CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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May 14, 2021

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: May 19, 2021 Budget and Finance Committee Meeting

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Item 1 File 21-0411	Department: San Francisco International Airport

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the Fourth Modification to the Hotel Management Agreement between the Airport and the Hyatt Corporation (Hyatt) to (1) reduce the Management Fees paid through the Agreement to Hyatt in CY 2021 and CY 2022; (2) extend the trigger dates for certain performance termination events; (3) extend the initial term by two years; and (4) increase the Agreement amount to not-to-exceed $23,841,880.

Key Points

- Hyatt operates a 351-room on-site Hotel built and owned by the Airport. In 2015, the Board of Supervisors approved the Hotel Management Agreement between the Airport and Hyatt for a 10-year term, commencing following opening of the on-site Hotel in October 2019 with one five-year option to extend at the discretion of the Airport. The Management Agreement provided for a fBase Management Fee paid to Hyatt from Hotel operating revenues to cover the costs of services provided from the Hyatt central office, with amounts set according to a fixed schedule over the initial 10-year term of the Agreement, not-to-exceed $19,945,418; and in the years in which revenues exceed costs, Hyatt would be entitled to a Subordinate Management Fee payment from net profit after deductions to fund various capital reserves and the costs of debt service
- Since the beginning of the COVID-19 pandemic in March 2020, Hotel expenses have exceeded Hotel revenues. In order to reduce Hotel expenses, the proposed Fourth Modification reduces the Base Management Fee paid to Hyatt over CY 2021 and CY 2022 by $1,158,535. In exchange, the initial Hotel Management Agreement term would be extended by two years, for a total 12-year term. The two-year agreement extension would increase the total Management Fees paid to Hyatt to not-to-exceed $23,841,880.

Fiscal Impact

- Approval of the proposed resolution reduces the Airport's Base Management Fee payment to Hyatt by $1,158,535 for CY 2021 and CY 2022.

Policy Consideration

- Hotel Bonds were restructured earlier this year, following Board approval. There are no debt service payments due on the Hotel Bonds until April 2023, allowing time for the travel industry and for Hotel revenues to recover from the COVID-19 pandemic.
- The Hotel currently has $2,500,000 in its Working Capital Reserve Fund and $349,299 in the Operating Account (Lockbox) that may be used, if necessary, to support Hotel operating expenses such as payroll. The resolution will provide additional financial buffer.

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 (i) have anticipated revenues of $1 million or more, or (ii) that have anticipated revenues of $1 million or more and requires modifications, are subject to Board of Supervisors approval.

City Charter Section 9.118(b) states that contracts entered into by a department, board, or commission that (i) have a term in excess of ten years, or (ii) that require anticipated expenditures by the City and County of $10 million or more, are subject to Board of Supervisors approval.

