CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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July 9, 2021

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: July 14, 2021 Budget and Finance Committee Meeting

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Item 1 File 20-1322	Department: San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a Terminal 1 lounge lease between the San Francisco International Airport (Airport) as landlord and ALD Development Corporation dba Airport Dimensions as tenant, for a term of 12 years with two 1-year options to extend, and initial annual base rent of $3,100,918.

Key Points

- In September 2019, the Airport Commission authorized Airport staff to conduct a Request for Proposals (RFP) process for an Airport Lounge Lease in Terminal 1, Boarding Area B. In January 2020, the Airport received two proposals. An evaluation reviewed the proposals and scored them. ALD Development Corporation was deemed the highest scoring responsive and responsible proposer and awarded a lease. In March 2020, the Airport Commission approved the lease.
- Under the proposed lease, ALD Development Corporation would pay $3,100,918 in initial annual base rent. This amount was determined by FY 2019-20 Airport Rates and Charges, which was in effect when the RFP was issued and had set the Category II terminal space annual rental rate at $248.75 per square foot. The Airport Rates and Charges are set each year by the Airport Commission, and the annual rent will be automatically updated each year based on the Rates and Charges.

Fiscal Impact

- Over the initial 12-year term of the lease, the Airport would receive at least $37,211,010 in base rent. If the two 1-year options are exercised, the Airport would receive an additional $6,201,835 in base rent, for a total of at least $43,412,845.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

BACKGROUND

In September 2019, the San Francisco International Airport (Airport) Commission authorized Airport staff to commence a Request for Proposals (RFP) process for an Airport Lounge Lease in Terminal 1, Boarding Area B. The lounge is post-security on the mezzanine level in shell space constructed as part of the Harvey Milk Terminal 1 development. In October 2019, the Airport held an informational conference for interested parties and solicited comments. In December 2019, the Airport Commission authorized Airport staff to accept proposals for the lease.

In January 2020, the Airport received two proposals, which both met the minimum qualifications. A four-member evaluation panel reviewed the proposals and scored them, as shown in Table 1 below.[1]

Table 1: RFP Proposals and Scores

Proposer	Concept	Score
ALD Development Group	Airport Dimensions	97.27
Plaza Premium Group	Premium Lounge (San Francisco) LLC	83.73

Source: Airport

ALD Development Group was deemed the highest scoring responsive and responsible proposer and was awarded a lease. In March 2020, the Airport Commission approved the lease.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve an Airport Lounge Lease between the Airport as landlord and ALD Development Corporation dba Airport Dimensions as tenant, for a term of 12 years, with two 1-year options to extend.

The initial annual rent of $3,100,916 was determined by the FY 2019-20 Airport Rates and Charges, which had set the annual rental rate for Category II terminal space, including VIP clubs and lounges, at $248.75 per square foot. According to Ms. Cheryl Nashir, Airport Director of Revenue Development and Management, the initial rent was determined by the rental rates set when the RFP was issued, which are now out of date.[2] The rent will automatically be set to the updated Category II rental rate at the beginning of the next fiscal year following the opening of the lounge. The key terms of the proposed lease are shown in Table 2 below.

[1] The panel consisted of an Administrative Services Manager from SFO Guest Services, a Station Manager from JetBlue, a Senior Aviation Consultant, and a Senior Administrative Analyst from SFO Finance Division.
[2] The FY 2021-22 Category II rental rate is $255.21 per square foot.

Table 2: Key Provisions of Proposed Lease

Premises	12,466 square feet in Terminal 1, Boarding Area B
Term	12 Years
Options to Extend	Two 1-year options
Initial Annual Rent	$3,100,916 ($248.75 per square foot)
Rent Adjustment	Annually based on Rates and Charges
Deposit	Equal to ½ of initial Annual Base Rent, subject to mid-term adjustment
Minimum Investment	$700 per square foot of the premises ($8,726,200)
Promotional Charge	$1 per square foot of the premises per year ($12,466)
Pest Control Fee	$75 per month, subject to adjustment

Source: Proposed lease

The RFP provided for an up to 12-year lease term and minimum tenant investment of $700 per square foot. According to Ms. Nashir, the lease is expected to commence in approximately November 2022.

FISCAL IMPACT

Under the proposed lease, the Airport would receive $3,100,916 in annual base rent, adjusted annually based on the Airport Rates and Charges. Over the initial 12-year term of the lease, the Airport would receive at least $37,211,010 in base rent. If the two 1-year options are extended, the Airport would receive at least an additional $6,201,835 in base rent, for a total of at least $43,412,845. Base rent under the proposed lease is shown in Table 3 below.

Table 3: Base Rent Paid to Airport under Proposed Lease

Annual Base Rent	Rent over Initial Term (12-Years)	Rent over Option Term (2 Years)	Total Rent (14 Years)
$3,100,916	$37,211,010	$6,201,835	$43,412,845

Source: BLA Analysis of proposed lease

RECOMMENDATION

Approve the proposed resolution.

Item 2 File 21-0410	Department: Airport

EXECUTIVE SUMMARY

Legislative Objectives

- The resolution would approve the concession Lease Agreement between the Airport and MRG San Francisco Terminal 2, LLC for three facilities totaling approximately 6,915 square feet for a term of 12 years and a Minimum Annual Guarantee (MAG) of $2,300,000 for the first year of the Lease.

Key Points

- Following a competitive bid process for the Terminal 2 Retail Market and Harvey Milk Terminal 1 Specialty Retail Stores Concession Lease, on September 20, 2020 the Airport awarded MRG San Francisco Terminal 2, LLC the lease. MRG would have three concessions under the proposed lease: 16th and Dolores General Store, Fireworks, and Beauty Hub SFO. This proposed lease is in addition to four existing concession leases between MRG and the Airport in Terminal 1 and Terminal 3.
- In 2010, the Airport Commission implemented a policy to limit the number of concession leases that any one individual or entity may hold at any one time to eight leases in order to enhance operator diversity. Following approval of this lease, MRG would have five Airport concession leases, totaling approximately 16,954 square feet of retail space.

Fiscal Impact

- MRG would be required to pay the Airport the greater of the initial MAG amount of $2,300,000 or percentage rent. MRG would pay minimum rent to the Airport of $27,600,000 over the lease term, not including CPI adjustments that would affect rent. The Airport anticipates these three stores will open for business in early 2022. The Airport estimates that MRG will pay percentage rent exceeding the MAG over the 12-year lease term once the businesses have opened.
- 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 resolution.

MANDATE STATEMENT

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

BACKGROUND

In December 2019 the Airport issued a Request for Proposals for the "Terminal 2 Retail Market and Harvey Milk Terminal 1 Specialty Retail Stores Concession Lease". The Airport received three proposals in response, two of which were deemed qualified for scoring by a three-member panel. MRG San Francisco Terminal 2, LLC was awarded the lease in September 2020 after earning a higher score than the second respondent "HG SFO Retailers 2017 JV".

Marshall Retail Group (MRG) is an alternatively Delaware-based LLC and Las Vegas-based LLC that provides specialty retail operations at airports and casinos in Canada and the United States. In 2010, the Airport Commission implemented a policy to limit the number of concession leases that any one individual or entity may hold at any one time to eight leases in order to enhance operator diversity.[1] MRG currently has four lease agreements with the San Francisco International Airport; the fifth is under consideration in this resolution. The total Airport space operated by MRG, including the proposed Lease No. 0156, is approximately 16,954 square feet of retail space. (See Exhibit 1)

Exhibit 1. Ongoing Lease Agreements between MRG and Airport

Lease Number	Premises	Duration	Option to extend	MAG (first year)
Lease No. 19-0246	2,646 sq ft, Terminal 3 Boarding Area F	Seven years (May 2021-May 2028)	Yes, two one-year options	$750,000
Lease No. 18-0368	510 sq ft, Terminal 1, Boarding Area C	Seven years (April 2020-April 2027)	Yes, two one-year options	600,000
Lease No. 18-0206	1,683 sq ft, Terminal 1, Boarding Area B	Ten years (July 2020 -July 2027)	None	440,000
Lease No. 16-0256	5,200 sq ft, Terminal 3, Boarding Area F	Seven years (Aug-2017-Aug 2024)	Yes, two one-year options	1,350,000
Lease No. 20-0156 (proposed)	*6,915 sq ft, Terminals 1 and 2*	*Twelve Years*	*None*	*$2,300,000*

Source: Airport

[1] On July 18, 2019, the City Services Auditor reported that the practice of bundling locations within leases decreases opportunities for operator diversity. Airport staff concurred with the Auditor's recommendation at the time. Airport Manager Cheryl Nashir said that bundling was done in this new MRG lease because two of the three stores were in difficult locations and Airport would not have been able to lease the locations without a "strong" location also in the lease. "The Airport Complied With Solicitation Procedures for Concession Leases but Can Better Track Small and Local Business Participation," City Services Audit.

DETAILS OF PROPOSED LEGISLATION

The resolution would approve the concession Lease Agreement between the Airport and MRG San Francisco Terminal 2, LLC for a term of 12 years and a Minimum Annual Guarantee (MAG) of $2,300,000 for the first year of the Lease.

The premises under the lease consist of three facilities totaling approximately 6,915 square feet:

Exhibit 2. Premises of proposed Lease No. 20-0156 with MRG San Francisco Terminal 2, LLC

Facility	Description	Square Footage
16th and Dolores General Store	Terminal 2 Retail Market	4,720
Fireworks	Terminal 1 Specialty Retail Store	1,219
Beauty Hub SFO	Terminal 1 Specialty Retail Store	976
Total		6,915

Source: SFO-MRG Lease Agreement, Exhibit A

The revenue from all the facilities will be aggregated when determining the base rent. Exhibit 3 summarizes the rent along with other provisions of the lease.

