals and efforts to foster an inclusive and sustainable workforce through support for measures such as fair and equitable compensation, local hiring, and support of local businesses, while maintaining affordable and stable rates for San Franciscans"

Fiscal Impact

- SFPUC's share of the startup and ongoing administrative costs related to the JPA's operations for calendar years 2021, 2022 and 2023 is up to $50,000 per year.
- The more significant costs associated with the development and procurement of joint electricity projects and related services will be part of future project agreements. SFPUC costs for project agreements of $10 million or more, or more than 10 years, are subject to Board of Supervisors approval.

Recommendation

- Approve the proposed ordinance.

MANDATE STATEMENT

California Government Code Section 6502 requires approval by the legislative body of any public agency seeking to enter a Joint Powers Agreement to exercise any power common to the contracting parties.

BACKGROUND

Community Choice Aggregator

CleanPowerSF is the Community Choice Aggregation (CCA) program of the City and County of San Francisco operated by the San Francisco Public Utilities Commission's (SFPUC) Power Enterprise that provides electricity supply to commercial and residential customers in San Francisco. CleanPowerSF began serving customers in May 2016 following Board approval in May 2004. CleanPowerSF currently serves around 60 percent of San Francisco's total electricity demand, or around 376,000 accounts.

CCAs are state-authorized programs which allow local governments to provide electricity to participant customers using the existing Investor Owned Utility's billing, transmission, and distribution infrastructure. CCAs generally offer participant customers greater choice in the share of renewable energy sources used to generate electricity. Customers can opt of CCA services and return to any other utilities serving the area if they choose.

Joint Power Authority

Under state law, public agencies can join together in a Joint Power Authority (JPA), a standalone public entity, to jointly exercise any powers they have in common.

CleanPowerSF is seeking to join a Joint Powers Authority (JPA) with eight other CCAs in Northern and Central California to jointly procure electrical power-producing and storage projects and related services. The formation of the JPA would allow the members to jointly procure energy-related projects and services at lower costs by leveraging economies of scale.

The proposed JPA members are:

1) CleanPowerSF,
2) Central Coast Community Power (serving parts of Monterey, San Benito, Santa Cruz, San Luis Obispo and Santa Barbara counties),
3) East Bay Community Energy Authority (Alameda County),
4) Marin Clean Energy Authority (serving Contra Costa, Marin, Napa and Solano counties as well as towns and cities within those counties),
5) Redwood Coast Energy Authority (Humboldt County),
6) Peninsula Clean Energy (San Mateo County and incorporated cities),
7) San Jose Clean Energy (City of San Jose),
8) Silicon Valley Clean Energy Authority (parts of Santa Clara County), and

9) Sonoma Clean Power Authority (Sonoma and Mendocino Counties).

The SFPUC Commission authorized the SFPUC to enter into the JPA at February 9, 2021 Commission meeting. As of February 18, 2021, all eight of the other CCAs have approved membership in the JPA and the JPA was legally formed as of February 1, 2021.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance authorizes the SFPUC to become a member of a Joint Powers Authority consisting of Community Choice Aggregators in order to jointly purchase of electricity and related products and services. The proposed ordinance also waives Administrative and Environment Code requirements for electricity and related product and service purchases, but would not waive Board of Supervisors approval for agreements of $10 million or more, or for more than 10 years. The proposed ordinance:

- approves the Joint Powers Agreement between the SFPUC and the other signatories to form a Joint Powers Authority called “California Community Power” (CC Power);
- authorizes the SFPUC General Manager to enter into a Joint Powers Authority (JPA) called “California Community Power” (CC Power) expected to be made up of nine Community Choice Aggregators (CCAs) covering parts of the Bay Area, Humboldt and Mendocino Counties and parts of Monterey, San Luis Obispo and Santa Barbara;
- authorizes the SFPUC to pay its share of the JPA operating costs for calendar years 2021, 2022 and 2023, up to $50,000 per year (discussed in the Fiscal Impact section below); and,
- waives certain provisions of the Administrative and Environment Code for contracts that do not require Board of Supervisors approval, including requirements for competitive bidding, local small- and micro-business participation, non-discrimination in contracting, and others. Some of these will be covered by other state and local requirements.

Joint Powers Authority Agreement

The primary purpose of the California Community Power JPA is to develop, procure and operate joint energy-related projects and services on behalf of the participating members. Specifically, the JPA Agreement states the members seek to jointly engage in:

(a) the acquisition and operation of wholesale power supplies, resource adequacy and renewable attributes,
(b) the provision of joint consulting and contracting services via master agreements and bulk purchasing and financing of decarbonization products,
(c) the offering of energy risk management and California Independent System Operator (“CAISO”) scheduling services; and
(d) other energy services or programs which may be of benefit to members.

