CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: March 10, 2021 Budget and Finance Committee Meeting

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Item 1 File 21-0162	Department: Human Services Agency (HSA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution authorizes the First Amendment to the grant agreement between the City and San Francisco-Marin Food Bank (SFMFB). The Amendment extends the COVID-19 Food Assistance Program term by nine months until December 31, 2021, and increases the grant amount by $7,425,000, from $9,900,000 (including the prior contingency) to $17,325,000.

Key Points

- The SFMFB contract provides City residents with free groceries available at pop-up food pantries at 20 venues located throughout San Francisco, as well as grocery delivery for COVID-vulnerable individuals at their homes via the Pantry at Home Program.
- Over the next 9-month contract term, SFMFB would provide 485,610 grocery bags that contain sufficient supplies for at least seven meals for a single person household and meet nutritional diversity standards.
- The City's share of costs for the grocery bags increases from an average of $12.24 per grocery bag to $13.90 per grocery bag. SFMFB submits monthly invoices to HSA for the number of meals provided and any additional work provided within the agreement scope.

Fiscal Impact

- HSA has spent or encumbered $7,569,567 for the grant agreement with SFMFB as of February 28, 2021, and projects total expenditures of $532,258 through March 15, 2021, totaling $8,101,825. The total needed grant agreement funding is $15,526,825, which includes actual and projected grant spending of $8,101,825 and requested new funding of $7,425,000 including the 10 percent contingency.
- Of the proposed increase in the grant agreement amount not-to-exceed $6,750,000 (not including the contingency), $5,737,500 or 85 percent is General Fund and $1,012,500 or 15 percent is reimbursement from the Federal Emergency Management Agency (FEMA).

Recommendations

- Amend the proposed resolution to reduce the grant agreement not to exceed amount from $17,354,000 to $15,526,825 to reflect actual need.
- Approve the proposed resolution as amended.

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

Food insecurity in San Francisco has increased as a result of the COVID-19 Pandemic. The City, led by the Human Services Agency (HSA) is responding by providing a COVID-19 Food Assistance Program, which funds grants to community food programs. The Food Assistance Program is intended to help clients remain sheltering in place during COVID-19 and get enough food to meet their needs.

In July 2020, HSA entered into a nine-month grant agreement with the non-profit San Francisco-Marin Food Bank (SFMFB) to provide COVID-19 Food Assistance in the form of supplemental groceries to San Francisco residents affected by COVID-19. The original term of the agreement was from July 1, 2020 to March 15, 2021, for a total funding amount not to exceed $9,900,000, which included a 10 percent contingency of $900,000. The agreement was not subject to Board of Supervisors approval because it was less than $10 million.

SFMFB was awarded the grant through a sole-source waiver because, according to HSA staff, it is the only food bank serving San Francisco and is uniquely able to collect and distribute food at the volume and rate required by the COVID-19 Food Assistance Program.

Under the agreement, SFMFB provides two main services: Pop-up food pantries at 20 venues located throughout San Francisco, as well as grocery delivery to client homes via the Pantry at Home Program. The agreement provided for SFMFB to serve 20,000 unduplicated clients and provide 735,274 grocery bags (units of service), as shown in Table 1 below. The grocery bags SFMFB provides contain sufficient supplies for at least seven meals for a single person household and meet nutritional diversity standards.

Table 1: Unduplicated Clients and Units of Service

	Pop-up Pantries	Pantry at Home	Total
Number of Unduplicated Clients	13,000	7,000	20,000
Units of Services (No. Grocery Bags)	517,821	217,453	735,274

Source: Grant Agreement

According to the grant agreement, the total program budget from July 1, 2020 through March 15, 2021 is $9,000,000 in City funds. The average cost per grocery bag is $12.24.

Pop-up Food Pantries

Pop-up pantries provide healthy groceries for free to any San Francisco resident, available Monday through Saturday at locations throughout the City. Hours of service for each location are listed on the SFMFB website, and clients must register onsite. Clients may only collect food at one pantry location. The pop-up pantry sites are shown in Table 2 below.

