

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

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TO: Budget and Finance Committee
FROM: Budget and Legislative Analyst 
SUBJECT: September 7, 2016 Budget and Finance Committee Meeting

TABLE OF CONTENTS

Item	File		Page
1	16-0897	Accept and Expend Grant – State Vocational Rehabilitation Services Program - \$271,200.....	1
20	16-0890	Setting Property Tax Rate and Establishing Pass-Through Rate for Residential Tenants – FY 2016-2017	4
21	16-0409	Real Property Lease – BC Capp, LLC – 165 Capp Street - \$240,500 Annual Base Rent.....	9

Item 1 File 16-0897	Department: Department of Public Health (DPH)
EXECUTIVE SUMMARY	
<p>Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would authorize the San Francisco Department of Public Health (DPH) to retroactively accept and expend a three-year grant of \$271,200 from the California Department of Rehabilitation (DOR) with a required match of \$2,456,625 for the State Vocational Rehabilitation Services Program for the period of July 1, 2016 through June 30, 2019. <p>Key Points</p> <ul style="list-style-type: none"> • The purpose of the State Vocational Rehabilitation Services Program is to provide vocational and situational assessment, work adjustment, and employment services for adults with severe mental illness. DOR contracts with five non-profit organizations to provide these services. • The total program budget for three years is \$11,533,452. The State of California will grant \$11,262,252 directly to non-profit organizations and other related entities, outside of the budget for the City. The State will also allocate \$271,200 to DPH for a part-time Health Program Coordinator at .59 FTE. <p>Fiscal Impact</p> <ul style="list-style-type: none"> • The proposed grant requires that DPH contribute matching funds of \$2,456,625, or 21.3% of the \$11,533,452 total project budget. The \$2,456,625 in DPH required matching funds come from City General Fund and federal Mental Health Services Act (MHSA), previously approved by the Board of Supervisors in the FY 2016-17 and FY 2017-18 budgets. <p>Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. 	

MANDATE STATEMENT

City Administrative Code Section 10.170-1 states that accepting Federal, State, or third-party grant funds in the amount of \$100,000 or more, including any City matching funds required by the grant, is subject to Board of Supervisors approval.

BACKGROUND

The State Vocational Rehabilitation Services Program is funded by the California Department of Rehabilitation (DOR) to provide vocational assessment, situational assessment, work adjustment, and employment services—including employment preparation, job development, placement, and job retention services—for adults with severe mental illness. The California Department of Rehabilitation (DOR) directly funds the following five contractors to provide these services to San Francisco residents.

- RAMS, Inc., which provides situational assessment, vocational assessment, work adjustment, and employment services;
- Citywide Case Management Forensics, which provides vocational assessment and employment services;
- Caminar, Inc., which provides employment services;
- Special Services for Groups-OOTP-SF, which provides vocational assessment and employment services; and
- Toolworks, which provides employment services.

In addition, the State Vocational Rehabilitation Services Program funds 5.75 FTEs¹ in the Rehabilitation Team Unit and Case Services. The Rehabilitation Team Unit determines eligibility and functional capacities, assists in the development of Individualized Plans for Employment, provides vocational counseling and services coordination. Case Services pays for certain client expenses to provide eligible clients with tools, clothing, and any needed work materials while in training.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the Department of Public Health (DPH) to retroactively accept and expend California Department of Rehabilitation (DOR) grant funds of \$271,200 for the three-year period of July 1, 2016 through June 30, 2019. The proposed grant funds pay for 0.59 FTE position in DPH to coordinate vocational programs and employment services for clients within Community Behavioral Health Services.

FISCAL IMPACT

The \$271,200 DOR grant partially reimburses DPH for one existing position, a Health Program Coordinator III (Job Class No. 2593), at .59 FTE from FY 2016-17 through FY 2018-19. This

¹ FTE is a full time equivalent position.

position coordinates vocational programs and employment services for clients within Community Behavioral Health Services.

The total State Vocational Rehabilitation Services Program for the City is \$11,533,452, which includes:

- (a) \$11,262,252 in direct DOR funding to the five contractors noted above, the Rehabilitation Team Unit, and Case Services; and
- (b) \$271,200 in grant funds to DPH (the subject of this resolution).

The proposed grant requires \$2,456,625 in matching funds from DPH in order to leverage the total State Vocational Rehabilitation Services Program funding of \$11,533,452. This amount is equal to 21.3% of the total program budget of \$11,533,452. Table 1 below displays the budget for the State Vocational Rehabilitation Services Program and the required DPH match of \$2,456,625.