Role and Powers of the JPA

According to the proposed JPA Agreement, the JPA would have the following powers:

- **Develop, manage, and operate energy-related projects:** Acquire, purchase, finance, offer, arrange, construct, maintain, utilize and/or operate projects;

- **Hire and employ staff;**
- **Enter into contracts:** Make and enter into contracts and service agreements;
- **Manage real property:** Acquire, contract, manage, maintain, lease, sell real and personal property;
- **Receive and collect moneys and public grants/ loans;** and,
- **Incur and Issue Debt:** incur, debts, liabilities and obligations and Issue revenue bonds and other forms of debt. However, the JPA Agreement specifies that any bonds issued will not automatically create an obligation on members unless authorized by the member's governing body.

The JPA is also limited in engaging in policy advocacy where a conflict could exist with member organizations and must abide by applicable local zoning and building laws and the California Environmental Quality Act (CEQA).

Obligations and Liabilities of JPA Members

As a public agency, the JPA is also subject to state transparency and procurement requirements imposed on other public agencies, including Brown Act requirements and the state public procurement code (discussed further in the "Waiver of San Francisco Administrative Code Provisions" below).

Share of Operating Costs

JPA members are also liable for an equal share of the JPA's general administrative costs. These costs include daily operating costs and other administrative costs (i.e. accounting, audits, and other staff needed to meet Brown Act and Public Records Act requirements). This is discussed further in the Fiscal Impact section below. The JPA Agreement also includes a specific provision stating that CleanPowerSF's financial obligations are special limited obligations to be paid solely from CleanPowerSF revenues and are not a charge against the PUC or the City's general fund and any payment obligation may not exceed the amount of expenditure authorized by the Controller through relevant budget or supplemental appropriations.

JPA Governance and Operating Structure

The JPA will be governed by a Board of Directors made up of one representative from each member CCA.[1] The Board will elect a Chair and Vice-Chair and appoint a Secretary and Treasury/ Controller. The Board is generally responsible for approving budgets, projects, and any amendments to the JPA Agreement. Amendments to the JPA Agreement relating to cost allocations, the JPA's powers, membership, termination of the JPA, and member liabilities require approval by two-thirds of the JPA Board and by the respective members' governing bodies. The JPA is required to have a part or full time General Manager, may appoint other staff as deemed necessary, and must carry out annual financial audits. New CCAs may join the JPA with a two-thirds vote of the JPA Board and existing members may withdraw from the JPA based on specified procedures.

[1] Representatives must be the General Manager/ Chief Executive Officer or their designee.

Project Agreements

While the JPA Board will approve any such projects, each member has the option to participate in a pro-rata share of the project, but is not required to do so. These projects will be governed by separate Project Agreements among the participating members which will set out how costs and benefits are distributed, liabilities and procurement process.

Agreements for power purchases, generation, and storage will each be subject to approval from the participating JPA members' governing boards that wish to participate in each project. If these agreements exceed ten years or are greater than $10 million, they will require approval by the Board of Supervisors.

Waiver of San Francisco Administrative Code Provisions

Appendix A summarizes the contract- and procurement-related requirements in the Administrative Code and Environment Code that would be waived by the proposed legislation. These requirements would only be waived for contracts that are not subject to Board of Supervisors approval (i.e. non-construction contracts under 10 years in length and/or requiring less than $10 million in expenditure). According to SFPUC, imposition of each member's procurement and contracting rules would be infeasible in operating CC Power.

Of most significance is the waiver of Administrative Code Section 21.1 which generally requires competitive bidding for commodities and professional services in excess of $129,000 and general services in excess of $706,000. Under the proposed JPA Agreement, by default, the procurement rules of a designated member (Silicon Valley Clean Energy, and ultimately the City of Cupertino) would apply until the JPA agrees its own procurement rules. The City of Cupertino appears to have less stringent competitive bidding and procurement rules than San Francisco with respect to commodities and professional services but more stringent rules for general services. In particular, the Cupertino Municipal Code exempts professional services from any competitive bidding and lowest bid award requirements. According to the CleanPowerSF Director and the City Attorney's Office, local procurement rules in Cupertino may require Purchasing Officer and City Manager approval to enter into contracts without bidding.

Two other requirements relating to nondiscrimination in contracts and the consideration of criminal history in hiring are generally covered by state requirements that apply to all employers with five or more employees. Other waived provisions include encouragement of the use of local business participation in contracts, implementation of the MacBride principles by contractors doing business in Northern Ireland and prohibition of the use of tropical hardwood and virgin redwood by City contractors.

Commission Resolution

In authorizing the SFPUC membership in the JPA, the Commission directed staff to work with other JPA members as appropriate to develop policies and guidelines for procuring products and services in a manner that "promotes the City's and SFPUC's environmental goals and efforts to foster an inclusive and sustainable workforce through support for measures such as fair and equitable compensation, local hiring, and support of local businesses, while maintaining affordable and stable rates for San Franciscans".

FISCAL IMPACT

JPA General Administrative Costs

The proposed ordinance would authorize the SFPUC to pay its share of the startup and ongoing administrative costs related to the JPA's operations for calendar years 2021, 2022 and 2023, up to $50,000 per year. Any increase in costs beyond the authorized amount would require further Board of Supervisors approval. Costs will be paid from CleanPowerSF revenues.