Exhibit 3. Summary of Proposed Lease Provisions

Term	12 years
Options to Extend	None
Premises	6,915 square feet of space comprised of three facilities in Harvey Milk Terminal 1 and Terminal 2 Boarding Area D
Minimum Annual Guarantee (MAG)	Approximately $332 per square foot - $2,300,000 per year
MAG Adjustment	Adjusted annually based on the Consumer Price Index (CPI)
Revenue Percentage Rent	12 percent of revenues up to and including $2,500,000
	Plus 14 percent of revenues between $2,500,000.01 up to and including 5,000,000
	Plus 16 percent of revenues over $5,000,000
Annual Promotional Fee	$1.00 per square foot- $6,915 per year
Pest Control services Fee	$75 per month
Deposit Amount	50 percent of the MAG in effect when the lease commences,
Minimum Initial Investment	$700 per square foot - $4,840,500

Source: SFO-MRG Lease Agreement

The term of the lease is for 12 years following the development term, during which the premises are to be constructed. According to Airport Manager Cheryl Nashir, the Airport is proposing a 12-year lease term with no options to extend because option years are used primarily for phasing future renovation such as when all concessionaire leases in a single boarding area expire around the same time, or when it is uncertain when the next large scale base building renovation may take place near the location of the lease. The Airport anticipates these three stores will open for business in early 2022.

FISCAL IMPACT

Under the proposed lease, MRG would be required to pay the Airport the greater of the initial MAG amount of $2,300,000 or percentage rent. MRG would pay minimum rent to the Airport of $27,600,000 over the lease term, not including CPI adjustments that would affect rent. According to Ms. Nashir, the Airport estimates that MRG will pay percentage rent exceeding the MAG over the 12-year lease term.

MAG Suspension

The lease contains a provision (Section 4.16.b) that suspends the MAG if enplanements drop below 80 percent of reference year (2013) levels for three consecutive months, consistent with Airport policy. 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 resolution.

Item 3 File 21-0740	Department: Health Service System (HSS)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would approve the San Francisco Health Service System's (SFHSS) health, vision, and dental plans as well as life insurance and long-term disability insurance plans and contribution rates for calendar year 2022.

Key Points

- The SFHSS administers non-pension benefits, including health, vision, dental and other benefits, such as life and long-term disability insurance. The Health Service Board adopts the annual health, vision, dental and other insurance plans, and the respective plan premiums and premium equivalents to be paid by SFHSS employers and members
- The Health Service Board is required to conduct a survey of the 10 most populous California counties each year to determine the average of the health premium contributions made by these counties. Based on this survey, the $757.31 average contribution per month for retiree healthcare premiums paid by the City is $28.12 or approximately 3.86 percent more than the average monthly contribution of $729.19 in 2021.
- Compared to 2021 rates, the total 2022 City health premium amounts are proposed to (i) increase by $10.1 million or 3.06 percent for Kaiser, (ii) increase by $3.4 million, or 1.26 percent for Blue Shield, (iii) increase by 0.72 million, or 2.16 percent for Non-Medicare PPO plans, and (iv) increase by 0.67 million, or 1.17 percent for UnitedHealthcare Medicare Advantage PPO.

Fiscal Impact

- The total estimated costs for the health, vision, and dental plans, as well as long-term disability and life insurance, for the City as employer in 2022 is $744,604,589 which is a $8,959,444 or 1.22 percent increase from $735,645,145 in 2021. The total estimated costs for the health, vision, and dental plans, as well as long-term disability and life insurance that will be paid by employees and retirees is $100,403,178 in 2022, or 1.76 percent more than the 2021 costs of $98,665,299.
- In 2021, the average medical monthly contribution per member will be $147.23 per member per month for all members (actives/retirees combined), $169.57 per member per month for active employee, and $115.65 per member per month for retiree.

Recommendation

- Approve the proposed ordinance.

MANDATE STATEMENT

City Charter Section A8.423 states that the Health Service Board is required to conduct a survey of the 10 most populous California counties, excluding San Francisco, to determine the average contribution made by each county toward health plan premiums for employees, excluding dental plan premiums. The Health Service Board is then required to certify to the Board of Supervisors the average contribution as determined by this survey. City Charter Section A8.428 also requires the City to contribute to the Health Service System Trust Fund to pay the costs of health plan premiums.

BACKGROUND

The Health Service Board oversees the San Francisco Health Service System (SFHSS). The SFHSS administers non-pension benefits, including health, vision, dental and other benefits, such as life and long-term disability insurance. The Health Service Board provides the annual health, vision, dental and other insurance plans, and the respective plan premiums and premium equivalents to be paid by SFHSS employers and members.

- SFHSS employers include the City and County of San Francisco (City), the San Francisco Unified School District (SFUSD), the San Francisco Community College District (SFCCD), and the San Francisco Superior Court (Superior Court).
- SFHSS members are active and retired employees of the above noted employers, their dependents, and members of eligible boards and commissions. Dependents include children, spouses, domestic partners, surviving spouses of deceased members, and other legal dependents.

City and Employee Contribution Models

Most contribution formulas for City employees negotiated as part of their labor agreements fall into the following two percentage-based employee premium contribution models:

- Under the ‘93/93/83 Contribution Model’, the City contributes up to 93 percent of the total health insurance premium for employee-only and employee plus one dependent coverage, capped at 93 percent of the second-highest cost plan. The City also contributes up to 83 percent of the total health insurance premium for employees with two or more dependents, capped at 83 percent of the second-highest cost plan. According to Mr. Larry Loo, Chief Financial Officer at the San Francisco Health Service System, there are 20,226 members (excluding dependents) who are covered by this contribution model.
- Under the ‘100/96/83 Contribution Model’, the City contributes 100 percent of total health insurance premiums for employee-only coverage. The City contributes up to 96 percent of the total health insurance premiums for employees with one dependent, capped at 96 percent of the second-highest cost plan. The City also contributes up to 83 percent of the total health insurance premium for employees with two or more dependents, capped at 83 percent of the second-highest cost plan. According to Mr. Loo,

there are 11,659 members (excluding dependents) who are covered by this contribution model.

10-County Survey Average

The 10-county survey average is used as a basis for calculating the employer contribution to the monthly health plan premium for all retirees. Based on the survey, the 10-county average employer contribution for calendar year 2022 is $757.31 per member per month. In June 2014, the impact of the "average contribution" on SFHSS rates was eliminated in the calculation of premiums for almost all active employees represented by most unions, in exchange for a percentage-based employee premium contribution model noted above. Presently, SFHSS utilizes the 10-County Survey amount as one of the elements that determine SFHSS employer contributions for retirees. In the event the premium is higher than the 10-county "average contribution", the City will pay the "average contribution" amount. In the event the premium is less than the "average contribution," the City will pay one hundred percent (100%) of the premium. The $757.31 average contribution per month for retiree healthcare premiums paid by the City is $28.12 or approximately 3.86 percent more than the average monthly contribution of $729.19 in 2021.

Health Service System Trust Fund

Under Charter Section A8.428, employer and SFHSS member contributions to health plan premiums are deposited in the Health Service System Trust Fund. As of June 30, 2020, the Health Service System Trust Fund balance was approximately $116.1 million.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would approve the San Francisco Health Service System's (SFHSS) health, vision, and dental plans as well as life insurance and long-term disability insurance plans and contribution rates for calendar year 2022. The total cost of the plans would be $845,007,767 or 1.28 percent more than the $834,310,444 costs in 2021. Of the total, the City's costs would be $744,604,589, with the balance of $100,403,178 paid by employees and retirees. Table 1 below provides a summary of health insurance costs for 2022.

The Health Service Board approved the following health, vision, dental, life and long-term disability insurance plans and premiums for the period from January 1, 2022 through December 31, 2022 on the following dates in 2021: April 8, May 13, and June 10.

Health Plans and Premiums

<u>Kaiser Permanente HMO</u>[1]

Kaiser Permanente (Kaiser) covers active, early retirees[2] and Medicare retirees. The total Kaiser HMO premium amounts to be paid by the City as employer are $10.1 million, or 3.06 percent, more in CY 2022 than in CY 2021. These amounts are shown in Table 1 below.

[1] An HMO (Health Maintenance Organization) offers care through a closed panel of providers, in which members select a primary care physician, who manages their care. The HMOs pay the medical groups on a per capita basis.
[2] Retired employees of less than 65 years of age and therefore not eligible for Medicare.

There are no plan design changes approved by the Health Service Board for active employees, early retirees or Medicare retirees for 2022.

Blue Shield of California HMOs

The total Blue Shield of California (BSC) Access+ and Trio plans are flex-funded[3] HMOs for active employees and early retirees. The BSC flex-funded HMO plan premium amounts paid by the City as employer are $3.4 million, or 1.26 percent, more in CY 2022 than in CY 2021. No plan design changes were approved for the Blue Shield Access+ and Trio plans by the Health Service Board for 2022.

Blue Shield of California PPO (with Accolade)[4]

Beginning in CY 2022, as a result of a competitive, public Request for Proposal (RFP)[5] process, the Health Service Board approved in February 2021 a change in the third-party administrator for the self-funded PPO medical plan from UnitedHealthcare to Blue Shield of California (with Accolade) for active employees and early retirees. Accolade is the service partner for Blue Shield for additional member engagement, navigational and clinical advocacy services. The PPO premium amounts paid by the City as employer are $0.7 million, or 2.16 percent, more in CY 2022 than the CY 2021 UnitedHealthcare PPO plan premiums.

There are no 2022 PPO plan design changes approved by the Health Service Board for active employees and early retirees; the 2021 PPO benefit plan will be transferring the administration from UnitedHealthcare to Blue Shield of California (with Accolade) effective CY 2022.