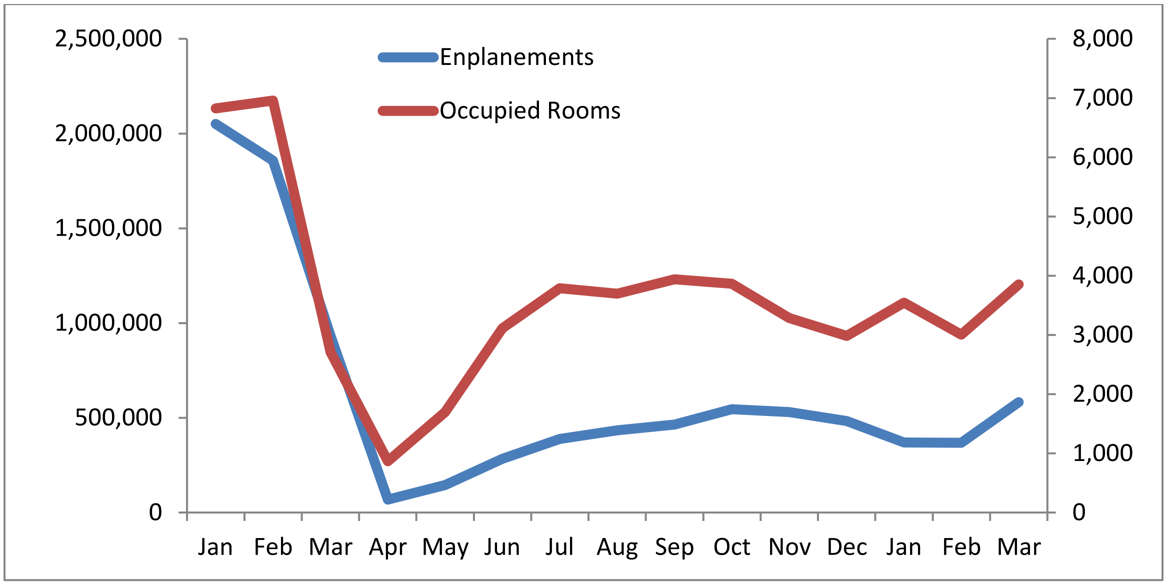
BACKGROUND

On December 1, 2015 the Board of Supervisors approved the Hotel Management Agreement between the Airport and Hyatt Corporation to supervise, direct and control the management, operation and promotion of the recently completed 351-room on-site Hotel built and owned by the Airport (Resolution 434-15). The Agreement had a term of ten years to commence following opening of the on-site Hotel in October 2019 with one five-year option to extend at the discretion of the Airport. The Hotel is fully owned by the Airport, and operated as a separate Special Facility that is independent of other Airport operations. The Hotel Management Agreement designated Hyatt as the sole party responsible for all aspects of management and operations. All operating costs incurred by Hyatt are covered by Hotel operating revenues. The Management Agreement included a provision in which Hyatt is paid a Base Management Fee to cover the costs of services provided from the Hyatt central office, with amounts set according to a fixed schedule over the initial 10-year term of the Agreement, not-to-exceed $19,945,418. The Agreement also included a provision that in the years in which revenues exceed costs, Hyatt would be entitled to a Subordinate Management Fee payment from net profit after deductions to fund various capital reserves and the costs of debt service.

Impact of the COVID-19 Pandemic

The COVID- 19 pandemic resulted in a significant decline in air travel and hotel sector occupancy levels; the decline in the number of passenger enplanements and number of occupied rooms at the Hotel per month is shown in Exhibit 1. While passenger air traffic has subsequently recovered somewhat, current passenger enplanements remain below pre-pandemic levels. Hotel occupancy fell from 6,824 occupied rooms in January 2020 (or 62.7%) to 866 occupied rooms in April 2020 (or 8.2%). In July of 2020, occupancy levels returned to approximately one-half of pre-pandemic levels – although the real scope of improvement is likely to be less if adjusted to account for seasonal variations in travel.

Exhibit 1: Change in Enplanements and the Hotel's Occupied Rooms, Jan 2020 – March 2021



Source: Airport and Hyatt

Despite the limited improvement, current occupancy rates are insufficient for Hyatt to cover current operating costs, as seen in Exhibit 2, and the Hotel has been operating with monthly net losses since the onset of the global pandemic.[1]

Exhibit 2: Hotel Operating Revenues and Expenses, Oct 2019 through March 2021

	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
Revenues	1,539,000	2,115,000	2,193,000	2,774,000	2,648,000	884,000	199,000	358,000	770,000
Expenses	2,074,000	2,349,000	2,256,000	2,440,000	2,345,000	1,492,000	822,000	838,000	992,000
Net Income	(535,000)	(234,000)	(63,000)	334,000	303,000	(608,000)	(623,000)	(480,000)	(222,000)

	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21
Revenues	899,000	901,000	1,069,000	986,000	812,000	674,000	877,000	715,000	899,000
Expenses	1,274,000	1,215,000	1,400,000	1,157,000	1,148,000	1,005,000	1,175,000	1,083,000	1,179,000
Net Income	(375,000)	(314,000)	(331,000)	(171,000)	(336,000)	(331,000)	(298,000)	(368,000)	(280,000)

Source: Airport

[1] The Hotel, which began operations in October 2019, incurred an operating loss of $535,000 in October 2019, decreasing to $63,000 in December 2019. In the two months prior to the pandemic, the Hotel had operating surpluses of $334,000 in January 2020 and $303,000 in February 2020. According to Airport staff, the Hotel drew on liquidity reserves for essential operating expenses, such as payroll.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the Fourth Modification to the Hotel Management Agreement between the Airport and Hyatt to (1) reduce the Management Fees paid through the Agreement to Hyatt in CY 2021 and CY 2022; (2) extend the trigger dates for certain performance termination events; (3) extend the initial term by two years; and (4) increase the Agreement amount to not-to-exceed $23,841,880.

Management Fee and Term Extension

Under the terms of the current Agreement, the Management Fee consists of the Base Management Fee, which is paid to Hyatt in 12 monthly installments, and the Subordinate Management Fee. Hyatt is entitled to a Subordinate Management Fee if sufficient net Hotel revenues remain after funding of Hotel operations, certain reserves, and debt service on the Hotel Special Facility Revenue Bonds.[2] If annual Hotel revenues are not sufficient to pay the Subordinate Management Fee, this fee is carried forward to subsequent years without interest.