According to the JPA Agreement, the JPA's general administrative costs will be equally divided among all the participating members. At a minimum, the JPA must be staffed by a part or full time General Manager, must appoint a Treasurer and Controller, and carry out an annual financial audit. Exhibit 2 provides estimates for these costs produced by the CleanPowerSF Director.

Exhibit 2: Estimated Annual Joint Powers Authority Administrative Costs

Cost Item	Estimated Annual Cost
General Manager	$36,000
General Counsel	$66,000
Staff/ Support	$60,000
Annual Financial Audit	$5,000
Total	**$167,000**
CleanPowerSF Share (1/9th of total)	***$18,555***

Source: SFPUC estimates

As shown above, the SFPUC's share of the JPA's operating expenses are expected to total $18,555 per year, which is below the proposed ordinance's annual spending authorization of $50,000 per year. An additional contingency in the spending authority relative to these estimated costs is reasonable given the uncertainty around JPA staffing needs and the relatively low expenditure amount requested.

Any costs associated with the development, procurement or operation of joint projects undertaken by the JPA would be covered by specific Project Agreements and Project Participation Agreements between participating CCA members.

RECOMMENDATION

Approve the proposed ordinance.

Appendix A: Summary of San Francisco Administrative and Environment Code Provisions Waived by the Proposed Legislation

Code Sec.	Title/ Description	Key Code Section Requirements	Reason for Waiving
AC Ch. 12B	**Nondiscrimination in contracts**	Prohibits employment discrimination by City contractors and sub-contractors.	Covered by CA Govt Code Sec. 12940
AC Ch. 12F	**MacBride Principles (Northern Ireland)**	Requires City contracts to contain a statement urging companies doing business in Norther Ireland to abide by the MacBride Principles.	Impractical to impose on other CCAs according to SFPUC
AC Sec. 12T	**Consideration of criminal history in hiring**	Prohibits City contractors and sub-contractors to consider criminal history in employment decisions.	Covered by CA Govt Code Sec 12952
AC Ch. 14B	**Increased participation by small and micro local businesses in City Contracts**	Requires good faith effort to award City contracts to local business enterprises.	Impractical to impose on other CCAs according to SFPUC
AC Sec. 21.1	**Competitive Bidding Requirement**	Requires competitive bidding and lowest-bid selection for commodities and professional services in excess of $129,000 and general services in excess of $706,000 (SF AC Sec. 21.02).	CC Power is subject to state-mandated competitive bidding for public agencies through the JPA Agreement (specifically, the JPA is subject to Cupertino Municipal Code Procurement Laws).[1] Cupertino Municipal Code requires competitive bidding for goods and services above $200,000 but exempts professional services from any competitive bidding requirements.[2]
EC Ch. 8	**Tropical hardwood and virgin redwood ban**	Generally, prohibits the use of tropical hardwood and virgin redwood by City contractors or sub-contractors.	Impractical to impose on other CCAs according to SFPUC

Source: Legislation text, Section 4
Notes: AC: Administrative Code; EC: Environment Code.
[1] California Government Section 6509 and JPA Agreement Section 2.03.
[2] Cupertino Municipal Code Section 3.22

Item 7 **File 21-0143**	**Department:** Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve and authorize: (1) MOHCD acquisition of 921 Howard Street from Tenderloin Neighborhood Development Corporation (TNDC) for \$13,765,670; (2) a Loan Agreement to TNDC not to exceed \$39,148,960; and (3) a Ground Lease with TNDC for a term of 75 years.

Key Points

- The City is providing a predevelopment, gap, and bridge financing to fund the development of 203 units of affordable housing at 921 Howard Street for incomes 75 to 120 percent MOHCD Area Median Income (AMI). TNDC purchased the site in 2008 with \$4.7 million in City funds following a Notice of Funding Availability. TNDC was unable to secure financing to develop the site, but was recently State financing and 4 percent tax credits.
- The proposed development covers 63 percent of the site (Parcel A). The undeveloped portion of the site (Parcel B) will remain land banked with TNDC for future development.

Fiscal Impact

- The total estimated development cost is \$161.8 million, of which approximately \$39.1 million are City funds and \$122.7 million are non-City funds. The loan agreement includes \$1.8 million bridge loan, which will be repaid to the City upon project completion. The City subsidy is \$192,852 per unit and \$165 per square foot.

Policy Consideration

- The City will acquire Parcel A for \$13.7 million, the amount of principal and interest on the outstanding MOHCD and Enterprise Community Loan Fund loans, and \$4.0 million more than the original purchase price of \$9.7 million for Parcel A and Parcel B. The original loan amounts were \$11.5 million, or \$1.8 million more than the purchase price. According to MOHCD, the additional \$1.8 million was used to create an interest reserve. TNDC will land bank Parcel B until a use for the parcel is identified. According to MOHCD, if TNDC and MOHCD decide to sell the parcel, the proceeds would be divided between the City and the borrower.