Health Net CanopyCare HMO

Also beginning in CY 2022, as a result of a competitive, public RFP process[6], the Health Service Board approved in February 2021 the addition of a new flex-funded HMO plan offering through Health Net in partnership with CanopyCare. CanopyCare provides access to the Canopy Health Alliance of over 5,000 providers in five large medical groups and major regional medical centers and hospitals covering the greater Bay Area. This will be offered for open enrollment to all active employees and early retirees regardless of their current health plan. For forecasting purposes, the HMO premium amounts paid by the City is expected to be a subset of the Blue Shield of California HMO amount stated above, as the most likely source of enrollment is from current Blue Shield of California HMO members. According to Mr. Loo, because there are no current members enrolled in this plan, and the most likely source of membership is from one of the Blue

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[3] Under flex-funding, the HMO pays the medical groups on a per capita basis and plan sponsor (SFHSS) pays the variable claims other than the fixed medical group amounts.

[4] Under a PPO (Preferred Provider Organization), the member's cost-share are lower when using physicians, hospitals, and other providers in the preferred network versus and non-preferred providers. This self-funded arrangement means the plan sponsor (SFHSS) pays the purchaser (through a third-party administrator) on a fee for service basis based on negotiated contracts.

[5] On September 14, 2020, SFHSS issued an RFP to enter into one or more agreements with selected respondents to provide comprehensive medical and pharmacy health benefits and coverage solutions for SFHSS members who are active employees, non-Medicare-eligible retirees and non-Medicare-eligible dependents, with coverage beginning January 1, 2022.The selection panel included six experts from Bay Area municipal health benefits administration agencies, and a former chief medical officer for the health insurance marketplace for California.

[6] Ibid.

Shield of California HMO plans, there are currently no incremental estimate of costs delineated for the Health Net CanopyCare HMO plan.

The plan design approved by the Health Service Board will mirror the plan design for the Blue Shield of California HMO Plans.

UnitedHealthcare (UHC) PPO for non-Kaiser, "Split Families" in 2022

A unique circumstance occurs for early retiree families not enrolled in Kaiser with a family member eligible for Medicare. This occurs when the early retiree is enrolled in the Blue Shield plan and one member is Medicare eligible. This is a mixed Medicare or "Split Family" due to the mixture of eligibility. To accommodate these situations, SFHSS contracts with UnitedHealthcare (UHC) to be the third-party administrator for the self-funded PPO for early retirees, and the Medicare eligible family member is enrolled in the UHC Medicare Advantage PPO plan (mentioned below). According to Mr. Loo, this is being done for administrative reasons. Additionally, non-Medicare family members in retiree families can continue to also elect the Blue Shield of California Access+ or Blue Shield of California Trio HMO plans when one or more members of the retiree's family elects the UHC Medicare Advantage (MA) PPO plan. No plan design changes were approved by the Health Service Board for 2022. As previously mentioned, the PPO premium amounts paid by the City as employer are $0.7 million, or 2.16 percent, more in CY 2022 than the CY 2021 UnitedHealthcare PPO plan premiums.

UHC will remain the administrator of the Non-Medicare PPO plan for individuals who are part of a retiree family where one or more family member is not yet Medicare-eligible and enrolls in the Non-Medicare PPO plan, and one or more family member is Medicare-eligible and enrolls in the UHC Medicare Advantage PPO plan.

UHC Medicare Advantage (MA) PPO

The total UHC Medicare Advantage PPO Plan premium amounts paid by the City as employer are $0.7 million, or 1.17 percent, more in CY 2022 than in CY 2021.

The UHC Medicare Advantage PPO Plan, covers all non-Kaiser Medicare eligible retirees. No plan changes were approved by the Health Service Board for 2022.

Vision Plan

Members enrolled in any of the health plans receive vision benefits through Vision Service Plan (VSP), a third-party insurer. Vision plan premiums are fully insured. The cost of the Basic Plan vision benefit is included in the cost of the medical plan for all monthly health plan premiums.

In 2022, Basic Plan and Premier Plan rates will remain at 2021 levels. Consequently, there is no change to the employer cost for VSP vision rates from 2021 to 2022. Employees and retirees pay the full premium difference between Premier Plan rates and Basic Plan rates, in the form of member contributions.

Dental Plans

SFHSS offers three dental plans, including one PPO (Delta Dental PPO) and two HMOs (DeltaCare USA and UnitedHealthcare Dental). The City pays most of the cost of dental benefits for active employees enrolled in the Delta Dental PPO, and the full cost of the dental HMOs for active employees. Retirees pay the full cost of their dental plans.

For plan year 2022, the City will contribute (1) the total premium toward each of the dental HMO plans for City active employees, and (2) the monthly premium minus employee contributions ranging from $5.00 for employee only coverage to $15.00 per month for full family coverage, for the self-funded Dental PPO plan. Member contributions for the three dental plans remain unchanged from the 2021 plan year.

Due in part to the favorable claims experience from reduced plan usage during the pandemic, there is a reduction in premium for CY 2022. The total dental plan premium amounts across the three active employee dental plans paid by the City as employer are $5.95 million less in CY 2022 than in CY 2021, or a decrease of 15.6 percent.

There were no dental plan design changes approved by the Health Service Board from 2021 to 2022.

<u>Life and Long-Term Disability Insurance</u>

The Hartford Life and Accident Insurance Company (The Hartford) is the insuring entity for the SFHSS life insurance, accidental death and dismemberment insurance, and long-term disability insurance.

There is no change in the premiums from 2021 to 2022, since they are locked into the 2022 plan year as part of the three-year guarantee, from January 1, 2020 through December 31, 2022. Therefore, there is no change in the Life and Long-Term Disability Insurance premium to the City.

Federal Affordable Care Act Requirements

In 2010, the Patient Protection and Affordable Care Act (also known as the Affordable Care Act) created a Health Insurance Tax (HIT) and two direct fees were passed through to employers – the Transitional Reinsurance Fee (TRF) and the Patient Centered Outcomes Research Institute (PCORI) fee, as described below.

- The Health Insurance Tax (HIT) impacted most fully insured health plans offered through SFHSS, including dental and vision plans, in 2020. The tax has applied most years since the Affordable Care Act became law, though the federal government waived this tax for 2017 and 2019 plan years. As a result of the Setting Every Community Up for Retirement Enhancement (SECURE) Act[7] legislation passed by the federal government in December 2019, the HIT is permanently terminated. This tax is no longer in effect.
- The TRF[8] expired at the end of 2016; therefore, the fee is no longer in effect.

[7] The SECURE Act changed retirement plans used in the United States and was the first major retirement-related legislation enacted since the 2006 Pension Protection Act. Major elements of the bill include: raising the minimum age for required minimum distributions from 70.5 years of age to 72 years of age; allowing workers to contribute to traditional IRAs after turning 70.5 years of age; allowing individuals to use 529 plan money to repay student loans; requiring non-spouse beneficiaries of inherited IRAs to withdraw and pay taxes on all distributions from inherited accounts within 10 years; and making it easier for 401(k) plan administrators to offer annuities.

[8] The Affordable Care Act established a transitional reinsurance program to stabilize premiums in the individual market inside and outside of the marketplaces. The transitional reinsurance program will collect contributions from

- The PCORI fee[9] was originally set to expire after 2019, but it was extended through 2029 as part of the SECURE Act passed by the federal government in December 2019. SFHSS pays this fee to the federal government for the current self-funded UHC PPO, while Kaiser and Blue Shield pay this fee on SFHSS's behalf as fully insured/flex funded plans.

FISCAL IMPACT

2022 Total City Costs

As shown in Table 1 below, the total estimated cost for active and retired City employees for health, vision, and dental plans, as well as long-term disability and life insurance, will be $845,007,767 in 2022, which is a $10,697,323 or a 1.28 percent increase from $834,310,444 in 2021.

The total estimated costs for the health, vision, and dental plans, as well as long-term disability and life insurance, for the City as employer in 2022 is $744,604,589 which is a $8,959,444 or 1.22 percent increase from $735,645,145 in 2021. The total estimated costs for the health, vision, and dental plans, as well as long-term disability and life insurance that will be paid by employees and retirees is $100,403,178 in 2022, or 1.76 percent more than the 2021 costs of $98,665,299.

According to Mr. Loo, in 2021, the average medical monthly contribution per member will be $147.23 per member per month for all members (actives/retirees combined), $169.57 per member per month for active employee, and $115.65 per member per month for retiree. Mr. Loo cautions that there is variation in member contributions based on the plans selected, status, and characteristics of each member.

contributing entities to fund reinsurance payments to issuers of non-grandfathered reinsurance-eligible individual market plans, the administrative costs of operating the reinsurance program, and the General Fund of the U.S. Treasury for the 2014, 2015, and 2016 benefit years.

[9] The PCORI fee was established as part of the Affordable Care Act to fund research to evaluate the effectiveness of medical treatments, procedures and strategies that treat, manage, diagnose, or prevent illness or injury. The ACA requires certain carriers and health plan sponsors (i.e., employers) to pay the PCORI fee annually.