Reduction in Base Management Fee

The proposed Fourth Modification reduces the Base Management Fee paid to Hyatt over CY 2021 and CY 2022 by $1,158,535, shown in Exhibit 3 below. According to Mr. Anwar Elgonemy, Airport Hotel and Special Projects Director, the Airport believes that the reduction in the Base Management Fee will reduce Hotel expenses without significantly impacting Hyatt's ability to meet its contractual obligations, and will create a more stable interim period over which time both parties anticipate an improvement in enplanements and occupancy rates as air travel increases and the economy recovers.

Two-Year Term Extension

In exchange for the reduction in the Base Management Fee, the Airport agreed to extend the initial Agreement term by two years, from 10 years to 12 years. Because of the extended Agreement term, the total Agreement amount increases from $19,945,418 and $23,841,880, as shown In Exhibit 3 below.

[2] The Board of Supervisors previously authorized the Airport to issue Special Facility Revenue Bonds (File 15-0987) to finance development of the Hotel, and the restructuring of the Hotel's payment of debt service on the Bonds from October 2020 to April 2023 (File 21-0007).

Exhibit 3: Adjusted Management Fee Structure

	Original Agreement			Proposed Fourth Modification			
Year *	Base	Subordinate	Total	Base	Subordinate	Total	Change
1	$710,473	$236,824	$947,297	$710,473	$236,824	$947,297	$0
2 **	1,086,714	364,049	1,450,763	597,693	364,049	961,742	(489,021)
3 **	1,480,406	491,495	1,971,901	925,254	491,495	1,416,749	(555,152)
4 **	1,524,819	506,240	2,031,059	1,410,458	506,240	1,916,698	(114,361)
5	1,570,564	521,427	2,091,991	1,570,564	521,427	2,091,991	0
6	1,622,111	538,541	2,160,652	1,622,111	538,541	2,160,652	0
7	1,666,211	553,182	2,219,393	1,666,211	553,182	2,219,393	0
8	1,716,197	569,777	2,285,974	1,716,197	569,777	2,285,974	0
9	1,767,682	586,871	2,354,553	1,767,682	586,871	2,354,553	0
10	1,825,702	606,133	2,431,835	1,825,702	606,133	2,431,835	0
Subtotal	$14,970,879	$4,974,539	$19,945,418	$13,812,345	$4,974,539	$18,786,884	($1,158,535)
11	na	na	0	1,873,170	621,892	2,495,063	2,495,063
12	na	na	0	1,921,873	638,062	2,559,935	2,559,934
Subtotal	0	0	0	3,795,043	1,259,954	5,054,997	5,054,997
Total	**$14,970,879**	**$4,974,539**	**$19,945,418**	**$17,607,387**	**$6,234,493**	**$23,841,880**	**$3,896,462**

Source: Original Management Agreement and Proposed Fourth Modification

* Hotel operations began in October 2019. Year 1 of the Agreement is from October 4, 2019 to October 3, 2020; Year 2 is from October 4, 2020 to October 3, 2021; and Year 3 is from October 4, 2021 to October 3, 2022. The extended 12-year term is through October 3, 2031.

** The Base Management Fee is reduced by 60% for each month of CY 2021, and 30% for each month of CY 2022.

Extended Trigger Dates for Performance Termination Events

The proposed Fourth Modification makes corresponding two-year adjustments to the dates when the Airport may trigger termination of the Management Agreement should Hyatt fail to achieve certain performance benchmarks.

Summary of Other Modifications to the Current Hotel Management Agreement

Subordinate Management Fee

The proposed Fourth Modification amends Section 4.1 of the Management Agreement to require that any unpaid balance in the Subordinate Management Free owed by the Airport to Hyatt "shall accrue interest at 0.56%, compounded annually, and be paid if and to the extent there are moneys available therefor in subsequent Operating Years in the order of priority set forth in the Trust Agreement". The proposed Fourth Amendment also amended this Section to state that such balance shall be repaid the earlier of the date that is five (5) years after such unpaid balance shall have become due and payable, or the date of expiration or Termination of this Agreement.

Other Amendments of the Hotel Management Agreement

The proposed Fourth Amendment amends:

- Section 5.1(a) authorizing a two-year extension of the Term of the contract, for a total initial term of twelve years
- Section 5.1(b) granting the Airport, as Hotel Owner, the option to extend this Agreement for five additional years beyond the initial term, so long as a notice of such intent to extend is submitted to the Operator no less than one year prior to the termination of the initial Agreement. Any request for such extension is subject to the provision that Hyatt is in compliance with Brand Standards as outlined in the Hotel Management Agreement. The only change is to have the Management Fees for the extension term, if granted, be derived based on Hotel performance for the tenth and eleventh Operating Years, rather than the eighth and ninth Operating Years, to reflect the two-year extension of the initial Term of the contract.
- Section 5.5, extending by two years the time by which the failure of Hyatt to achieve certain financial and operating benchmarks become actionable grounds for unilateral termination of the Agreement by the Airport. This amendment aligns the timing of these termination provisions with the two-year contract extension.[3]

FISCAL IMPACT

Approval of the proposed resolution reduces the Airport's Base Management Fee payment to Hyatt by $1,158,535 for CY 2021 and CY 2022.