Recommendations

- Request that the MOHCD Director, in the event of a future sale of Parcel B, provide that total sale proceeds return to the City, less any future holding costs incurred by TNDC.
- Amend the proposed resolution to request the MOHCD Director to report on the option for the City to acquire Parcel B at no cost, given the \$13.7 million purchase price paid for Parcel A under the proposed purchase and sale agreement.
- Because the proposed development serves households at higher income levels than proposed in the original funding solicitation, approval of the proposed resolution is a policy matter for the Board of Supervisors

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

Proposed Project Development

The 921 Howard Street proposed development is located at the intersection of 5th and Howard Streets in the South of Market neighborhood. The Tenderloin Neighborhood Development Corporation (TNDC), the project sponsor, is developing the site along with Curtis Development. The project will create an 18-story, 203 unit building that includes 2 managers' units. The units will be a mix of studio, 1-, 2- and 3-bedrooms. The project will serve low- and moderate-income households at 75, 90 and 120 percent Mayor's Office of Housing and Community Development (MOHCD) Area Median Income (AMI), as shown in Exhibit 1.[1] Average affordability is at 90 percent MOHCD AMI.

Exhibit 1: 921 Howard Unit Affordability Composition

Affordability Level	No. of units	% of Units	Maximum Income
75% Median Income	102	50%	$86,500
90% Median Income	48	24%	$103,750
120% Median Income	51	25%	$138,350
Managers units	2	1%	N/A
Total	**203**	**100%**	**-**

Source: MOHCD and BLA Calculation
Note: MOHCD Area Median Income based on three-person household.

The completed development will be approximately 237,650 square feet with 1,970 square feet of commercial space. The project anticipates construction to begin in March 2021 and be completed in March 2023. TNDC will manage the property.

Site Acquisition

In 2007, the Mayor's Office of Housing, now MOHCD, issued the Family Housing Notice of Funding Availability. The solicitation made available up to $8.3 million to support the development of

[1] MOHCD uses the unadjusted Area Median Income amounts published by HUD, which does not adjust for the higher cost of living in San Francisco. This project is underwritten using California Tax Credit Allocation Committee AMI, which are set at the State level and based on HUD's release of income limits for Low Income Housing Tax Credit projects, also referred to as Multifamily Tax Subsidy Projects. Because of these differences in how MOHCD AMI and Tax Credit Allocation Committee AMI are calculated, MOHCD AMI amounts of 75, 90 and 120 percent correspond to 50, 60, and 80 percent Tax Credit Allocation Committee AMI.

permanent affordable rental housing serving very-low income families earning up to 60 percent Area Median Income (AMI), with a portion of housing set aside for families and/or youth experiencing homelessness.

TNDC and Citizens Housing Corporation ("Citizens") responded to the Family Housing Notice of Funding Availability site as a joint venture with a proposal to develop 134 units of family rental housing at 921 Howard. The proposed development included assembling 10 parcels of land for 32,000 square feet of space. While TNDC and Citizens were the only respondent to the NOFA, MOHCD determined their original proposal exceeded the minimum requirements and awarded them a $4,729,783 acquisition loan. TNDC and Citizens entered into a two year option to acquire the site for $11.5 million. To cover the remaining acquisition costs, they also received a $6.79 million loan from Enterprise Community Loan Fund. In 2009, TNDC entered into a purchase and sale agreement for a lower price of $9.7 million. Savings from the purchase went toward making an interest reserve. Also, in 2009, Citizens ceased operations and TNDC acquired their portfolio, taking over as lead developer for the 921 Howard site.

Attempts at Developing the Site

According to MOHCD, TNDC attempted to develop the site multiple times over the past 13 years. In 2010, TNDC planned to co-develop the site with Archstone to build a 150-unit-mixed-income project with 50 percent of the units reserved for low-income tenants but project financing was infeasible due to market conditions at the time. In 2017, TNDC negotiated a deal with Tishman Speyer where they would develop the land to provide off-site inclusionary units tied to their Creamery project. However, Tishman Spyer chose not to proceed with this deal due to rising construction costs.

State Funding

Following these unsuccessful attempts to secure financing for the site, TNDC land banked the site for future development consideration. They then worked with consultant Curtis Development to pursue financing from California Housing Finance Agency (CalHFA) under the Mixed-Income Program, allowing the project to be eligible for competitive tax-exempt bonds and a permanent loan from CalHFA. In Spring 2020, MOHCD committed $5 million in predevelopment funding with approval from the Affordable Housing Loan Committee so that TNDC may submit a CalHFA application. According to MOHCD, this $5 million in predevelopment funding has not closed due to the complexity of the project's ownership structure and the sponsor's request to move forward with closing on gap financing rather than amending the original acquisition loan agreement. The sponsor is using working capital to cover predevelopment costs and the $5 million commitment is included in this request.