Table 1: Total Plan Costs for the City, Employees and Retirees in 2022 Compared to 2021 Current Membership[10]

	2021	2022	Increase / (Decrease)	Percent Change
City Costs Only				
Kaiser HMO (Actives and Retirees)	$330,919,154	$341,058,893	$10,139,738	3.06%
Blue Shield HMO (Actives and Early Retirees)	$267,605,912	$270,983,534	$3,377,622	1.26%
Non-Medicare PPO (Actives and Early Retirees)[11]	$33,609,210	$34,333,695	$724,485	2.16%
UHC MA PPO (Medicare Retirees)	$57,574,499	$58,245,869	$671,370	1.17%
Subtotal Health/Basic Vision Plans (Actives and Retirees)	*$689,708,775*	*$704,621,990*	*$14,913,215*	*2.16%*
Dental (Actives Only)[12]	$38,208,772	$32,255,001	($5,953,771)	-15.58%
Long Term Disability and Life Insurance (Actives Only)[13]	$7,727,598	$7,727,598	$0	0.00%
Total City Costs	**$735,645,145**	**$744,604,589**	**$8,959,444**	**1.22%**
Employee and Retiree Costs Only				
Kaiser HMO (Actives and Retirees)	$40,918,253	$42,090,184	$1,171,931	2.86%
Blue Shield HMO (Actives and Early Retirees)	$35,386,013	$35,528,368	$142,355	0.40%
Non-Medicare PPO (Actives and Early Retirees)	$9,986,443	$10,314,081	$327,638	3.28%
UHC Medicare Advantage PPO (Medicare Retirees)	$8,080,517	$8,176,472	$95,955	1.19%
Subtotal Health/Basic Vision Plans (Actives and Retirees)	*$94,371,226*	*$96,109,106*	*$1,737,880*	*1.84%*
Dental (Actives Only)	$3,526,260	$3,526,260	$0	0.00%
Long Term Disability and Life Insurance (Actives Only)	$767,813	$767,813	$0	0.00%
Total Employee and Retiree Costs	**$98,665,299**	**$100,403,178**	**$1,737,880**	**1.76%**
Total Costs				
Kaiser HMO (Actives and Retirees)	$371,837,408	$383,149,077	$11,311,669	3.04%
Blue Shield HMO (Actives and Early Retirees)	$302,991,925	$306,511,902	$3,519,977	1.16%
Non-Medicare PPO (Actives and Early Retirees)	$43,595,653	$44,647,776	$1,052,123	2.41%
UHC Medicare Advantage PPO (Medicare Retirees)	$65,655,016	$66,422,341	$767,325	1.17%
Subtotal Health/Basic Vision Plans (Actives and Retirees)	*$784,080,001*	*$800,731,095*	*$16,651,095*	*2.12%*
Dental (Actives Only)	$41,735,032	$35,781,261	($5,953,771)	-14.27%
Long Term Disability and Life Insurance (Actives Only)	$8,495,411	$8,495,411	$0	0.00%
Total Costs	**$834,310,444**	**$845,007,767**	**$10,697,323**	**1.28%**

Source: San Francisco Health Service System

[10] According to SFHSS, both 2021 and 2022 forecasted costs are based on the March 2021 headcount.

[11] This will be administered by UnitedHealthcare in 2021 and by Blue Shield of California in 2022 except administration will remain with UnitedHealthcare for non-Medicare retiree family members in a Medicare/non-Medicare retiree "split family" where one or more family member is Medicare-eligible and enrolls in the UHC Medicare Advantage PPO Plan. Consequently, the "Non-Medicare PPO (Actives and Early Retirees)" category includes costs for the Blue Shield of California PPO (with Accolade) and UnitedHealthcare (UHC) PPO for non-Kaiser, "Split Families"

[12] Dental costs are fully paid by retirees.

[13] Long term disability and life insurance plans are not offered to retirees.

RECOMMENDATION

Approve the proposed ordinance.

Item 4 File 21-0713	Department: Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve Amendment No. 3 to the customer and administrative services contract between San Francisco Public Utilities Commission (SFPUC) and Calpine Energy Solutions LLC (Calpine), increasing the not-to-exceed amount by $13,876,200, for a total not to exceed $32,645,425, and extending the term by three years through October 2024.

Key Points

- In 2015, SFPUC awarded an administrative services contract for CleanPowerSF to Noble Americas Energy Solutions LLC (Noble) for a term of three years and an amount not to exceed $5,600,000, with two three-year options to extend. The contract was assigned to Calpine, which acquired Noble. In 2018, the Board of Supervisors approved Amendment No. 1 to the contract, exercising the first three-year option to extend through October 2021, and increasing the not-to-exceed amount to $18,769,225.
- Under the proposed Amendment No. 3, the contract scope would continue to include management of the CleanPowerSF customer accounts and billing and exchange of customer usage, billing, and payment data with PG&E. However, Calpine would no longer provide call center staffing and certain customer service responsibilities, which were transitioned to SFPUC's Customer Service Bureau (CSB) on July 1, 2021. By transitioning staffing services to SFPUC, Calpine's monthly billing rate would be reduced from $1.15 per meter to $0.99 per meter, generating estimated savings of approximately $2.7 million from July 2021 through October 2024.
- The proposed Amendment No. 3 would also increase CleanPowerSF's annual email capacity from 900,000 to 2,500,000 email licenses. With the additional licenses, CleanPowerSF would be able to send quarterly newsletters and regulatory notices to customers by email, saving approximately $492,000 in avoided printing and mailing costs.

Fiscal Impact

- The proposed Amendment No. 3 would increase the not-to-exceed amount of the contract by $13,876,200, for a total not to exceed $32,645,425. The contract is funded by ratepayer revenue, and sufficient funding is available in the CleanPowerSF FY 2021-22 Operating Budget.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of $10 million or more, or (3) requires a modification of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

In May 2016, the San Francisco Public Utilities Commission (SFPUC) launched the CleanPowerSF Community Choice Aggregation (CCA) program to provide cleaner and more sustainable electricity at comparable rates to those offered by Pacific Gas & Electric Company (PG&E). CleanPowerSF uses clean and renewable energy purchased from various sources, including SFPUC's Hetch Hetchy Power.

After conducting a competitive process, SFPUC awarded an administrative services contract for CleanPowerSF to Noble Americas Energy Solutions LLC (Noble) for a term of three years from September 2015 through October 2018 and an amount not to exceed $5,600,000, with two three-year options to extend the contract through October 2024. In January 2017, the SFPUC Commission approved the assignment of the contract to Calpine Energy Solutions LLC (Calpine), which had acquired Noble. In July 2018, the Board of Supervisors approved Amendment No. 1 to the contract, exercising the first three-year option to extend through October 2021, and increasing the not-to-exceed amount by $13,169,225, for a total not to exceed $18,769,225. In August 2019, SFPUC executed Amendment No. 2 to the contract, allowing SFPUC to use ClickDimensions' email marketing and campaign automation services on a trial basis at no additional cost.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Amendment No. 3 to the contract between SFPUC and Calpine, exercising the second three-year option to extend the term through October 2024, and increasing the not-to-exceed amount by $13,876,200, for a total not to exceed $32,645,425.

Under the proposed Amendment No. 3, the scope of services would continue to include management of the CleanPowerSF customer accounts and billing and exchange of customer usage, billing, and payment data with PG&E. However, Calpine would no longer provide call center staffing and certain customer service responsibilities, which were transitioned to SFPUC's Customer Service Bureau (CSB) on July 1, 2021. SFPUC will have five full-time positions within CSB to handle calls and related customer services for CleanPowerSF (four customer service agents have been hired and SFPUC is in the process of hiring one supervisor). Calpine would continue to support SFPUC with customer service by providing a customer relationship manager system, responding to complex billing questions and providing overflow service when call volumes exceed SFPUC's call center staff capacity. By transitioning staffing services to SFPUC, Calpine's monthly billing rate would be reduced from $1.15 per meter to $0.99 per meter, generating estimated savings of approximately $2.7 million from July 2021 through October 2024.

The proposed Amendment No. 3 would also increase CleanPowerSF's annual email capacity from 900,000 to 2,500,000 email licenses. The additional licenses would increase the contract amount by approximately $75,000 over the three-year term of the contract extension. With the additional licenses, CleanPowerSF would be able to send quarterly newsletters and regulatory notices to customers by email. By increasing the email capacity, CleanPowerSF would save approximately $492,000 in avoided printing and mailing costs. CleanPowerSF would continue to send physical mail to customers without an email address on file.

FISCAL IMPACT

The proposed Amendment No. 3 would increase the not-to-exceed amount of the contract by $13,876,200, for a total not to exceed $32,645,425. According to Mr. Justin Pine, CleanPowerSF Utility Specialist, actual and projected contract expenditures through October 2021 are approximately $17,419,579, leaving remaining contract expenditure authority of approximately $1,349,646.

As of May 2021, CleanPowerSF serves approximately 396,911 meters. The number of meters CleanPowerSF serves varies monthly, and CleanPowerSF projects that this number will increase to approximately 406,300 meters by FY 2023-24. The estimated contract charges are shown in Table 2 below.

Table 2: Estimated Contract Charges

Year	Customers	Monthly Rate	Months	Cost
FY 2021-22	402,000	$0.99	8	$3,183,840
FY 2022-23	404,010	0.99	12	4,799,639
FY 2023-24	406,030	0.99	12	4,823,636
FY 2024-25	406,030	0.99	4	1,607,879
Overflow Charges				10,800
ClickDimensions (emails)				75,000
Subtotal				$14,500,794
Contingency (5%)				725,040
Total Estimated Charges				$15,225,834
Remaining Expenditure Authority				(1,369,646)
Contract Increase Amount				**$13,876,188**

Source: SFPUC

Note: Monthly Rate includes customer service charge of $0.04 plus customer billing charge of $0.95 per meter.

The contract includes a contingency of five percent. According to Mr. Pine, the contingency is included to account for fluctuations in the meter count and uncertainty in the hourly work that Calpine may need to perform. The contract is funded by ratepayer revenue, and sufficient funding is available in the CleanPowerSF FY 2021-22 Operating Budget.

As stated above, SFPUC has hired four customer service agents and will be hiring a supervisor within the CSB to handle calls for CleanPowerSF. According to Mr. Pine, the estimated cost to employ these five employees is $1,964,658 over three years. CleanPowerSF will also pay overflow charges of approximately $10,800 for support when call volumes exceed call center capacity. Had the services not been transitioned to CSB, CleanPowerSF estimates that Calpine would charge approximately $2,329,696 over the three-year period of the contract extension. Therefore, transitioning these services to CSB saves CleanPowerSF approximately $354,238 over the three-year contract extension term.

RECOMMENDATION

Approve the proposed resolution.