According to the Controller's Six Month Report, the Airport is projected to contribute $12.3 million to the General Fund through the Annual Service Payment. This is $12.9 million, or 51.2 percent, below the budgeted amount for FY 2020-2021.[4]

POLICY CONSIDERATION

Hotel Bonds were restructured earlier this year, following Board approval (File 21-0007). There are no debt service payments due on the Hotel Bonds until April 2023, allowing time for the travel industry and for Hotel revenues to recover from the COVID-19 pandemic. Debt service on the Hotel Bonds is being paid at reduced interest rates through FY 2029.

The Hotel currently has $2,500,000 in its Working Capital Reserve Fund and $349,299 in the Operating Account (Lockbox) that may be used, if necessary, to support Hotel operating expenses such as payroll. As Hotel owner, the Airport has the ability to provide working capital contributions to support the Hotel's operating needs if necessary.

[3] The referenced benchmarks include "Average Daily Rate" for Hotel occupancy, "RevPAR", or revenue per room, and "Net Operating Income."

[4] The Annual Service Payment is set at fifteen percent of SFO concessions earnings per the Lease and Use Agreement between the Airport Commission and signatory airlines. In the case of the Hotel concession, the Annual Service Payment is calculated as 15.0% of the difference between Hotel earnings minus Hotel operating costs and debt service obligations.

Airport management is currently anticipating the Hotel will return to net profitability at some point in the next two years.

RECOMMENDATION

Approve the proposed resolution.

Items 2, 3 and 4 **Files 21-0415, 21-0447 & 21-0448**	**Department:** Human Services Agency (HSA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolutions would approve food production and delivery contract amendments for the Great Plates Delivered program between the Human Services Agency (HSA) and (i) Moonstar Buffet Restaurant (Moonstar), increasing the not-to-exceed amount by $8,085,000, for a total not to exceed $17,424,000 (File 21-0415); (ii) San Francisco New Deal (SF New Deal), increasing the not-to-exceed amount by $21,186,000, for a total not to exceed $46,926,000 (File 21-0447); and (iii) Off the Grid Services LLC (Off the Grid), increasing the not-to-exceed amount by $21,483,000, for a total not to exceed $50,193,000 (File 21-0448). All three contracts would be extended through December 2021.

Key Points

- The Great Plates Delivered program provides meals to adults 65 and older and adults 60-64 at high risk from COVID-19 and unable to access meals while staying at home and ineligible for other nutrition programs. In April 2020, HSA issued a Request for Qualifications (RFQ) to select food vendors eligible for the Great Plates Delivered program. Moonstar, SF New Deal, and Off the Grid were among the 93 vendors that met minimum qualifications and were awarded contracts.
- The proposed resolutions would extend the three contracts through December 2021. Under the contracts, the vendors prepare, package, and deliver three meals per day to program participants. HSA pays the vendors a daily rate of $60 per participant served.

Fiscal Impact

- The total amount increased by the three proposed contract amendments is $50,754,000. Approximately 40 percent of this amount, or $20,301,600, would be funded by the Federal Emergency Management Agency (FEMA), and approximately 60 percent, or $30,452,400 would be funded by the City's General Fund.
- Based on actual spending to date, the Budget and Legislative Analyst recommends amending the proposed resolutions to reduce the not-to-exceed amounts of the SF New Deal contract by $7,000,000 and the Off the Grid contract by $4,200,000.

Recommendations

- Amend the proposed resolutions as follows: (i) amend File 21-0415 to state that approval is retroactive; (ii) amend File 21-0447 to reduce the not-to-exceed amount by $7,000,000, for a total not to exceed $39,926,000; and (iii) amend File 21-0448 to reduce the not-to-exceed amount by $4,200,000, for a total not to exceed $45,993,000.
- Approve the resolutions 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

Great Plates Delivered Program

The State of California and the Federal Emergency Management Agency (FEMA) created the Great Plates Delivered program to (1) provide meals to adults 65 and older and adults 60-64 at high risk from COVID-19 and unable to access meals while staying at home and ineligible for other nutrition programs; and (2) support local restaurants and food and agricultural workers at risk during the public health crisis.

In April 2020, the Human Services Agency (HSA) issued a Request for Qualifications (RFQ) to select food vendors eligible to participate in the Great Plates Delivered program. Proposals were considered from organizations that could provide food production, packaging, and/or delivery services. Each proposal's screening was a pass or fail determination as to whether the proposer met the minimum qualifications. The RFQ established a pool of 93 pre-qualified, as needed contractors, including Moonstar Buffet Restaurant (Moonstar), San Francisco New Deal (SF New Deal), and Off the Grid Services LLC (Off the Grid).