In September 2020, TNDC successfully submitted an application to the California Debt Limit Allocation Committee (CDLAC), receiving an award for both CalHFA Mixed Income Program funding and 4 percent tax credits. According to MOHCD staff, CDLAC's tax-exempt bond program became competitive for the first time in 2020 with a few MOHCD projects expected to secure allocations in 2021.

This project will develop approximately 63 percent of the original site TNDC acquired in 2009 (“Parcel A”). The portion of the site that will not be developed (“Parcel B”) will continue to be land banked for consideration of a future project. According to MOHCD, MOHCD and TNDC will annually assess whether to continue land banking the site, and will only consider selling Parcel B “as a last resort”. According to MOHCD staff, if Parcel B is sold, MOHCD will divide the proceeds between the City and TNDC (see discussion below).

Legal Partnership Structure

The project sponsor signed a Memoranda of Understanding with Curtis Development in February 2021 to formalize their partnership to co-develop the site. The project borrower is 5th and Howard Associates, LP, an entity of TNDC. The structure of the deal includes 5H GP, LLC, the current owner of the 921 Howard site and also an affiliate of TNDC, as the General Partner and Bank of America as the Limited Partner and tax credit investor.

Previously Committed Funds

To date, the City has committed $4.7 million in funds for this project from the 2008 loan to the project sponsor to acquire the site. The predevelopment loan of $5 million was previously approved in April 2020 by the Citywide Affordable Housing Loan Committee but has not yet closed. The uses of this $5 million are incorporated into the not to exceed amount of $39,148,960 currently under consideration.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would:

1) Approve and authorize the Director of Property, on behalf of MOHCD to acquire 921 Howard Street from TNDC for $13,765, 670.
2) Place the Property under MOHCD jurisdiction as affordable housing.
3) Approve and authorize a Loan Agreement for an amount not to exceed $39,148,960 for a minimum loan term of 57 years to finance the construction of affordable housing.
4) Approve and authorize a Ground Lease back to the Developer (TNDC, 5th and Howard, LP) for a term of 75 years and one 24-year option to extend with an annual base rent of $15,000.
5) Adopt findings that the Purchase Agreement, Loan Agreement and Ground Lease are consistent with the General Plan and eight priority polices of Planning Code, Section 101.1.
6) Authorize the Director of Property and Director of MOHCD to execute the Purchase Agreement, Ground Lease, and Loan Agreement.

Purchase Agreement

The Purchase and Sale Agreement authorizes the City and County of San Francisco to purchase the 20,785 square feet (Parcel A) at the 921 Howard site from 5H GP, LLC. Parcel B will remain with the project sponsor for future development. The site includes a two-story commercial building, three billboards, as well as other structures located on the site.

As described above, the City provided $4.7 million in an acquisition loan for TNDC (5H GP) to purchase the land in 2008, what is now both Parcel A and Parcel B. The purchase and sale agreement states that the City's purchase price will pay a credit toward the unpaid principal balance of the City loan. The purchase price also includes paying off the previous loan TNDC took out in addition to the MOHCD acquisition loan to acquire the site. In February 2020, TNDC refinanced the Enterprise loan it initially took out to acquire the land using funding from the San Francisco Housing Accelerator Fund. Exhibit 2 shows a breakdown in site acquisition costs, which exceed the original purchase price TNDC paid of $9.7 million in 2009 by over $4 million.

Exhibit 2: City Acquisition Cost Breakdown

Cost	Amount
Payoff of Housing Accelerator Fund Loan	$7,435,336
MOHCD Loan Principal	$4,729,783
Interest on MOHCD Loan	$1,600,551
Total	**$13,765,670**

Source: MOHCD Loan Evaluation

The policy for the City to purchase the land is consistent with MOHCD's approach to insure long-term affordability.

Affordability Restrictions & Underwriting Guidelines

The Loan Agreement, Declaration of Restrictions and Ground Lease include provisions to insure the housing units are maintained at the proposed affordability levels. These agreements specify the affordability levels for each unit and require these be maintained for the duration of the agreement.

MOHCD underwriting guidelines for tax credit projects state that typically MOHCD AMI will fund affordability up to an average of 60 percent AMI but that this may vary depending on a project's financial feasibility. In order for the project to meet the terms of the CalHFA Mixed Income Project funding, it will serve families at MOHCD AMI amounts of 75, 90 and 120 percent, which correspond to 50, 60, and 80 percent Tax Credit Allocation Committee AMI.

Loan Agreement

The Loan Agreement authorizes a not to exceed amount of $39,148,960 at a term of 57 years and interest rate of 3 percent. The Loan Agreement includes $31,963,960 in a standard affordable housing loan, in which principal and accrued interest are due on maturity in 57 years, and $7,185,000 in a bridge loan that will be repaid to the City.