Item 10 **File 21-0764**	**Department:** Mayor's Office of Housing & Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- **File 21-0764** is a resolution approving an Amended and Restated Loan Agreement between the Mayor's Office of Housing and Community Development (MOHCD) and Ambassador Ritz Four Percent L.P., a California limited partnership, to finance the acquisition and rehabilitation of 187 Single Room Occupancy (SRO) hotel units. The Amended and Restated Loan Agreement is for up to $44,465,000 for loans with varying terms.

Key Points

- The Ambassador-Ritz are two hotels located at 55 Mason Street and 216 Eddy Street, owned by Tenderloin Neighborhood Development Corporation (TNDC). TNDC formed two limited partnerships to develop the hotels: (1) Ambassador Nine Percent Associates LP to develop 36 units in the d Ambassador Hotel; and (2) Ambassador Ritz Four Percent Associations LP to develop 98 units in the Ambassador Hotel and 89 parcels in the Ritz Hotel, totaling 187 units.
- The Amended and Restated Loan Agreement provides for $31.6 million in consolidated prior loans, and $11.7 million in new Preservation and Seismic Safety loans, totaling $43.3 million, plus a 10 percent buffer for total lending authority of $44.5 million. Total estimated Ambassador-Ritz project costs are $110.3 million, of which the City share is 39 percent.
- The consolidated loans of $31.6 million carry a simple interest rate of 2.12 percent and maturity date of 55 years. Annual debt service payments are made to MOHCD if the project has sufficient net income to make the payment; outstanding principal and accrued interest is due at the maturity date.
- The Preservation and Seismic Safety loans consist of market rate loans (Tranche A and B), below market rate loans (Tranche A and B), and deferred loan. The market rate loans have interest rates of 3.87 percent and the below market rate and deferred loans have interest rates of 0.96 percent. Tranche A market and below market rate loans have a 15-year maturity date; Tranche B market and below market rate loans have a 28-year maturity date; and the deferred loan has a 40-year maturity date. Principal and interest on the Tranche A and B market rate and below market rate loans are to be paid in monthly installments.

Fiscal Impact

- Projects funded by the Preservation and Seismic Safety Loan Program must have a debt service coverage ratio (ratio of net operating income to debt service) of at least 1.1. The project's 20-year cash flow projections show debt service on Tranche A and Tranche B loans beginning in year one of the project, and a debt service coverage ratio in year two of 1.227, exceeding the required minimum debt service coverage ratio; the debt service coverage ratio decreases to 1.066 in year 15 of the project, below the required minimum debt service coverage ratio, and increases to 2.061 in year 16 when the Tranche A loans (with a 15-year maturity date) have been paid in full.

Recommendation

- Approve the proposed resolution.

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

Ambassador and Ritz Residential Hotels

The Ambassador-Ritz are two hotels located at 55 Mason Street and 216 Eddy Street. The Tenderloin Neighborhood Development Corporation (TNDC) acquired the Ambassador Single-Room-Occupancy (SRO) Hotel at 55 Mason Street in 1999. Retrofit and reconstruction of the Ambassador Hotel was completed in 2003, providing for 134 SRO units serving individuals with extremely low incomes. TNDC acquired the Ritz SRO Hotel at 216 Eddy Street in 1991. Retrofit and rehabilitation of the Ritz Hotel was completed in 1993 using federal Housing and Urban Development (HUD) Community Development Block Grant (CDBG) funds and State of California Housing Rehabilitation Program funds. The Ritz Hotel consists of 89 SRO units serving individuals with extremely low income.

TNDC proposes subdividing 55 Mason Street into four separate parcels, including an air rights subdivision of the Ambassador Hotel. The subdivision allows TNDC to apply for different funding sources to pay for rehabilitation of the Ambassador and Ritz Hotels, including federal low-income housing tax credits, historic tax credits, and City loans. TNDC formed two limited partnerships – Ambassador Nine Percent Associates LP, and Ambassador Ritz Four Percent Associations LP – to develop the properties.

- Parcel 1 is land to be owned by TNDC, which will grant an easement and joint use agreement to the two limited partnerships sponsoring rehabilitation of the Ambassador and Ritz Hotels.
- Parcel 2 is a 36-unit multifamily rental property to be owned by Ambassador Nine Percent Associates LP.[1]
- Parcel 3 is a commercial property to be owned by TNDC.
- Parcel 4 is a 98-unit multifamily rental property to be owned by Ambassador Ritz Four Percent Associates LP.

According to the Mayor's Office of Housing and Community Development (MOHCD) staff report to the June 4, 2021 Citywide Affordable Housing Loan Committee meeting, the purpose of the subdivision is to comply with requirements of federal low income housing tax credits[2], which do

[1] The 36-unit multi-family rental property at 55 Mason Street, part of the subdivided Ambassador Hotel, applied for 9 percent federal low-income housing tax credits; according to MOHCD staff, no new City funding is allocated to this project.

[2] Federal low-income housing tax credits give investors a dollar-for-dollar reduction in their federal tax liability in exchange for providing financing to develop affordable rental housing. Investors receive annual tax credits for 10 years for financing housing developments affordable to low-income tenants. Four percent tax credits subsidize

not allow properties subsidized by the 4 percent tax credits to share common areas subsidized by the 9 percent tax credits (which provide a higher subsidy). The subdivision of the 134-unit Ambassador Hotel provides for 36 units to be allocated 9 percent tax credits (which subsidize approximately 70 percent of project costs). The remaining 98 Ambassador Hotel units will be combined with the 89-unit Ritz Hotel, totaling 187 units, for allocation of 4 percent tax credits (which subsidize approximately 30 percent of project costs).

To comply with the respective requirements of the 4 percent tax and 9 percent tax credits, the project development and operating costs will be separated. Under a proposed joint use agreement, the owner of the 36-unit property subsidized by 9 percent tax credits will be primarily responsible for repair and maintenance of the common areas located in its portion of the building, and the owner of the 187-unit property subsidized by 4 percent tax credits will contribute a proportionate share.

DETAILS OF PROPOSED LEGISLATION

File 21-0764 is a resolution approving an Amended and Restated Loan Agreement with Ambassador Ritz Four Percent L.P., a California limited partnership,[3] to finance the acquisition and rehabilitation of an existing 187-unit affordable multi-family rental property for low -income households. The loan amount is not-to-exceed $44,465,000, and the loan term ranges from 15 years to 40 years, depending on the requirements of the funding sources.

The resolution finds that the loan agreement is consistent with the General Plan and the eight priority policies of Planning Code Section 101.1. The Planning Department submitted a memorandum on June 22, 2021, on file with the Clerk of the Board, finding that the proposed loan is consistent with the General Plan and the eight priority policies of Planning Code Section 101.1.[4]

approximately 30 percent of development costs for new or rehabilitated properties. The 4 percent tax credits (considered "automatic") are allotted by the State based on a formula. The 9 percent tax credits subsidize approximately 70 percent of development costs for new projects. The 9 percent tax credits are competitive; applications are approved by the State Treasurer.

[3] The Ambassador Ritz Four Percent L.P. consists of Ambassador Ritz Four Percent LLC as the general partner (0.01 percent share) and Taylor Family Housing as the limited partner (99.9 percent share). The sole member of Ambassador Ritz Four Percent LLC is Turk Street Inc., a nonprofit corporation, whose parent company is TNDC.

[4] The eight priorities defined in Planning Code Section 101.2 states are that (1) existing neighborhood-serving retail uses will be preserved and enhanced and future opportunities for resident employment in and ownership of such businesses enhanced; (2) existing housing and neighborhood character will be conserved and protected in order to preserve the cultural and economic diversity of our neighborhoods; (3) the City's supply of affordable housing will be preserved and enhanced; (4) commuter traffic will not impede Muni transit service or overburden our streets or neighborhood parking; (5) a diverse economic base will be maintained by protecting our industrial and service sectors from displacement due to commercial office development, and that future opportunities for resident employment and ownership in these sectors be enhanced; (6) the City will achieve the greatest possible preparedness to protect against injury and loss of life in an earthquake; (7) landmarks and historic buildings will be preserved; and (8) parks and open space and their access to sunlight and vistas will be protected from development.

Proposed Loan Agreement

The Amended and Restated Loan Agreement provides for $43,307,768 in prior and new City loans, as shown in Exhibit 1 below:

Exhibit 1: Summary of Amended and Restated Loan Agreement

Prior Loans	
Federal Grants [a]	
Community Development Block Grant (CDBG)	$26,468,948
HOME Investment Partnerships Program	1,179,510
Subtotal, Federal Grants	27,648,458
City Funds	
Proposition A (1999) [b]	3,473,604
Subtotal Consolidated Prior Loans	31,122,062
Other	
O'Farrell Towers Proceeds [c]	442,706
Subtotal Prior Loans	**$31,564,768**
New Loans	
Preservation and Seismic Safety Program (PASS) [d]	11,743,000
Total Loan Amount [e]	**$43,307,768**

Source: Proposed Amended and Restated Loan Agreement

[a] In 1991, the City issued $3.1 million in loans funded by CDBG grant funds to TNDC for the Ritz Hotel, and in 2009 the City issued $1.2 million in loans funded by HOME grant funds to TNDC for the Ritz Hotel, totaling $4.3 million. Total outstanding balance on these loans, including accrued interest, is $47 million. The Mayor's Office of Housing and Community Development (MOHCD) proposes forgiving approximately $19.4 million of the outstanding balance and consolidating the remaining $27.6 million into the amended and restated loan. According to MOHCD staff, MOHCD is proposing forgiving $19.4 million of the outstanding principal and interest for the 1991 CDBG loan because of the high interest rate on the loan and high amount of accrued interest, exceeding the acquisition value of the property to be purchased by the consolidated loan.

[b] Proposition A General Obligation Bonds were approved by voters in 1996. In 1999, the City loaned $2.9 million in Proposition A General Obligation Bond proceeds to TNDC for the Ambassador Hotel, with outstanding principal and interest of $3.5 million to be consolidated into the amended and restated loan.