Moonstar (File 21-0415)

In June 2020, HSA executed a contract with Moonstar for a term of approximately two months from June 22, 2020 through August 31, 2020 and an amount not to exceed $2,343,000.[1] In September 2020, HSA executed the First Amendment to the contract, extending the term by four months through December 2020, and increasing the not-to-exceed amount by $4,026,000, for a total not to exceed $6,369,000. In March 2021, HSA executed the Second Amendment to the contract, extending the term by four months through April 2021, and increasing the not-to-exceed amount by $2,970,000, for a total not to exceed $9,339,000.

SF New Deal (File 21-0447)

In June 2020, HSA executed a contract with SF New Deal for a term of three months from June 1, 2020 through August 31, 2020 and an amount not to exceed $9,108,000. In September 2020, HSA executed the First Amendment to the contract, extending the term by four months through December 2020, with no change to the not-to-exceed amount. In December 2020, the Board of Supervisors approved the Second Amendment to the contract, extending the term by five months through May 2021, and increasing the not-to-exceed amount by $16,632,000, for a total not to exceed $25,740,000 (File 20-1318).

[1] The original contracts for Moonstar, SF New Deal, and Off the Grid did not require Board of Supervisors approval because the contracts did not exceed 10 years or $10 million.

Off the Grid (File 21-0448)

In May 2020, HSA executed a contract with Off the Grid for a term of approximately three months from May 29, 2020 through August 31, 2020 and an amount not to exceed $9,405,000. In September 2020, HSA executed the First Amendment to the contract, extending the term by four months through December 2020, with no change to the not-to-exceed amount. In December 2020, the Board of Supervisors retroactively approved the Second Amendment to the contract (effective November 15, 2020), extending the contract by approximately five months through May 28, 2021, and increasing the not-to-exceed amount by $19,305,000, for a total not to exceed $28,710,000.

DETAILS OF PROPOSED LEGISLATION

The proposed resolutions would approve the following contract amendments with HSA for the Great Plates Delivered program:

i. **File 21-0415** would retroactively approve the Third Amendment to the contract with Moonstar, extending the contract term by eight months from April 2021 through December 2021, and increasing the not-to-exceed amount by $8,085,000, for a total not to exceed $17,424,000;

ii. **File 21-0447** would approve the Third Amendment to the contract with SF New Deal, extending the contract by seven months from May 2021 through December 2021, and increasing the not-to-exceed amount by $21,186,000, for a total not to exceed $46,926,000; and

iii. **File 21-0448** would approve the Third Amendment to the contract with Off the Grid, extending the contract term by approximately seven months from May 2021 through December 2021, and increasing the not-to-exceed amount by $21,483,000, for a total not to exceed $50,193,000.

According to Ms. Rocio Duenas, HSA Senior Contract Manager, HSA is requesting retroactive approval of the proposed Third Amendment to the contract with Moonstar due to the Great Plates Delivered program being extended by the State on a month-to-month basis. State notification of the extension of the program happens 24-48 hours prior to the program end date, and the delayed notification caused the resolution to be retroactive.

Services Provided

The purpose of the contracts is to provide delivery of three meals per day to eligible participants identified by the Department of Disability and Aging Services' Integrated Intake. Eligibility requirements were determined by the State of California and FEMA and include the following criteria:

- Adults aged 65 or older, as well as older adults who are aged 60-64 and in high-risk categories (i.e. have received a positive COVID-19 diagnosis, have been exposed to COVID-19, or have underlying health conditions);
- Unable to obtain or make their own meals;

- Living alone or with one other adult who also meets these criteria;
- Earning less than $74,940 for a single-person household or $101,460 for two person households; and
- People whose income is between 200 percent and 600 percent of the poverty level.

The City allows adults aged 60 or older whose income is below 200 percent of the federal poverty level to participate in the program.

According to Ms. Duenas, to date the program has provided 2,317,430 meals to 3,841 recipients since its inception in May 2020. Ninety-four percent of recipients have been adults aged 65 or older, and six percent have been adults aged 60-64. The proposed amendment does not make any changes to the scope of the original contract.

The Great Plates Delivered program is currently authorized through June 7, 2021. According to Ms. Duenas, each extension has been announced approximately 24-48 hours prior to the end date. If the program ends before December 31, 2021, HSA would terminate the contracts.