Ground Lease

The Ground Lease is for a term of 75 years with an option to extend it for 24 years. The lessee is restricted to using the site for the permitted affordable rental housing as well as for the 1,970 square feet of commercial space. The commercial space may be used for public benefit, community-serving commercial use, or commercial use. All leases of the commercial space will be approved in advance by MOHCD. The Ground Lease sets base rent at $15,000 annually. The City may also receive residual rent comprising up to two-thirds of remaining surplus cash after base rent payments and replenishing operating reserves. The surplus cash payment will be split with CalHFA as long as they are a lender. These terms are consistent with MOHCD's Ground Lease Policy.

Consistent with the General Plan

The Purchase Agreement, Loan Agreement and Ground Lease are found to be consistent with General Plan and eight priority polices of Planning Code, Section 101.1.

FISCAL IMPACT

The total estimated development costs for the 203 units affordable housing and 1,970 of commercial space is $161.8 million. Of these total development costs, approximately $39.1 million are from City funds and $122.7 million are in non-City funds. Exhibit 3 shows the sources and uses by City and Non-City funds for development of the project site.

Exhibit 3: Sources and Uses for 921 Howard Affordable Housing Development

Sources	City Sources	Non-City Sources	Description
Eastern Neighborhoods Urban Mixed Use	7,000,000		Impact fees for affordable housing development in Eastern Neighborhoods
Inclusionary Affordable Housing Fund	9,334,910		In-lieu fees paid by developers to the Citywide Affordable Housing Fund
2019 GO Bond (Low-income housing)	15,314,050		Passed by voters in November 2019 to finance the construction and acquisition of affordable housing.
2019 GO Bond (Moderate-income housing)	7,500,000		(See above)
Equity, Federal LIHTC		62,449,988	Low Income Housing Tax Credits allocated by the California Tax Credit Allocation Committee
CalHFA Mixed Income Program		10,150,000	State financing for new construction of multifamily housing projects serving a mix of incomes between 50% and 120% AMI Levels
Permanent Loan (CalHFA)		42,714,000	Committed
General Partner Equity		2,862,000	
Deferred Developer Fee		4,500,000	
Total Sources	**39,148,960**	**122,675,988**	**161,824,948**
Uses			**Total**
Acquisition Cost	13,765,670	0	13,765,670
Transfer Tax	386,678	0	386,678
Subtotal Acquisition	14,152,348	0	14,152,348
Construction (Hard Costs)*	24,496,612	86,180,788	110,677,400

Uses (cont'd)			Total
Soft Costs	0	25,716,768	25,716,768
Reserves	0	1,278,432	1,278,432
Developer Costs^	500,000	9,500,000	10,000,000
Total Uses	**39,148,960**	**122,675,988**	**161,824,948**

Source: MOHCD

*Includes unit construction/rehab, commercial construction, demolition, environmental remediation, parking, etc.

^Includes developer fee cash-out paid at milestones and at risk, GP Equity and deferred developer fee.

Funding Sources

The Loan Agreement authorizes a not-to-exceed amount of $39,148,960 for acquisition, and gap financing, including a $7,185,000 bridge loan. With anticipated repayment of the bridge loan, the City contribution to the project is $31,963,960. This funding includes $5 million in predevelopment funds that were authorized earlier in 2020 by the Loan Evaluation Committee. According to Mr. Gagen, the most recent version of the project proforma includes the $5 million in predevelopment funding as part of the permanent sources and uses and will not be in addition to $39,148,960 being requested.

The project sponsor has received a commitment from CalHFA and the California Tax Credit Allocation Committee for Mixed Income Program funds as well as the 4 percent tax credits to fund the remaining $122,675,988.

City Subsidy of Housing Development Costs

The City is funding $39,148,960 for this development, including the bridge loan. At 203 units and 237,650 in square feet, the City subsidy for development, including land acquisition, is $192,852 per unit and $165 per square foot. The total development cost, including land acquisition, is $161,824,948, which is $797,167 per unit and $681 per square foot.

POLICY CONSIDERATION

Site Acquisition Costs

TNDC used $4.7 million in City funds from MOHCD and a $6.8 million loan from Enterprise's Bay Area Transit Oriented Affordable Housing fund to purchase 921 Howard (Parcels A and B) in 2009. While TNDC initially thought the purchase price for the site would be $11.5 million, they were able to purchase for a lower price of $9.7 million, leaving $1.8 million in excess loan funds that were used to create an interest reserve, according to Mr. Gagen.

The City is now considering acquiring roughly 63 percent of the initial site (Parcel A) for a price of $13.7 million, $4 million over what TNDC paid to purchase the entire site and $2.2 million over the total loan funds TNDC received for the purchase.[2] The $13.7 million in acquisition costs includes the original MOHCD loan of $4.7 million and interest on that loan of $1.6 million, totaling

[2] A third party appraisal conducted in February 2021 for the Director of Real Estate determined that the property had minimal value due to the affordability restrictions.