[c] In 2016, MOHCD and O'Farrell Senior Housing, Inc. entered into an agreement, in which O'Farrell Senior Housing, Inc. remitted funds to MOHCD for use by TNDC. MOHCD loaned $442,706 of the O'Farrell Towers proceeds to TNDC in 2020 for the Ambassador Hotel, which would be consolidated into the amended and restated loan.

[d] MOHCD proposes new loans of $11.7 million in Preservation and Seismic Safety General Obligation Bond proceeds in five tranches, including two market rate loans, two below market rate loans, and one deferred loan.

[e] The resolution amount of $44,465,000 is $1,157,232 more than proposed loan amount of $43,307,768 to allow a 10 percent contingency for the Preservation and Seismic Safety loan to provide for potential increased rental income, allowing for increased debt coverage and higher loan amount.

The proposed Amended and Restated Loan Agreement provides for varying terms for each of the loan sources.

- The consolidated loan of $31,122,062 has a maturity date of 55 years and simple interest of 2.12 percent per year. Loan payments are due based on MOHCD's residual receipts policy, in which one-half to three-quarters of residual receipts (net income after operating expenses, reserves, and senior debt) pay annual debt service. Outstanding principal and accrued interest are due at the 55-year maturity date.
- The O'Farrell Towers loan of $442,706 does not carry interest. The loan is payable according to MOHCD's residual receipts policy, with the outstanding principal due at the 55-year maturity date.
- The Preservation and Seismic Safety loans consist of market rate, below market rate, and deferred loans. The two market rate loans (Tranche A and Tranche B) carry an annual interest rate of 3.87 percent, compounded monthly. The two below market rate loans (Tranche A and Tranche B) carry an annual interest rate of 0.96 percent, compounded monthly. The deferred loan carries an annual interest rate of 0.96 percent, compounded monthly. Tranche A market rate and below market rate loans have a 15-year maturity date; Tranche B market rate and below market rate loans have a 28-year maturity date; and the deferred loan has a maturity date of 40 years.

Other Documents

The proposed resolution approves any other documents necessary to the transaction. Other documents submitted with the proposed Amended and Restated Loan Agreement include:

- Declaration of Restrictions, stating that the 98 units in the Ambassador Hotel at 55 Mason Street and 89 units in the Ritz Hotel are restricted to tenants with incomes equal to 60 percent of the Area Median Income (AMI);
- Deeds of Trust for 55 Mason Street and 216 Eddy Street, in which Ambassador Ritz Four Percent L.P., as Trustor, assigns to the Trustee, Old Republic Title Company, the title and interest to 55 Mason Street and 216 Eddy Street; and
- Promissory Note providing for payment of the loans.

Total Project Costs

Total project costs are $110.3 million, as shown in Exhibit 2 below. The City's contribution of $43.3 million (shown in Exhibit 1 above) makes up 39 percent of total project costs.

Exhibit 2: Sources and Uses of Funds

Sources of Funds	
City Funds	
Consolidated Loan and Interest [a]	$31,122,062
Preservation and Seismic Safety Loan	11,743,000
Subtotal, City Funds	42,865,062
Other Funds	
California Housing & Community Development	5,101,332
Other Funds [b]	5,133,200
General Partner Equity, Deferred Fees, Reserves & Income	6,206,260
Limited Partner Equity (Low Income Housing Tax Credits)	50,968,138
Subtotal, Other Funds	67,408,930
Total	**$110,273,992**
Uses of Funds	
Acquisition	38,085,128
Architecture and Engineering	3,316,832
Construction	39,115,639
Construction Contingency (14.6%)[c]	5,745,246
Other Costs [d]	10,097,385
Tenant Relocation	4,814,574
Reserves	1,738,389
Developer Fees	7,360,799
Total Uses	**$110,273,992**

Source: MOHCD

[a] City funds include $42.86 million in the consolidated and Preservation and Seismic Safety loans, and $442,706 in the O'Farrell Tower proceeds (included in "other funds", as noted below), totaling $43.3 million, as shown in Exhibit 1 above.

[b] "Other funds" include O'Farrell Tower proceeds, California Affordable Housing Program funds, Ritz Hotel cash flow, project reserves, and other funds.

[c] According to MOHCD staff, the construction of contingency of 14.6 percent is necessary because of potential unforeseen site conditions that may arise during rehabilitation of the existing buildings.

[d] "Other costs" include legal fees, financing costs, appraisal, insurance, permit fees, utilities, and other costs.

Acquisition and Appraisal

The project costs include acquisition of 98 units in the subdivided Ambassador Hotel and Ritz Hotels by Ambassador Ritz Four Percent LP from Tenderloin Neighborhood Development Corporation. Acquisition of the Ambassador Hotel at 55 Mason Street and Ritz Hotel at 216 Eddy Street is $36.1 million[5], paid from the City's consolidated loans other sources. The appraised values of the Ambassador Hotel subdivision, conducted by Mateo Advisors in June 2020, was $14.8 million. According to MOHCD staff, the current estimated acquisition value of $36.1 million includes the Ambassador Hotel subdivision ($14.1 million), Ritz Hotel ($21.7 million), and land ($0.3 million). Updated appraisals were not available as of the writing of this report.

[5] Acquisition costs of $38.5 million shown in Exhibit 2 include property purchase of $36.1 million and approximately $2 million in transfer taxes and legal costs.

Tenant Relocation

TNDC has developed relocation plans for the current tenants of the Ambassador and Ritz Hotels. According to the plan, of the 134 Ambassador Hotel units, 76 residents will be relocated during the first phase of construction, and 58 residents will be relocated during the second phase of construction. The plan identified possible off-site locations for these tenants. Of the 88 occupied Ritz Hotel units, residents will be relocated in phases to vacant units within the hotel or to offsite units. The project budget includes $4.8 million for relocation expenses.

FISCAL IMPACT

The Amended and Restated Loan Agreement provides for two categories of loans: consolidated loan and Preservation and Seismic Safety loans.

Consolidated Loan and Residual Receipts Policy

The consolidated loan of $31.1 million (not including the O'Farrell Towers proceeds) is for 55 years at 2.12 percent simple interest per year. According to MOHCD's Residual Receipts policy, principal and interest are only payable if the project generates net income (income after operating expenses, reserves, and senior debt requirements are met). The Residual Receipts policy provides that larger tax credit projects pay 50 percent of residual receipts to the City.

Preservation and Seismic Safety Program Loans

The Preservation and Seismic Safety Program provides market rate, below market rate, and deferred loans.[6] According to City Administrative Code Chapter 66, interest rates for (a) market rate loans are set to recover the City's cost of funds plus 100 basis points[7]; (b) below market rate loans are set to recover one-third of the City's cost of funds; and (c) deferred loans are below market rate loans that may be deferred for up to 55 years. Permanent market rate and below market rate loans (other than deferred loans) have a maturity date of up to 40 years. According to the Amended and Restated Loan Agreement, principal and interest on the Tranche A market rate and below market rate loans, and Tranche B market rate and below market rate loans, are to be paid in monthly installments. As noted above, interest rates and maturity dates differ for Tranche A market and below market rate loans, Tranche B market rate and below market rate loans, and deferred loans.

Twenty Year Cash Flow Projections

According to the Preservation and Seismic Safety Program policy, projects must have debt service coverage ratio (ratio of net operating income to debt service) of 1.1. According to the project's 20-year cash flow projections, debt service on Tranche A and Tranche B loans begins in year one of the project. The debt service coverage ratio in year two is 1.227, exceeding the minimum debt service coverage ratio set by the Preservation and Seismic Safety Program policy. The debt service coverage ratio decreases to 1.09 and 1.066 in years 14 and 15 of the project, which is below the minimum debt service coverage ratio set by the Preservation and Seismic Safety Program policy;

[6] When market rate, below market rate, and deferred loans are combined, the project must meet affordability requirements.

[7] On basis point equals one-hundredth of one percent; basis points express the difference in interest rates.

and increases to 2.061 in year 16 of the project, with the Tranche A loans (with a 15-year maturity date) have been paid in full.

According to MOHCD's Residual Receipts policy, the consolidated loans make annual debt service payments only if the project generates residual receipts. According to the project's 20-year cash flow projections, the project will make annual debt service payments, averaging approximately $100,000 per year, although estimated annual debt service payments vary over the 20-year term.

POLICY CONSIDERATION

Project Costs and Low-Income Housing Tax Credits

The State Treasurer's Tax Credit Allocation Committee reviewed the Ambassador Ritz Hotel for 4 percent low-income housing tax credits in December 2020. The project's estimated per unit costs for acquisition and rehabilitation of approximately $590,000 are considered to be high by the State Treasurer Tax Credit Allocation Committee and California Debt Limit Allocation Committee. According to the staff report to the December 21, 2020 Tax Credit Allocation Committee meeting, the applicant attributed the high project costs to the cost of land in San Francisco, and to local hire and prevailing wage requirements. According to the Amended and Restated Loan Agreement, this project is required to comply with the City's local hire and prevailing wage requirements.

The December 9, 2020 California Debt Limit Allocation Committee recommended the project of tax-exempt bond financing. A resolution approving the issuance of $56.1 million in tax-exempt bonds is pending before the Board of Supervisors (File 21-0765).

RECOMMENDATION

Approve the proposed resolution.

Item 16 File 21-0741	Department: Treasurer-Tax Collector

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would waive new business registration, new licenses fees, and all permit fees for qualified businesses for a one-year period between November 2021 and October 2022.

Key Points

- Qualified businesses are defined as businesses that (a) obtain a new business registration certificate between November 2021 and October 2022, (b) have $2 million or less in gross receipts in San Francisco, and (c) have a registered business location that is ground floor on a public right of way. The proposed waivers would not apply to renewals of licenses or business registrations or fees collected by the City for other governments. Formula retail businesses, which are defined as business that have eleven or more establishments with standardized features, do not count as qualified businesses.
- The Treasurer-Tax Collector plans to administer the proposed waiver program. The Department will create a database of qualifying new businesses that will enable other City departments that collect license and permit fees to validate eligibility for the proposed waivers.