FISCAL IMPACT

The proposed contract amendments would increase the not-to-exceed amounts of the contracts as follows: (i) File 21-0415 would increase the not-to-exceed amount of the Moonstar contract by $8,085,000, for a total not to exceed $17,424,000; (ii) File 21-0447 would increase the not-to-exceed amount of the SF New Deal contract by $21,186,000, for a total not to exceed $46,926,000; and (iii) File 21-0448 would increase the not-to-exceed amount of the Off the Grid contract by $21,483,000, for a total not to exceed $50,193,000. The total amount increased by the three proposed contract amendments is $50,754,000. The calculation of charges for the three proposed contract increases is shown in Table 1 below.

Table 1: Calculation of Charges for Contract Increases

Vendor	# of People Served	# of Days	Meal Rate[2]	Subtotal	Contingency (10%)	Not-to-Exceed Amount Increase
Moonstar (File 21-0415)	500	245	$60	*$7,350,000*	$735,000	$8,085,000
SF New Deal (File 21-0447)	1,500	214	$60	*19,260,000*	1,926,000	21,186,000
Off the Grid (File 21-0448)	1,500	217	$60	*19,530,000*	1,953,000	21,483,000
Total				***$46,140,000***	**$4,614,000**	**$50,754,000**

Source: HSA

Total actual and projected expenditures for the three contracts are shown in Table 2 below.

[2] The meal rate of $60 is for three meals per day. The Great Plates Delivered program guidance allows for up to $66 for three daily meals, but HSA has negotiated a rate of $60 with the contractors.

Table 2: Actual and Projected Expenditures

Vendor	Actual Expenditures to Date[3]	Projected Remaining Expenditures under Existing Contract	Proposed Contract Increase	Total Projected Expenditures
Moonstar (File 21-0415)	$8,194,680	$920,000	$8,085,000	**$17,199,680**
SF New Deal (File 21-0447)	14,989,705	3,690,000	21,186,000	**39,865,705**
Off the Grid (File 21-0448)	21,722,765	2,700,000	21,483,000	**45,905,765**
Total	**$44,907,150**	**$7,310,000**	**$50,754,000**	**$102,971,150**

Source: HSA

Projected SF New Deal contract expenditures of $39,865,705, shown in Table 2 above, are $7,060,295 less than the requested contract amount of $46,926,000. Therefore, the Budget and Legislative Analyst recommends amending File 21-0447 to reduce the total SF New Deal contract not-to-exceed amount by $7,000,000 to $39,926,000.

Projected Off the Grid contract expenditures of $45,905,765, shown in Table 2 above, are $4,287,235 less than the requested contract amount of $50,193,000. Therefore, the Budget and Legislative Analyst recommends amending File 21-0448 to reduce the total Off the Grid contract not-to-exceed amount by $4,200,000 to $45,993,000.

According to Ms. Duenas, HSA estimates that approximately 40 percent of the proposed contract increases, or $20,301,600, will be funded by FEMA, and approximately 60 percent, or $30,452,400, will be funded by the City's General Fund. The California Governor's Office of Emergency Services (Cal OES), which had previously funded approximately eight percent of the Great Plates Delivered program in San Francisco, will no longer provide funding. To be eligible for FEMA funding, recipients must meet the age and health condition requirements and have income between 200 percent and 600 percent of the Federal Poverty Level. For eligible recipients, the program is fully funded by FEMA, and for ineligible recipients (those with incomes below 200 percent of the Federal Poverty Level), the City fully funds the costs of services.

POLICY CONSIDERATION

HSA's FY 2020-21 budget included $15 million for the overall Great Plates Delivered program, which contained $7.95 million in General Fund support. According to Ms. Duenas, total expenditures on the Great Plates Delivered program in FY 2020-21 are now projected to be $56.7 million, which after State and Federal reimbursements, will require an estimated $34.0 million in General Fund support, or approximately $26.1 more than budgeted. According to Ms. Duenas, HSA is funding the added General Fund cost by shifting $9 million within HSA's meal program, and redirecting $8.3 million from savings within the HSA budget. The FY 2020-21 Six-Month Budget Status report assumed $6 million of the remaining $8.7 million projected deficit/gap, and also posited a surplus in the COVID Emergency Response project budget at the Citywide level,

[3] Actual expenditures shown are through March 31, 2021 for Moonstar, March 28,2021 for SF New Deal, and April 23, 2021 for Off the Grid.

largely due to updated projections of FEMA revenues. Some of this surplus will be utilized to address the remaining gap in Great Plates funding; updated projections will be detailed in the soon-to-be-published FY 2020-21 Nine-Month Budget Status report.

RECOMMENDATIONS

1. Amend the proposed resolution in File 21-0415 to state that approval is retroactive.
2. Amend the proposed resolution in File 21-0447 to reduce the not-to-exceed amount by $7,000,000, for a total not to exceed $39,926,000.
3. Amend the proposed resolution in File 21-0448 to reduce the not-to-exceed amount by $4,200,000, for a total not to exceed $45,993,000.
4. Approve the resolutions as amended.