$6.3 million, and repayment of the Enterprise loan, which the San Francisco Housing Accelerator Fund refinanced and closed on in February 2020. This loan is now up to $7.4 million, $0.6 million above the initial Enterprise loan amount. The original MOHCD and Enterprise loans obtained by MOHCD to purchase 921 Howard Street, including interest, will now be paid in full while TNDC retains ownership to the remaining Parcel B.

According to Mr. Gagen, the City's decision to acquire Parcel A for an acquisition amount of $13.7 million was to access State financing for the development of 203 units of affordable housing. MOHCD is not acquiring Parcel B at this time because the property does not have a current plan for development; according to MOHCD staff, TNDC is better equipped than MOHCD to continue land banking Parcel B.

Because the City is acquiring Parcel A for an amount equal to the original MOHCD loan principal and interest, and original Enterprise Community Loan Fund loan principal and interest, including surplus loan proceeds used for the interest reserve, the Board of Supervisors should amend the proposed resolution to request that the MOHCD Director report on the City's option to acquire Parcel B at no cost. As noted above, MOHCD states that MOHCD and TNDC would only sale Parcel B to a third party as a last resort, and divide the proceeds between the City and TNDC. In the event that MOHCD and TNDC agree to sell Parcel B, the Budget and Legislative Analyst considers that sale proceeds should return to the City, less any future holding costs incurred by TNDC.

2007 Loan Conditions & Affordability Levels

The 13-year delay between the original MOHCD loan to acquire 921 Howard Street and the proposed development of Parcel A, including the purchase and sale agreement, loan agreement, and ground lease that are the subject of this resolution, was due to TNDC's not being able to secure financing to develop the property at the proposed affordability levels. The 2007 Family Housing Notice of Funding Availability that TNDC responded to and received $4.7 million in MOHCD acquisition funding from, required that the sponsor develop rental housing targeting very low-income families earning up to 60 percent AMI, with at least 20 percent of units targeting families or youth who are homeless. The current proposed development does not meet these criteria. MOHCD staff are recommending amending this condition in order to make the project eligible for the CalHFA Mixed Income Program financing.

Given the shift in population focus from the original funding solicitation, approval of the proposed resolution is a policy matter for the Board of Supervisors.

RECOMMENDATIONS

1. Request that the MOHCD Director, in the event of a future sale of Parcel B, provide that total sale proceeds return to the City, less any future holding costs incurred by TNDC.
2. Amend the proposed resolution to request the MOHCD Director to report on the option for the City to acquire Parcel B at no cost, given the $13.7 million purchase price paid for Parcel A under the proposed purchase and sale agreement.
3. Approval of the proposed resolution as amended is a policy matter for the Board of Supervisors.

Item 8 File 21-0139	Department: Homelessness & Supportive Housing Human Services Agency

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed emergency ordinance would (1) prohibit the City from requiring people experiencing homelessness currently housed in approximately 2,000 Shelter-in-Place ("SIP") Hotel rooms to move from those rooms until those individuals obtain a stable housing placement; (2) require the City to make a total of 2,200 SIP Hotel rooms available, and to fill those rooms, as they are vacated, for people experiencing homelessness; and (3) require the Department of Homelessness and Supportive Housing to prepare publicly available reports on the progress of placements from SIP Hotels into stable housing.

Key Points

- The Shelter in Place program provides hotel rooms to individuals who are experiencing homelessness and are at risk for contracting COVID.
- The Board of Supervisors approved an emergency ordinance in December 2020 (File 20-1328) that required the City to maintain approximately 2,300 SIP hotel rooms until FEMA provides written notification that it will no longer reimburse program costs or until County Health Officer's Shelter-in-Place Order is rescinded or expires. The prior emergency ordinance expires on February 23, 2021.
- An announcement from the Biden Administration indicates that eligible SIP hotel room expenses will receive 100 percent reimbursement from the Federal Emergency Management Agency (FEMA) retroactive from January 2020 through September 2021.

Fiscal Impact

- According to the Controller's Six-Month Budget Status Report, the projected cost of the SIP hotel rooms in FY 2020-21 is $238.1 million, an increase of $37.3 million from the revised budget for SIP hotel rooms in FY 2020-21 of $200.8 million.
- As of February 17, 2021, the City had 2,302, hotel rooms, of which 345 were unavailable for a variety of reasons. If the City were to increase the number of available SIP hotel rooms by 200, in accordance with the proposed ordinance, the estimated increase in costs for the 60-day period between February 24, 2021 and April 25, 2021 would be $3.26 million. Eligible costs for the SIP hotel rooms would be reimbursed by FEMA but the City could incur additional General Fund costs for individuals and services that do not meet FEMA's eligibility requirements.

Recommendation

- Because the proposed ordinance is consistent with prior Board of Supervisors actions, the Budget and Legislative Analyst recommends approval.

MANDATE STATEMENT

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

BACKGROUND

Health Order

In March 2020, the County Health Officer ordered San Francisco residents to shelter in place in order to control the spread of COVID 19. The intent of the order was for individuals to self-isolate as much as possible to prevent infection from the virus The Health Order was subsequently amended several times, including most recently in February 2021, to urge individuals to stay at home.