Table 2. San Francisco-Marin Food Bank Pop-up Pantry Locations

Pop-Up Locations	Distribution Address
A. P. Giannini Middle School	3151 Ortega Street, San Francisco, CA, 94122
Bayview Opera House	4705 Third Street, San Francisco, CA, 94124
Bessie Carmichael	375 7th St., San Francisco, CA, 94103
Cesar Chavez Elementary School	825 Shotwell Street, San Francisco, CA, 94110
Cornerstone Church	6190 3rd Street, San Francisco, CA, 94124
Cow Palace	2600 Geneva Ave, Daly City, CA, 94014
Giants Walk-Up	74 Mission Rock St, San Francisco, CA, 94158
Golden Gate Senior Center	6101 Fulton Street, San Francisco, CA, 94121
Gordon J. Lau	950 Clay Street, San Francisco, CA, 94108
James Denman Middle School	240 Seneca Avenue, San Francisco, CA, 94112
Kezar Stadium	670 Kezar Drive, San Francisco, CA, 94118
Lincoln High School	2162 24th Avenue, San Francisco, CA, 94116-1723
Minnie & Lovie Ward Rec Center	650 Capitol Ave, San Francisco, CA, 94112
Mission High School	3750 18th Street, San Francisco, CA, 94114-2614
MLK Middle School	350 Girard Street, San Francisco, CA, 94134
North Beach Pop Up	750 Greenwich St., San Francisco, CA, 94133-1949
Roosevelt Middle School	155 Palm Avenue, San Francisco, CA, 94118
Rosa Parks Elem School.	1501 O'Farrell St, San Francisco, CA, 94115
Stonestown YMCA	333 Eucalyptus Drive, San Francisco, CA, 94132
Tenderloin Pop Up	357 Ellis Street, San Francisco, CA, 94102

Source: HSA

Pantry at Home Program

Home-delivered groceries are available Monday through Friday to COVID-vulnerable individuals who need additional food resources in order to remain sheltering in place. To qualify, a participant must be a San Francisco resident that meet at least one of the following conditions: 65 years or older; has an underlying health condition that puts them at greater risk for complications from COVID-19; or has difficulty attending a food pantry due to a physical or cognitive disability.

Evaluation of Services

From the commencement of services on July 1, 2020 through December 31, 2020, SFMFB has provided 339,600 grocery bags (units of service) to 19,800 unduplicated clients at a relatively evenly distributed rate across pantry sites, with James Denman Middle School providing the most (23,270 bags) and Golden Gate Senior Center providing the least (7,850 bags). According to pantry demographic data collected monthly by HSA when clients register at a pantry location, pop-up pantry frequenters tend to be a member of a three- to four-person household (44 percent), speaks Cantonese (46 percent), and between ages 50 to 69.

From the commencement of services on July 1, 2020 through December 31, 2020, SFMFB's Pantry at Home Program has delivered 137,799 grocery bags (units of service) to 8,261 unduplicated clients. The majority of these clients is older and in smaller households than the pop-up pantry clients. According to HSA, 68 percent of clients are in one- to two-person households, speak Cantonese (54 percent), and between ages 65-74 (47 percent).

The City's Agreement with SFMFB specifies that SFMFB is to provide a client satisfaction survey and ensure that at least 80 percent of clients rate the quality of groceries as excellent or good. As of March 2021, HSA staff says that the SFMFB consumer satisfaction survey is still being drafted and will be finalized and administered electronically (via email and/or text) before the end of the fiscal year.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize an amendment to the grant agreement between the City and San Francisco-Marin Food Bank (SFMFB), (a) extending the COVID-19 Food Assistance Program grant term by nine months, from the original nine-month term from July 1, 2020 to March 15, 2021, for a total term of 18 months, from July 1, 2020, through December 31, 2021; and, (b) increasing the grant amount by $7,425,000, from $9,900,000 (including the prior contingency) to $17,325,000. The number of grocery bags to be provided under the grant agreement amendment are shown in Table 3 below.

Table 3. Proposed Number of Grocery Bags

	# Grocery Bags	Amount	Contingency	Not to Exceed
March 16, 2021 to June 30, 2021	251,798	$3,500,000	$350,000	$3,850,000
July 1, 2021 to December 31, 2021	233,812	$3,250,000	$325,000	$3,575,000
Totals	485,610	$6,750,000	$675,000	$7,425,000

Source: Proposed Amendment

According to HSA, the average number of grocery bags to be delivered in the six-month period from July to December is less than the average number of grocery bags to be delivered in the 3.5-month period from March to June because the program anticipates winding down as sheltering in place slowly pulls back and increase in vaccination improves the community's access to food resources.