Table 1: State Vocational Rehabilitation Services Program Budget and Required DPH Match

	FY 2016-17	FY 2017-18	FY 2018-19	Total
Rehabilitation Team Unit	\$634,668	\$634,668	\$634,668	\$1,904,004
Case Services	693,645	693,645	693,645	2,080,935
RAMS	1,021,118	1,021,118	1,021,118	3,063,354
Citywide Case Management Forensics	630,343	630,343	630,343	1,891,029
Caminar	416,788	416,788	416,788	1,250,364
Special Service for Group-OTTP-SF	257,522	257,522	257,522	772,566
Toolworks	100,000	100,000	100,000	300,000
<i>Direct State Grant Amount</i>	<i>\$3,754,084</i>	<i>\$3,754,084</i>	<i>\$3,754,084</i>	<i>\$11,262,252</i>
.59 FTE Health Program Coordinator	90,400	90,400	90,400	271,200
Total Program Budget	\$3,844,484	\$3,844,484	\$3,844,484	\$11,533,452
21.3% Required DPH Match	\$818,875	\$818,875	\$818,875	\$2,456,625

The \$2,456,625 in DPH required matching funds come from City General Fund and federal Mental Health Services Act (MHSA), previously approved by the Board of Supervisors in the FY 2016-17 and FY 2017-18 budgets.

RECOMMENDATION

Approve the proposed resolution.

<p>Item 20 File 16-0890</p>	<p>Department: Controller's Office (Controller)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <p>The proposed ordinance sets the property tax rate for FY 2016-17 for taxing entities within the City and County of San Francisco including (a) the City and County of San Francisco (CCSF); (b) the San Francisco Unified School District (SFUSD); (c) the San Francisco Community College District (SFCCD); (d) the Bay Area Rapid Transit District (BART); and the Bay Area Air Quality Management District (BAAQMD)</p> <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Board of Supervisors annually sets the combined property tax rate that provides revenues for: (1) general operations, (2) specific Charter-required activities such as acquiring open space or constructing, maintaining, and operating the public library; and (3) paying debt service on voter-approved General Obligation bonds that were issued by the City, the San Francisco Unified School District, the San Francisco Community College District, and the Bay Area Rapid Transit District. • The proposed ordinance also would set the property tax pass-through rate that landlords can pass-through to tenants in FY 2016-17, as allowed under the City Administrative Code. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The proposed ordinance would set the combined property tax rate (comprised of the property tax rates levied for all of the taxing jurisdictions within the city) for FY 2016-17 at \$1.1792 per \$100 of assessed value. The FY 2016-17 property tax rate of \$1.1792 is \$0.0034, or 0.29 percent, less than the FY 2015-16 property tax rate of \$1.1826 per \$100 of assessed value. • The proposed FY 2016-17 property tax rate of \$1.1792 would increase property taxes by \$102.47 on a single-family residence that has an assessed value of \$710,675 in FY 2016-17 <p style="text-align: center;">Recommendation</p> <p>Approve the proposed ordinance.</p>	

MANDATE STATEMENT

California Revenue and Taxation Code Section 2151 require the Board of Supervisors to fix the rates of county taxes and to collect the taxes for the City, County, and State.

San Francisco Administrative Code Section 3.3(h) requires the Board of Supervisors to adopt the property tax rate for the City and County of San Francisco before the last working day in September.

City Charter Section 16.107-109 requires that portions of the City's annual property tax levy be set aside for specific uses including: \$0.0250 for the Library Preservation Fund; \$0.0350 for the Children's Fund; and \$0.0250 for the Open Space Acquisition Fund.

San Francisco Administrative Code Section 37.3(a)(6)(A-D), the Residential Rent Stabilization and Arbitration Ordinance, allows landlords to pass through to tenants one-half of property tax increases that result from certain voter-approved General Obligation bonds.

BACKGROUND

The Board of Supervisors annually sets the combined property tax rate that provides revenues for: (1) general operations, (2) specific Charter-required activities such as acquiring open space or constructing, maintaining, and operating the public library; and (3) paying debt service on voter-approved General Obligation bonds that were issued by the City, the San Francisco Unified School District, the San Francisco Community College District, and the Bay Area Rapid Transit District.

Under the California Revenue and Taxation Code, the base property tax rate that the City can levy on property owners is one percent and can be used for general purposes. Any amount over the base one percent is used to pay for debt service on voter-approved General Obligation bonds.

DETAILS OF THE PROPOSED LEGISLATION

The proposed ordinance sets the property tax rate for FY 2016-17 for taxing entities¹ within the City and County of San Francisco including (a) the City and County of San Francisco (CCSF); (b) the San Francisco Unified School District (SFUSD); (c) the San Francisco Community College District (SFCCD); (d) the Bay Area Rapid Transit District (BART); and the Bay Area Air Quality Management District (BAAQMD).

The proposed ordinance also would set the property tax pass-through rate that landlords can pass-through to tenants in FY 2016-17, as allowed under the City Administrative Code. The pass through to tenants may only be imposed on a tenant's anniversary date and shall not become

¹ Taxing entities are agencies or organizations located within the City and County of San Francisco that have taxing authority but may not be part of the City government. The \$0.8142 General City Operations factor includes \$0.2533 to be shifted to the Educational Revenue Augmentation Fund for the benefit of San Francisco Unified School District, the County Office of Education, and the San Francisco Community College District.

part of a tenant's base rent. The allowable tenant pass-through rate is based on the portion of the landlord's property tax liability that comes from General Obligation bond debt service for certain periods, as shown in Table 1 below.