Alternative Housing Programs

The City has implemented three housing programs in response to COVID-19: (1) the Isolation & Quarantine program, which provides space to individuals who cannot self-isolate after testing positive for COVID-19 or while awaiting test results following a documented exposure, (2) the Shelter in Place program, which provides congregate shelter or hotel rooms to individuals who have recovered from COVID-19 or whose COVID-19 status is negative or unknown, and (3) the Front Line Worker program, which provides hotel rooms to first responders and City employees who are exposed to COVID-19 but cannot self-isolate.

The Human Services Branch of the City's COVID Command Center manages the City's Shelter in Place (SIP) program, which provides hotel rooms and congregate shelters for individuals experiencing homelessness to reduce their risk of contracting COVID-19. For the SIP hotel rooms, priority is given to individuals who are age 60 and older and/or have health conditions that increase their risk of complications if infected with COVID-19. Individuals not meeting either criteria are referred to congregate shelters.

DETAILS OF PROPOSED LEGISLATION

The proposed emergency ordinance would (1) prohibit the City from requiring people experiencing homelessness currently housed in approximately 2,000 Shelter-in-Place ("SIP") Hotel rooms to move from those rooms until those individuals obtain a stable housing placement; (2) require the City to make a total of 2,200 Shelter-in-Place ("SIP") Hotel rooms available, and to fill those rooms, as they are vacated, for people experiencing homelessness; and (3) require the Department of Homelessness and Supportive Housing to prepare publicly available reports on the progress of placements from SIP Hotels into stable housing.

Prior Emergency Ordinance and Status of SIP Hotels

The Board of Supervisors approved an emergency ordinance in December 2020 (File 20-1328) that required the City to maintain approximately 2,300 SIP hotel rooms until FEMA provides written notification that it will no longer reimburse program costs or until County Health Officer's Shelter-in-Place Order is rescinded or expires. Under the prior emergency ordinance, residents were to stay in the SIP hotel rooms until placed into other housing. The estimated cost in FY 2020-21 of maintaining SIP hotel rooms to February 23, 2021 (the term of the 60-day emergency ordinance) was $233.1 million. The estimated cost of maintaining SIP hotel rooms through the end of FY 2020-21 was $251.5 million.

Proposed Emergency Ordinance

The proposed emergency ordinance would be in effect for 60 days to April 25, 2021. According to the proposed ordinance:

- The City shall make 2,200 hotel rooms available as temporary shelters for individuals experiencing homelessness who are at risk for COVID-19 infection;
- Eligibility for SIP hotel rooms would not be limited to individuals eligible for FEMA reimbursement, including those who are 65 years or older, or who have underlying health conditions[1]; and
- The hotel rooms made available to individuals experiencing homelessness do not have to be hotel rooms contracted through existing agreements with the City.

FISCAL IMPACT

According to the Controller's Six-Month Budget Status Report, the projected cost of the SIP hotel rooms in FY 2020-21 is $238.1 million, an increase of $37.3 million from the revised budget for SIP hotel rooms in FY 2020-21 of $200.8 million. The Six-Month Budget Status Report assumes the continued rate of occupancy of SIP hotel rooms through the end of FY 2020-21. An announcement from the Biden Administration indicates that eligible SIP hotel room expenses will receive 100 percent reimbursement from the Federal Emergency Management Agency (FEMA) retroactive from January 2020 through September 2021. The revised FY 2020-21 budget and projected FY 2020-21 expenditures for SIP hotels are shown below.

	FY 2020-21 Revised Budget	FY 2020-21 Projected	Increase/ (Decrease)
Federal Emergency Management Agency (FEMA)	$113.9	$196.9	$83.0
Other Grants/ Revenue	83.4	41.2	(42.2)
General Fund	3.5	-	(3.5)
Total	$200.8	$238.1	$37.3

Source: Controller's Six-Month Budget Status Report

[1] DPH eligibility criteria includes adults 60 years of age and older, and medical conditions not on the Centers for Disease Control (CDC) at-risk list.

According to Human Services Agency (HSA) staff, as of February 2021, the City had 2,302 hotel rooms, of which 345 were unavailable for a variety of reasons. If the City were to increase the number of available SIP hotel rooms by 200, in accordance with the proposed ordinance, the estimated increase between February 24, 2021 and April 25, 2021 (the 60-day term of the emergency ordinance) would be $3.26 million[2]. Eligible costs for the SIP hotel rooms would be reimbursed by FEMA but the City could incur additional General Fund costs for individuals and services that do not meet FEMA's eligibility requirements.

RECOMMENDATION

Because the proposed ordinance is consistent with prior Board of Supervisors actions, the Budget and Legislative Analyst recommends approval.

[2] Based on an estimated cost per hotel room per day of $272 for 200 hotel rooms over 60 days

Item 9 **File 20-1364** *(Continued from February 10, 2021)*	**Department:** Mayor's Office of Housing & Community Development

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.