SFMFB submits monthly invoices to HSA for the number of meals provided and any additional work provided within the agreement scope. Under the proposed amendment, the City's share of costs for the grocery bags increases from an average of $12.24 per grocery bag to $13.90 per grocery bag. According to HSA, after September 2020, the SFMFB no longer received support from City Disaster Service Workers to assist with packing and distribution, stopped receiving free delivery service from Amazon, and had to start renting a facility to relocate assembly for the Pantry at Home Program.

FISCAL IMPACT

HSA has spent or encumbered $7,569,567 for the grant agreement with SFMFB as of February 28, 2021, and projects total expenditures of $532,258 through March 15, 2021, totaling $8,101,825. The total needed grant agreement funding is $15,526,825, which includes actual and projected grant spending of $8,101,825 and requested new funding of $7,425,000 including the 10 percent contingency. Therefore, the Budget and Legislative Analyst recommends amending the proposed resolution to reduce the grant agreement not to exceed amount from $17,354,000 to $15,526,825 to reflect actual need.

Of the proposed increase in the grant agreement amount not-to-exceed $6,750,000 (not including the contingency), $5,737,500 or 85 percent is General Fund and $1,012,500 or 15 percent is reimbursement from the Federal Emergency Management Agency (FEMA).

RECOMMENDATIONS

1. Amend the proposed resolution to reduce the grant agreement not to exceed amount from $17,354,000 to $15,526,825 to reflect actual need.
2. Approve the proposed resolution as amended.

Item 2 **File 21-0163**	**Department:** San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves Amendment No. 1 to the Lease Agreement between the Airport and Green Beans Coffee Osteria – SFO Group (Green Beans), providing for Green Beans to relocate to a new location in the Harvey Milk Terminal 1 check-in lobby.

Key Points

- The Board of Supervisors approved the ten-year lease between the Airport and Green Beans in March 2014, following a competitive process to provide a retail coffee shop at a pre-security location near Boarding Area C of Terminal 1. The original premises of Green Beans were permanently closed on July 14, 2020, five years in advance of the expiration of the original lease term, due to the ongoing Harvey Milk Terminal 1 redevelopment project which is now in phase four in its fifth year of construction.
- Under the proposed lease amendment providing relocation premises to Green Beans, the Airport would (a) reimburse Green Beans in the amount of $357,225 for unamortized tenant improvement costs for the original space, (b) provide replacement premises of approximately 1,275 square feet located in Harvey Milk Terminal 1 check-in lobby, and c) provide a lease extension of ten years from the commencement date of the replacement premises. According to the Airport, the replacement premises are expected to open in March 2024.

Fiscal Impact

- Green Beans would pay the greater of Minimum Annual Guaranteed (MAG) rent of $77,367 or percentage rent. Green Beans would pay at least $773,670 in MAG rent to the Airport over the ten-year term of the lease extension, offset by $357,225 in reimbursements, for net minimum rent to the Airport of $416,445. Based on gross revenues received by Green Beans at the prior location, the Airport expects Green Beans to pay percentage rent under the amended lease agreement.
- While MAG rent is currently suspended due to the impact of COVID-19 on air travel, Green Beans is not operating and so there will be no sales or rent payments until the expected commencement date of March 2024.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(a) states that contracts entered into by a department, board or commission that will generate revenue in excess of $1 million or any modification of that contract is subject to Board of Supervisors approval.

BACKGROUND

In March 2014, the Board of Supervisors approved a new, ten-year lease (No. 14-0046) between the San Francisco International Airport (Airport) and Green Beans Coffee Osteria – SFO Group (Green Beans), following a competitive process, to provide a retail coffee shop at a pre-security location near Boarding Area C of Terminal 1. The original lease provided rent equal to the greater of the Minimum Annual Guarantee (MAG) rent of $52,176, increasing each year by the Consumer Price Index (CPI) or percentage of gross revenues.