Item 8 File 21-0509	Department: Real Estate Division

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves a Purchase Option Agreement between the City and Prologis, L.P. (Prologis) that provides the City with a unilateral right to exercise an option to purchase property located at 1236 Carroll Avenue in San Francisco at any time prior to June 1, 2022, which would be used to construct a new Fire Department training facility.

Key Points

- The San Francisco Fire Department has two training facilities, one on Treasure Island and one in the Mission District. According to the City's ten-year Capital Plan for Fiscal Years 2020-2029, the Fire Department will need a replacement training facility by 2024 because the Mission District facility is too small to meet Department needs and the Treasure Island facility will be displaced by development.
- The 2020 Earthquake Safety and Emergency Response (ESER) bond provided approximately $275 million for Neighborhood Fire Stations and Support Facilities, of which $62 million is allocated to a new Fire Department training facility. Legislation pending before the Board of Supervisors approves issuance of ESER bonds and appropriation of proceeds for the new Fire Department training facility (Files 21-0389 and 21-0422.
- 1236 Carroll Avenue is a 4.91-acre site in the southeastern portion of the City. The Purchase Option Agreement provides the following terms: (a) purchase price of $38,500,000; (b) purchase option term from approximately June 1, 2021 to June 1, 2022 (12 months); and (c) nonrefundable purchase option payment of $15,000 per month for the purchase option term, or approximately $180,000 over the term of the Purchase Option Agreement.

Fiscal Impact

- The Purchase Option Agreement would cost $15,000 per month with the first full payment beginning in June 2021. Over the 12-month term of the Purchase Option Agreement, the total cost to the City is $180,000, which is a General Fund cost, reimbursable by ESER bond proceeds if the property is purchased for the Fire Department training facility.

Policy Consideration

- The Fire Department's needs assessment identified the need for a seven-acre training facility, or approximately two acres more than the 4.91-acre site at 1236 Carroll Avenue. The Real Estate Division and Port have identified approximately 2.6 acres of Port-owned land, adjacent to 1236 Carroll Avenue, that could be combined with the Carroll Avenue property to form an approximately 7.5-acre site for the Fire Department's training facility. Because Port-owned land is held as a public trust, the City is requesting the State Legislature to allow the City to purchase the adjacent land from the Port.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

Administrative Code Section 23.3 provides for the Board of Supervisors to approve the acquisition of real property. The Administrative Code requires an appraisal of fair market value, and an appraisal review for properties with an appraisal exceeding $200,000.

BACKGROUND

The San Francisco Fire Department has two training facilities, one on Treasure Island and one in the Mission District. According to the City's ten-year Capital Plan for Fiscal Years 2020-2029, the Fire Department will need a replacement training facility by 2024 because the Mission District facility is too small to meet Department needs and the Treasure Island facility will be displaced by development. The October 2018 Pre-Design Planning Study, conducted by Telamon Engineering Consultants, Inc. and McClaren, Wilson, & Lawrie Inc. for the Fire Department and Department of Public Works, found that a new training facility would require from 7.0 acres (for a multi-story facility) to 7.8 acres (for a ground-level facility).

The 2020 Earthquake Safety and Emergency Response (ESER) bond provided approximately $275 million for Neighborhood Fire Stations and Support Facilities, of which the new Fire Department training facility will constitute the largest allocation from this amount. Approximately $67 million will be used for the Fire Training Facility project land acquisition, programming, site due diligence, environmental review and agency approvals, design, and Construction Management/General Contractor pre-construction efforts. Legislation pending before the Board of Supervisors approves issuance of ESER bonds and appropriation of proceeds for the new Fire Department training facility (Files 21-0389 and 21-0422).