Fiscal Impact

- The value of the fees waived by the proposed ordinance is estimated by the Controller and Treasurer-Tax Collector to be between $12 million and $17.4 million in FY 2021-22 and between $7.5 million and $12.5 million in FY 2022-23. The range of the estimate is a function of the number of assumed qualifying businesses, which is estimated to be between 968 and 1,613, based on 2019 business activity.
- The FY 2021-22 – FY 2022-23 Budget and Appropriation Ordinance pending at the Board of Supervisors (File 21-0643) includes a $12 million General Fund account for this program in FY 2021-22, which would cover the low-end estimated cost of the program in that year. The funding will be used to credit departments that waive the proposed fees.

Recommendation

Because funding for the program is included in the budget approved by the Budget & Appropriations Committee, we recommend approval of the proposed ordinance.

MANDATE STATEMENT

City Charter Section 2.105 states that all legislative acts shall be by ordinance, approved by a majority of the members of the Board of Supervisors.

BACKGROUND

A Budget & Legislative Analyst's March 2021 report estimated that San Francisco businesses had between $174.1 million $404.5 million in unpaid commercial rent during April 2020 to December 2020 related to COVID-19. The Controller's June 2021 Report on the Status of the Re-opening of the San Francisco Economy estimated that more than 45% of the small businesses remained closed. In response to the pandemic, the Board of Supervisors has approved legislation waiving or deferring payroll taxes, business registration, and license fees for certain existing businesses during FY 2019-20 through FY 2021-22 (Files 20-1260 and 20-1415). According to the proposed ordinance, waiving registration, permit, and license fees for new small businesses will support the City's equitable economic recovery from COVID.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would waive new business registration, new licenses fees, and all permit fees for qualified businesses for a one-year period between November 2021 and October 2022. Qualified businesses are defined as businesses that (a) obtain a new business registration certificate between November 2021 and October 2022, (b) have $2 million or less in gross receipts in San Francisco, and (c) have a registered business location that is ground floor on a public right of way. The proposed waivers would not apply to renewals of licenses or business registration or fees collected by the City for other governments. Formula retail businesses, which are defined in Section 303.1 of the Planning Code as business that have eleven or more establishments with standardized features, do not count as qualified businesses.

Implementation

According to Ms. Amanda Fried, Chief of Policy & Communications at Treasurer-Tax Collector, the Treasurer-Tax Collector plans to administer the proposed waiver program. The Department will create a database of qualifying new businesses that will enable other City departments that collect license and permit fees to validate eligibility for the proposed waivers. As noted below, a General Fund account has been established to credit departments for waived fees.

Potential Amendment

According to the sponsor's office, amendments may be proposed in the July 14, 2021 Budget & Finance Committee meeting that include a revision to the definition of qualified businesses to exclude businesses that generate more than $10 million in gross receipts in any of the three proceeding tax years.

FISCAL IMPACT

Exhibit 1 below summarizes the fiscal impact of the proposed ordinance. As noted above, qualified businesses are defined as those having a new business registration issued between November 2021 and October 2022 so that the waived fees would occur in FY 2021-22 and in FY 2022-23. Exhibit 1 below shows the estimated value of business registration, license, and permit fees waived by the proposed ordinance in each department.

Exhibit 1: Value of Fees Waived by Proposed Ordinance ($ million)

	FY 2021-22			FY 2022-23		
	Low	Mid	High	Low	Mid	High
Planning	3.61	4.21	5.26	2.25	3.01	3.76
Building Inspection	4.42	5.15	6.44	2.76	3.68	4.60
Public Health	1.50	1.75	2.19	0.94	1.25	1.56
Fire	0.48	0.56	0.71	0.30	0.40	0.50
Police	0.52	0.61	0.76	0.33	0.44	0.55
Entertainment	0.44	0.52	0.65	0.28	0.37	0.46
Public Works	0.55	0.64	0.80	0.34	0.46	0.57
Public Utilities	0.03	0.04	0.05	0.02	0.03	0.04
Treasurer	0.27	0.32	0.40	0.17	0.23	0.28
Subtotal, Fees Waived	**11.83**	**13.81**	**17.26**	**7.40**	**9.86**	**12.33**
Treasurer-Tax Collector Administrative Costs	0.17	0.17	0.17	0.12	0.12	0.12
Total Cost	**12.00**	**13.97**	**17.42**	**7.52**	**9.98**	**12.45**

Source: Controller and Treasurer-Tax Collector

As shown above, the value of the fees waived by the proposed ordinance is estimated by the Controller and Treasurer-Tax Collector to be between $12 million and $17.4 million in FY 2021-22 and between $7.5 million and $12.5 million in FY 2022-23. The range of the estimate is a function of the number of assumed qualifying businesses, which is estimated to be between 968 and 1,613, based on 2019 business activity.

The FY 2021-22 – FY 2022-23 Budget and Appropriation Ordinance pending at the Board of Supervisors (File 21-0643) includes a $12 million General Fund account for this program in FY 2021-22, which would cover the low-end estimated cost of the program in that year. The funding will be used to credit departments that waive the proposed fees. To the extent that actual waived revenues exceed this appropriation, revenue shortfalls may result, which may impact current and future fiscal year budgetary planning if other revenue forecasts do not perform above budgeted levels by a like amount. Because funding for the program is included in the budget approved by the Budget & Appropriations Committee, we recommend approval of the proposed ordinance.

RECOMMENDATION

Approve the proposed ordinance.

Item 17 **File 21-0763**	**Department:** Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves a $14.3 million loan to 2550 Irving Associates L.P., an affiliate of Tenderloin Neighborhood Development Corporation. The purpose of the loan is to finance the acquisition of 2550 Irving Street and related predevelopment activities. The resolution also approves related loan documents and actions.

Key Points

- The 2550 Irving site will be developed as 100% affordable housing. The site is owned by the Police Credit Union and is currently a parking lot and a two-story vacant building, which will be demolished. The MOHCD acquisition and predevelopment loan is underwritten at 7 stories totaling 98 units with a mix of studio and multifamily units.

Fiscal Impact

- Of the total $14.3 million in loan funds, $9.3 million is for acquisition costs and $5.0 million is for predevelopment costs. The proposed loan has a term of 57 years with an interest rate of up to three percent. Repayment will be made from residual receipts from the project.

Policy Consideration

- MOHCD anticipates a total cost per unit of $959,847, which is higher than the $783,908 average total cost per unit of other MOHCD projects. However, 2550 Irving is considered to be in a high resource area, helping make it more competitive for tax credit funding. The anticipated permanent sources of funding, including state and federal tax credit funding, are not yet committed except for $746,938 in deferred interest, which is covered by this request.
- The proposed loan agreement includes Land Banking Provisions, which state that if the City determines by December 31, 2024 that the project is unlikely to be developed the City may require the title be transferred to another non-profit affordable housing developer or to the City for the remaining loan amount.
- MOHCD intends to eventually purchase the land at the project site. The purchase and sale agreement with the City along with ground lease approval will be subject to future Board of Supervisors approval.

Recommendations

1. Amend the proposed resolution to add a "where as" clause to state that it is the City's intent to enter into a purchase and sale agreement in which the City will take ownership of the land at 2550 Irving Street and enter into a ground lease for the land with a non-profit affordable housing operator.
2. 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

2019 Affordable Multifamily Rental Housing NOFA

On December 27, 2019 the Mayor's Office of Housing and Community Development (MOHCD) released the 2019 Affordable Multifamily Rental Housing Notice of Funding Availability (NOFA). This NOFA provided up to $30 million from the 2019 Proposition A General Obligation Bond to cover acquisition and predevelopment costs for new, permanently affordable housing projects.[1] The NOFA targeted developments in Districts 1, 2, 4, 7, and 8 as these districts have not significantly benefited from new housing production, responding to a goal of Proposition A to create new affordable housing in districts that have had limited housing production. Of the $30 million made available through this NOFA, $15 million targeted projects intending to serve low-income seniors and $15 million targeted projects intending to serve low and moderate-income families.

Project Selection

The Tenderloin Neighborhood Development Corporation (TNDC) submitted the only two project proposals in response to the 2019 NOFA. These two projects were for (1) family housing at 2550 Irving Street (the Project) and (2) senior housing at 4200 Geary for which the Board approved an acquisition loan in April 2021 (File 21-0363).

MOHCD convened a panel of three representatives, two from MOHCD and one from the Office of Community Investment and Infrastructure, to review and score the proposals. Proposals were reviewed and scored out of 100 points, with 40 points awarded based on experience of the developer, owner property manager, and service providers; and 60 points awarded based on site characteristics and vision, which included program concept, community engagement, finance and cost containment, and commitment to MOHCD's racial equity framework. TNDC scored 85 out of 100 possible points.

[1] Proposition A was approved by 71 percent of San Francisco voters on November 5, 2019, allowing for the issuance of up to $600 million in general obligation bonds to finance the construction, development, acquisition, improvements, rehabilitation, preservation, and repair of affordable housing. The Controller's Office of Public Finance sold $254.6 million in Proposition A bonds in March 2021, which are the source of funding for the $30 million in loans to be granted in response to the December 2019 NOFA.

The Citywide Affordable Housing Loan Committee reviewed and approved the proposed acquisition and predevelopment loan at their April 2, 2021 meeting. According to the Loan Committee evaluation, prior to disbursement of the proposed loan, TNDC will provide an appraisal supporting acquisition cost, refine the community outreach plan in collaboration with MOHCD, and complete environmental due diligence and receive approval for proposed response plan from State Department of Toxic Substances Control. During predevelopment TNDC will provide MOHCD with updates on community outreach and commercial-use programming, all final data from developer or financial consultant for review, any requests for proposal for equity investors for review, selected investors for review and approval, and all Letters of Intent from financial partners for review and approval. Prior to gap financing, TNDC will provide MOHCD with information related to cost containment measures and to provide the Department with project-related financial and operating information. These conditions are included in the proposed loan agreement.