<u>Relocation of Premises</u>

The original premises of Green Beans were permanently closed on July 14, 2020, five years in advance of the expiration of the original lease term, due to the ongoing Harvey Milk Terminal 1 redevelopment project which is now in Phase four, in its fifth year of construction. The original lease agreement between the Airport and Green Beans stipulated that the City may, at any time, require a relocation.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves Amendment No. 1 to the Lease Agreement between the Airport and Green Beans, providing for Green Beans to relocate to a new location in the Harvey Milk Terminal 1 check-in lobby. The proposed Amendment provides (a) for the Airport's reimbursement to Green Beans of its unamortized costs for improvements to the original location in the pre-security area near Harvey Milk Terminal 1, Boarding Area C, in the amount of $357,225; (b) replacement premises of approximately 1,275 square feet located in Harvey Milk Terminal 1 check-in lobby; and, (c) a lease extension of ten years from the commencement date of the Replacement Premises. According to Tomasi Toki, Airport Principal Property Manager, the anticipated commencement date for Green Beans to reopen in its new location in the pre-security section of the Harvey Milk Terminal is March 2024.

In January 2021, the Airport Commission approved Amendment No. 1 to the lease agreement between the Airport and Green Beans.

According to Section 7.1 of the original lease agreement, Green Beans will have to design and construct, at their expense, the new replacement premises at the cost of at least $1,000 per square foot. Airport staff says that a ten-year lease extension would amortize that build-out cost.

The change in premises results in the Minimum Annual Guarantee (MAG) to be increased from $65,959 annually (1,087 sq. ft. x $60.68), appropriately adjusted for increases in CPI since 2014, to $77,367 annually (1,275 sq. ft. x $60.68):[1] The Percentage Rent revenue schedule remains unchanged, as summarized in Table 1 below:

Table 1: Summary of Original and Proposed Lease Provisions

	Original Lease	**Lease Amendment No. 1**
Term	March 3, 2015 through March 2, 2025	March 2024-March 2034
Options to Extend	None	None
Premises	1,087 square feet of pre-security space near Boarding Area C of Terminal 1	1,275 square feet of pre-security space Harvey Milk Terminal 1 check-in lobby
Minimum Annual Guarantee (MAG)	$48 per square foot - $52,176 per year	$60.68 per square foot- $77,367 per year
MAG Adjustment	Adjusted annually based on the Consumer Price Index (CPI)	Adjusted annually based on the Consumer Price Index (CPI)
Revenue Percentage Rent	6 percent of revenues up to and including $500,000	6 percent of revenues up to and including $500,000
	Plus 8 percent of revenues between $500,001 and $1,000,000	Plus 8 percent of revenues between $500,001 and $1,000,000
	Plus 10 percent of revenues greater than $1,000,000	Plus 10 percent of revenues greater than $1,000,000
Annual Promotional Fee	$1 per square foot - $1,087 per year	$1 per square foot - $1,275 per year
Deposit Amount	50 percent of the MAG in effect when the lease commences, of $52,088.	N/A
Minimum Initial Investment	$350 per square foot - $380,450	$1,000 per square foot- $1,275,000

Source: Airport

The proposed Amendment to the lease also includes City Administrative Code provisions that have been added since 2014, such as Local Hiring and All Gender Toilet Facilities requirements.

FISCAL IMPACT

Under the proposed amended lease, Green Beans would be required to pay the Airport the greater of the initial MAG amount of $77,367 or percentage rent. Green Beans would pay at least $773,670 in MAG rent to the Airport over the ten-year term of the lease extension, offset by $357,225 in reimbursements for unamortized tenant improvement costs, for net minimum rent to the Airport of $416,445. Based on gross revenues received by Green Beans at the prior location, the Airport expects Green Beans to pay percentage rent under the amended lease

[1] According to the Lease Agreement, Section 1.4(e): "With respect to a Premises Change where the aggregate square footage of the original premises will be expanded or contracted by more than ten percent (10%), the Minimum Annual Guarantee shall be increased, or decreased, as the case may be, pro rata to reflect the increase or decrease, as the case may be, in the size of the expanded or contracted premises compared to the original premises."

agreement. Currently, Green Beans is not operating and so there will be no sales or rent payments until the expected commencement date of March 2024.