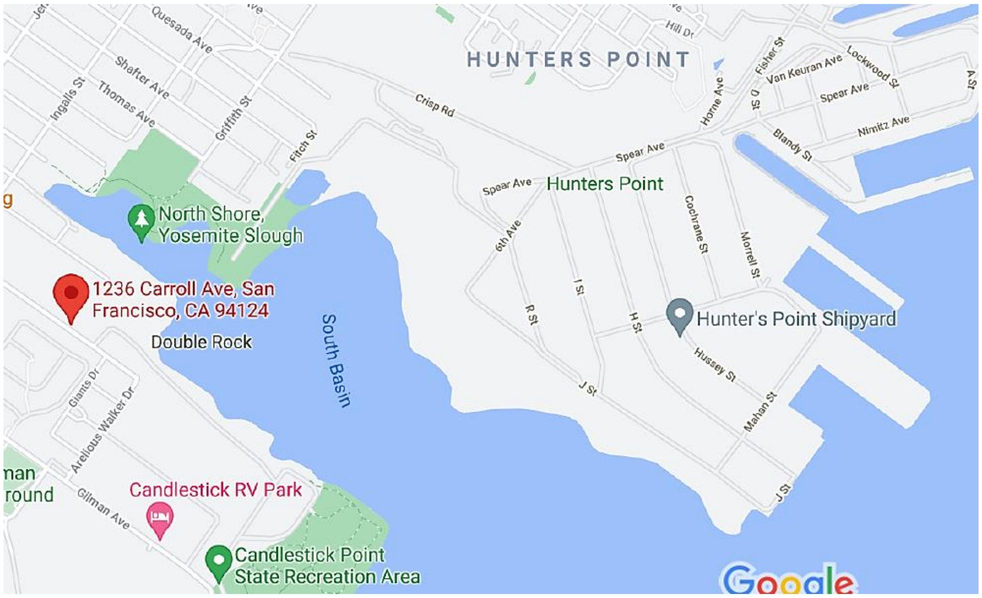
DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves a Purchase Option Agreement between the City and Prologis, L.P. (Prologis) that provides the City with a unilateral right to exercise an option to purchase property located at 1236 Carroll Avenue in San Francisco at any time prior to June 1, 2022, which would be used to construct a new Fire Department training facility. Actions that would need to be taken prior to exercise of the purchase option include (i) satisfying any conditions or requirements under the California Environmental Quality Act (CEQA), and (ii) future legislation being adopted by the Board of Supervisors to authorize the City's exercise of the option and purchase of the property. The proposed resolution also authorizes the Director of Property to make modifications and take actions in furtherance of the resolution and the Purchase Option Agreement.

Purchase Option Agreement

1236 Carroll Avenue is a 4.91-acre site in the southeastern portion of the City as shown in Exhibit 1 below.

Exhibit 1: Map of 1236 Carroll Avenue



Source: Google Maps

The Purchase Option Agreement provides the following terms:

- Purchase price of $38,500,000
- Purchase option term from approximately June 1, 2021 to June 1, 2022 (12 months)
- Nonrefundable purchase option payment of $15,000 per month for the purchase option term, or approximately $180,000 over the term of the Purchase Option Agreement

The Purchase Option Agreement requires Prologis to remove the property from the market during the term of the agreement, and must be approved by the Board of Supervisors by June 4, 2021 and become effective June 11, 2021, or Prologis may withdraw from the agreement. The City must exercise the purchase option by June 1, 2022, but may terminate the purchase option prior to June 1, 2022 with two-day written notice to Prologis.

The following requirements must be met before the City exercises the purchase option:

- Compliance with CEQA
- Review and approval of title to the property
- Approval of property condition and compliance
- Approval of documents and other information pertaining to the property
- Approval of City agencies, Board of Supervisors, and Mayor

Purchase Agreement

The prospective Purchase Agreement is attached to the Purchase Option Agreement and held in escrow during the term of the Purchase Option Agreement. The prospective Purchase Agreement, which is subject to future Board of Supervisors approval, provides a purchase price of $38,500,000, which is consistent with the third party appraisal conducted by R. Blum and Associates in January 2021, and confirmed by an appraisal review conducted by Clifford Advisory, LLC in March 2021.

Under the proposed Purchase Agreement, the City would pay for property survey, title insurance, and escrow and closing costs. Because the property is being sold to the City, transfer taxes would not be assessed.

FISCAL IMPACT

The Purchase Option Agreement would cost $15,000 per month with the first full payment beginning in June 2021. Over the 12-month term of the Purchase Option Agreement, the total cost to the City is $180,000, which is a General Fund cost, reimbursable by ESER bond proceeds if the property is purchased for the Fire Department training facility. According to Mr. Andrico Penick, Director of Real Estate, the Real Estate Division expects to exercise the purchase option by January 2022.

POLICY CONSIDERATION

According to the City's Capital Plan, the Fire Department's needs assessment identified the need for a seven-acre training facility, or approximately two acres more than the 4.91-acre site at 1236 Carroll Avenue. The Real Estate Division and Port have identified approximately 2.6 acres of Port-owned land, adjacent to 1236 Carroll Avenue, that could be combined with the Carroll Avenue property to form an approximately 7.5-acre site for the Fire Department's training facility.

Port-owned land is held as a public trust, in which the State granted title to the Port with restrictions on how the land may be used. The California Constitution authorizes the State Legislature to terminate the public trust if it determines that the land is no longer needed for the public trust's purposes, and according to Mr. Penick, the City is requesting the State Legislature to allow the City to purchase the adjacent land from the Port. Future purchase of Port land by the City would require Board of Supervisors approval. If the City is not able to purchase the Port property, the proposed Purchase Option Agreement provides for the City to withdraw from the Agreement with two-day written notice.

RECOMMENDATION

Approve the proposed resolution.