Project Description

The 2550 Irving site will be developed as 100% affordable housing. The site is owned by the Police Credit Union and is currently a parking lot and a two-story vacant building, which will be demolished. The development timeline anticipates acquiring the site by August 2021, securing additional financing in 2022, and beginning construction by Spring 2023.

The MOHCD acquisition and predevelopment loan is underwritten at 7 stories totaling 98 units with a mix of studio and multifamily units, as shown in Exhibit 2. Of the total 98 units, 31 are anticipated to serve low income households (70 to 80 percent MOHCD Area Median Income (AMI)), 66 to serve very low-income households (25 to 50 percent MOHCD AMI), and one unit will be an on-site manager’s apartment. The loan also assumes 25 units for individuals and families who have experienced homelessness and will receive support through the Local Operating Subsidy Program. Based on the preliminary unit mix, the development will be approximately 105,391 square feet with potentially up to 2,228 square feet of commercial space.

Exhibit 1: 2550 Irving Street Preliminary Unit Composition

Unit Configuration	No. of units
Max 30% MOHCD AMI	
1-bedroom	6
2-bedroom	11
3-bedroom	8
Max 40% MOHCD AMI	
Studio	9
1-bedroom	7
3-bedroom	3
Max 50% MOHCD AMI	
Studio	3
1-bedroom	9
2-bedroom	7
3-bedroom	3
Max 70% MOHCD AMI	
1-bedroom	6
2-bedroom	3
3-bedroom	3
Max 80% MOHCD AMI	
1-bedroom	3
2-bedroom	8
3-bedroom	8
Manager's Unit (income N/A)	1
Total	**98**

Source: Loan Agreement
Note: 2021 maximum income for a two person household are: $31,950 for 30% AMI; $42,600 for 40% AMI; $53,300 for 50% AMI; $74,600 for 70% AMI; $85,250 for 80% AMI.

Legal Partnership Structure

2550 Irving Associates L.P. serves as the primary borrower for the project, with 2550 Irving GP LLC as the Managing General Partner with 0.01 percent ownership and Taylor Family Housing, Inc., a TNDC affiliate, as the Initial Limited Partner with 99.99. percent ownership. A tax credit investor will eventually replace Taylor Family Housing, Inc. as the Limited Partner in 2550 Irving Associates LP. Turk Street, Inc. serves as the Sole Member of 2550 Irving GP LLC and TNDC is the Manager of 2550 Irving GP LLC.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves a $14,277,516 loan to 2550 Irving Associates L.P., a limited partnership formed by TNDC. The purpose of the loan is to finance the acquisition of 2550 Irving Street and predevelopment activities for a 100 percent affordable multifamily rental building. The proposed resolution also: (1) approves the form of the loan agreement and ancillary documents; (2) ratifies and approves any action taken in connection with the property; (3) authorizes actions needed to implement the proposed resolution; and (4) adopts findings that the loan is consistent with the General Plan and priority policies of the Planning Code, Section 101.1.

Loan Agreement

The Loan Agreement between the City and 2550 Irving Associates, L.P is for a not to exceed amount of $14,277,516 at a term of 57 years and interest rate of 3 percent. Of the total loan amount, $13,378,718 of the funding is from the 2019 General Obligation Bond for Affordable Housing and $898,798 is from funds deposited into the Citywide Affordable Housing Fund ("the CPMC Fund").

Other Loan Documents

The proposed resolution also approves the following associated loan documents:

- Declaration of Restrictions and Affordable Housing Covenants, which requires that the housing affordability levels in the loan agreement be maintained for the life of the project.
- Predevelopment and acquisition promissory notes for the loans; and,
- The Deed of Trust between 2550 Irving Associates, LP and Old Republic Title Company, on behalf of the City as lender.

Land Banking

The Loan Agreement includes Land Banking Provisions, which state that in the event that the City determines by December 31, 2024 that the Project is unlikely to be developed within a reasonable time period for any reason, including an inability to obtain necessary financing for the Project, the City may require that 2550 Irving Associates L.P. (i) transfer the fee title to the Site to another nonprofit corporation, limited partnership or limited liability company designated by the City with the intention that new entity develop the site as affordable housing; or (i) convey the site fee title to the City for an amount equal to the outstanding principal balance of the loan plus any accrued and unpaid interest.

Consistent with the General Plan

The Project is found to be consistent with General Plan and eight priority polices of Planning Code, Section 101.1.[2]

FISCAL IMPACT

The total loan amount in this request is $14,277,516 with $9,284,000 for acquisition and $4,993,516 for predevelopment costs. Sources and uses of these loan funds are shown in Exhibit 3. The sources of the proposed loan Proposition A General Obligation Bond proceeds and the Citywide Affordable Housing Fund ("the CPMC Fund").

As noted above, the loan is for 57 years at 3 percent interest per year, although the loan agreement states that the MOHCD Director can reduce the interest rate to zero. Payments on the proposed loan will be made if the project generates sufficient net income and outstanding principal and interest is due at the end of the term. According to the financial projections provided by MOHCD, the project will generate net income to make loan payments for a portion of the first twenty years of the project.

[2] The eight priorities defined in Planning Code Section 101.2 states are that (1) existing neighborhood-serving retail uses will be preserved and enhanced and future opportunities for resident employment in and ownership of such businesses enhanced; (2) existing housing and neighborhood character will be conserved and protected in order to preserve the cultural and economic diversity of our neighborhoods; (3) the City's supply of affordable housing will be preserved and enhanced; (4) commuter traffic will not impede Muni transit service or overburden our streets or neighborhood parking; (5) a diverse economic base will be maintained by protecting our industrial and service sectors from displacement due to commercial office development, and that future opportunities for resident employment and ownership in these sectors be enhanced; (6) the City will achieve the greatest possible preparedness to protect against injury and loss of life in an earthquake; (7) landmarks and historic buildings will be preserved; and (8) parks and open space and their access to sunlight and vistas will be protected from development.

Exhibit 3: Sources and Uses of Acquisition and Predevelopment Loan Funds Requested for 2550 Irving

SOURCES	**Amount ($)**
2019 GO Bond for Affordable Housing	13,378,718
Citywide Affordable Housing Fund	898,798
Sources Total	**$14,277,516**
USES	
Acquisition Cost	9,000,000
Legal / Closing Costs	224,000
Holding Costs	60,000
Subtotal Acquisition Costs	**9,284,000**
Hard Costs - Demolition	519,250
Architecture & Design	1,911,950
Engineering & Environmental Studies	420,000
Financing Costs	180,000
Legal Costs	50,000
Other Development Costs	1,184,018
Soft Cost Contingency	178,298
Developer Fee	550,000
Subtotal Predevelopment (Hard Construction & Soft Costs)	**4,993,516**
Uses Total	**$14,277,516**

Source: MOHCD

Note: Other Development Costs includes property taxes, utility fees, and a community engagement consultant.

The City cost for acquisition and predevelopment loan funds is $145,689 per planned unit or $747 per square foot (the lot is 19,125 square feet). The acquisition cost is consistent with an appraisal commissioned by TNDC.

POLICY CONSIDERATION

Estimated Total Development Costs

TNDC estimates that the total development costs for a preliminary unit mix and 98 units of affordable housing and 11 parking stalls and potentially up to 2,228 square feet of commercial space are currently estimated at $94,064,992, however this is likely to change given that it is in the initial phase. Factors affecting final development costs include design of the building, availability and timing of funding sources, tax credit pricing, and construction costs. Of these total development costs, MOHCD estimates that $25.6 million will come from City funds and $68.4 million from non-City funds. Based on these estimates, MOHCD anticipates a total cost per unit of $959,847. According to MOHCD, the total cost per unit is higher than the $783,908 average total cost per unit of other MOHCD projects. Total estimated City funding per unit is $261,417, which is also more than the $233,416 average City subsidy per unit for other MOHCD projects.

The loan evaluation for the project notes that the total development cost per unit is high, which has typically made projects less competitive for state tax credit funding. However, MOHCD reports that recent changes to scoring by the California Tax Credit Allocation Committee, which allocates tax credits, and the California Debt Limit Allocation Committee, which allocates multifamily housing revenue bonds, helps favor projects in high resource areas (such as the inner Sunset) close to factors such as good schools, transit, and open spaces defined by the U.S. Department of Housing and Urban Development. The location of 2550 Irving is considered to be in a high resource area, helping make it more competitive for tax credit funding.

The anticipated permanent sources of funding, including state and federal tax credit funding, are not yet committed except for the $746,938 in deferred interest, which is covered by this request. According to MOHCD, TNDC will submit applications for state and federal tax credits in subsequent rounds if the project is not awarded in the funding cycle it initially applies for. In addition, TNDC is also exploring additional operating subsidy fund sources, include VASH (Veterans Affairs Supportive Housing) vouchers, and will continue to look for additional funds to augment project funding.

City Ownership of Land

The proposed resolution approves a loan to a TNDC affiliate to purchase the 2550 Irving site from the current owner, The Police Credit Union, after which it will lease back the site until early 2022. According to Jacob Noonan, MOHCD Senior Project Manager, MOHCD intends to eventually purchase the land at the project site. The purchase and sale agreement with the City along with ground lease approval will be subject to future Board of Supervisors approval. The Budget and Legislative Analyst recommends amending the proposed resolution to state that this is the City's intent.

RECOMMENDATIONS

1. Amend the proposed resolution to add a "where as" clause to state that it is the City's intent to enter into a purchase and sale agreement in which the City will take ownership of the land at 2550 Irving Street and enter into a ground lease for the land with a non-profit affordable housing operator.
2. Approve the proposed resolution, as amended.