MAG Suspension

The lease contains a provision (Section 4.14.b) that suspends the MAG if enplanements drop below 80 percent of reference year (2013) levels for three consecutive months, consistent with Airport policy. Indeed, MAG rent is currently suspended due to the impact of COVID-19 on air travel. The MAG will be reinstated when enplanements increase back to at least 80 percent of 2013 levels for two consecutive months. When the MAG is suspended, the tenant pays percentage rent, which may be lower than the MAG.

RECOMMENDATION

Approve the proposed resolution.

File 3 Item 21-0187	Departments: Mayor's Office of Housing and Community Development (MOHCD)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the amended and restated ground lease between MOHCD and Mariposa Gardens Associates for the City-owned land at 2445 Mariposa Street. The amended ground lease (1) continues the existing 55-year term and adds one 44-year option to extend the lease, totaling 99 years; (2) adopts findings that the amended ground lease is consistent with the California Environment Quality Act (CEQA), General Plan, and eight priority policies of Planning Code Section 101.1; and (3) authorizes the Directors of Real Estate and MOHCD to take actions to implement the proposed resolution.

Key Points

- In 2004, the Board of Supervisors approved the former San Francisco Redevelopment Agency's 55-year ground lease for the purpose of rehabilitating and preserving an affordable housing development located at 2445 Mariposa Street in the Mission neighborhood, known as Mariposa Gardens Apartments. The apartment building includes a total of 62 units (plus one staff unit) eligible for project-based Section 8 vouchers serving low- and very-low-income households.
- A refinanced loan obtained by Mariposa Gardens Associates to rehabilitate the site requires the amendment of the existing ground lease to (1) incorporate and amend provisions sought by the lender Freddie Mac related to lender protections; (2) update the rental rate as a result of a new appraisal of the property; and (3) reflect the new limited partnership entity established to rehabilitate the site. The property would operate 19 units with rent levels affordable to households earning up to 50 percent of the unadjusted San Francisco Area Median Income (AMI) and the remaining 43 units at rent levels affordable to households earning up to 60 percent of AMI.
- The rehabilitation will cost a total of $7 million and will include extensive repairs to the exterior and interior. Work is scheduled to begin in mid-May 2021 and take up to 12 months, and tenant relocation is not expected to occur.

Fiscal Impact

- The amended ground lease includes an annual base rent of $20,000 and an annual residual rent of $2,870,000 if net operating revenues are sufficient to pay residual rent. Pursuant to MOHCD's ground lease policy, the residual rent and loan repayments shall not exceed two-thirds of the project's surplus cash, with unpaid residual rent accruing unless waived by MOHCD.
- The MOHCD expects that the site will not generate sufficient income to pay the new residual rent rate; for this reason, the amended lease terms specify that unpaid residual rent will not accrue.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(c) states that any lease of real property for a period of ten or more years including options to extend, or that has anticipated revenues of $1 million or more is subject to Board of Supervisors approval.

City Administrative Code Section 23.30 states that leases of City-owned property can be for less than market rent if the lease is for a proper public purpose.

BACKGROUND

In 2004, the Board of Supervisors approved the former San Francisco Redevelopment Agency's 55-year ground lease for the purpose of rehabilitating and preserving an affordable housing development located at 2445 Mariposa Street in the Mission neighborhood, known as Mariposa Gardens Apartments (File #04-0187).

The apartment building includes a total of 62 units (plus one staff unit) eligible for project-based Section 8 vouchers serving low- and very-low-income households. The units vary in size as follows: five one-bedroom units, 31 two-bedroom units, 25 three-bedroom units, and 2 four-bedroom units. The site includes four buildings that are three stories tall, connected by bridges. At the time, the Redevelopment Agency was the property owner and Mariposa Gardens II (MG II), a limited partnership affiliate of Mission Housing Development Corporation (Mission Housing), was the tax credit entity established to acquire and operate the development. The Redevelopment Agency and MG II entered into a ground lease, with a $20,000 annual base rent to be paid by MG II to the Agency and a residual rent of $159,200 annually if net operating revenues were sufficient to pay residual rent, totaling $179,200. MOHCD notes that the last rehabilitation of the Mariposa Gardens Apartments in 2004 exceeds 15 years, the typical length of time at which major building systems reach the end of their useful life. According to MOHCD, bridges connecting the buildings on the property recently required emergency repairs.

Pursuant to state law under AB 26 (Chapter 5, Statutes of 2011-12, first Extraordinary Session) and related state and local law, the Redevelopment Agency was dissolved in February 2012 and MOHCD became the "successor in interest" to the Agency's rights with respect to the land and the ground lease. Essentially, MOHCD inherited the Mariposa Gardens property and other affordable housing sites in the Redevelopment Agency's portfolio.

In May 2020, MG II assigned their rights and obligations with respect to the ground lease to Mission Housing Development Corporation (Mission Housing) Mariposa Gardens Associates LP. Mission Housing is in the process of refinancing the senior loan on the property in order to obtain funds necessary to conduct repairs at the Mariposa Gardens site as well as five other affordable housing sites they operate. The rehabilitation of the Mariposa Gardens property will cost a total of $7 million and will include extensive repairs to the exterior and interior, such as painting, lighting, and waterproofing the exterior and electrical upgrades, kitchen updates, and water efficiency and energy enhancements to the interior. Work is scheduled to begin in mid-May 2021 and take up to 12 months, and tenant relocation is not expected to occur. We display financial sources and uses of the Mariposa Gardens rehabilitation in Exhibit 1 below.

Exhibit 1: Mariposa Gardens Apartments Rehabilitation, Sources and Uses of Funds

SOURCES	Amount
Loan Proceeds	$7,035,555
USES	**Amount**
Hard Costs	
Construction Costs	$4,904,818
Construction Contingencies	532,509
Soft Costs	
Other Development Costs	512,324
Financing Costs	295,400
Architecture & Design	187,646
Legal Costs	80,000
Soft Cost Contingency	54,110
Engineering & Environmental Studies	6,835
Reserves	338,657
Developer Costs	123,256
Total	**$7,035,555**

Source: MOHCD

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the amended and restated long-term ground lease between MOHCD and Mariposa Gardens Associates LP for the City-owned land at 2445 Mariposa Street. The amended and restated ground lease (1) continues the existing 55-year term and adds one 44-year option to extend the lease, totaling 99 years, and sets annual base rent at $20,000; (2) adopts findings that the amended and restated ground lease is consistent with the California Environment Quality Act (CEQA), General Plan, and eight priority policies of Planning Code Section 101.1; and (3) authorizes the Directors of Real Estate and MOHCD to take actions to implement the proposed resolution.

The refinanced loan obtained by Mariposa Gardens Associates to rehabilitate the buildings requires the amendment of the existing ground lease to (1) incorporate and amend provisions sought by the lender Freddie Mac related to lender protections; (2) update the rental rate as a result of a new appraisal of the property (see Fiscal Impact); and (3) reflect the new limited partnership entity established to facilitate the refinance and rehabilitation of the site, Mariposa Gardens Associates, an affiliate of Mission Housing.

Of the 62 below-market-rate units, Mariposa Gardens Associates would continue to operate 19 units with rent levels affordable to households earning up to 50 percent of the unadjusted San Francisco Area Median Income (AMI) and the remaining 43 units at rent levels affordable to households earning up to 60 percent of AMI, as displayed in Exhibit 2 below for a typical household size.

Exhibit 2: 2020 San Francisco Unadjusted Area Median Income (AMI)

Income Definition	Number of Units	4-Person Household
50% AMI	19	$64,050
60% AMI	43	$76,850

Source: 2020 Maximum Income by Household Size, MOHCD.

FISCAL IMPACT

The amended ground lease includes an annual base rent of $20,000 and an annual residual rent of $2,870,000 if net operating revenues are sufficient to pay residual rent. The residual rent of $2,870,000 and base rent of $20,000, totaling $2,890,000, equals 10 percent of the newly appraised land value of $28.9 million—in accordance with MOHCD's policy on the rental rate for ground leases. Pursuant to MOHCD's ground lease policy, the residual rent and loan repayments shall not exceed two-thirds of the project's surplus cash, with unpaid residual rent accruing unless waived by MOHCD.

The MOHCD expects that the site will not generate sufficient income to pay the new residual rent rate, which has substantially increased over the prior residual rent of $159,200 because of the higher appraised property value. For this reason, the amended lease terms specify that unpaid residual rent will not accrue.

RECOMMENDATION

Approve the proposed resolution.