Table 1: Percent of Property Tax Increases Payable by Tenants to Landlords

Taxing Entity	Timeframe	Pass-Through Rate
City and County of San Francisco	November 1, 1996 – November 14, 1998	100%
City and County of San Francisco	November 30, 2002 – Present	50%
San Francisco Unified School District San Francisco Community College District	November 1, 2006 – Present	50%

The Controller will submit an amended ordinance to the September 7, 2016 Budget and Finance Committee. This report is based on the amended ordinance.

FISCAL IMPACTS

Combined Property Tax Rate

The proposed ordinance would set the combined property tax rate (comprised of the property tax rates levied for all of the taxing jurisdictions within the city) for FY 2016-17 at \$1.1792 per \$100 of assessed value. The FY 2016-17 property tax rate of \$1.1792 is \$0.0034, or 0.29 percent, less than the FY 2015-16 property tax rate of \$1.1826 per \$100 of assessed value. Table 2 below shows the proposed property tax rates for all taxing jurisdictions within the City, as calculated by the Controller.

Table 2: Current and Proposed Property Tax Rates per \$100 of Assessed Value*

	FY 2015-16	Proposed FY 2016-17	Increase (Decrease)
General Fund	\$0.8167	\$0.8142	(\$0.0025)
Library Preservation Fund	0.0250	0.0250	-
Children's Fund	0.0325	0.0350	0.0025
Open Space Acquisition Fund	0.0250	0.0250	-
County Superintendent of School	0.0010	0.0010	-
General Obligation Bond Fund	0.1135	0.1189	0.0054
CCSF Subtotal	\$1.0136	\$1.0191	\$0.0055
General Operations	\$0.0770	\$0.0770	(\$0.0000)
General Obligation Bond Debt Service	0.0525	0.0398	(0.0127)
SFUSD Subtotal	\$0.1295	\$0.1168	(\$0.0127)
General Operations	\$0.0144	\$0.0144	-
General Obligation Bond Debt Service	0.0141	0.0125	(\$0.0016)
SFCCD Subtotal	\$0.0285	\$0.0269	(\$0.0016)
General Operations	\$0.0063	\$0.0063	-
General Obligation Bond Debt Service	0.0026	0.0080	0.0054
BART Subtotal	\$0.0089	\$0.0143	\$0.0054
Bay Area Air Quality Management District Operations	\$0.0021	\$0.0021	-
Total Property Tax Rate	\$1.1826	\$1.1792	(\$0.0034)

* Totals may not add due to rounding.

The proposed combined property tax rate shown in Table 2 above includes a 0.25 percent administrative allowance charged on the City's voter-approved General Obligation bonds to reimburse the City for the costs of collecting property taxes. This 0.25 percent administrative allowance is charged to the total property tax collection attributable to the General Obligation bonds, rather than to the assessed value.

Allowable Tenant Pass-Through Property Tax Rate

The proposed ordinance also would set the allowable property tax rate that landlords can pass through to tenants at \$0.0840 per \$100 of assessed value in FY 2016-17. The allowable tenant pass-through rate is \$0.0080 less than the rate of \$0.0920 FY 2015-16.

Impacts of the Combined Property Tax Rate and Allowable Pass-Through

Under Proposition 13, the City may annually increase the assessed value of a property by a State-determined inflation factor of up to 2.000 percent. For FY 2016-17, the State Board of Equalization determined that the allowable inflation factor is 1.525 percent. Therefore, a

single-family residence in San Francisco with an assessed value of \$700,000 in FY 2015-16 has an assessed value of \$710,675 in FY 2016-17.²

Table 3 below shows the impact of the proposed property taxes payable by owners and tenants. As shown in Table 3 below, the proposed FY 2016-17 property tax rate of \$1.1792 would increase property taxes by \$102.32 on a single-family residence that has an assessed value of \$710,675 in FY 2016-17.

Table 3: Impact on Property Tax Payments

Fiscal Year 2015-16	Single Family Residence	Allowable Tenant Pass-Through
Assessed Value	\$700,000	\$700,000
Less Homeowners Exemption	-7,000	0
Total Taxable Assessed Value	693,000	700,000
Tax Rate per \$100 of Assessed Value	1.1826	0.092
Property Taxes Payable in 2015-16	\$8,195.42	\$644.00
Proposed Fiscal Year 2016-17		
Prior Year Assessed Value	\$700,000	\$700,000
Plus Cost of Living Increase (1.525 percent)	10,675	10,675
Subtotal	710,675	710,675
Less Homeowners Exemption	-7,000	0
Total Taxable Assessed Value	703,675	710,675
Tax Rate per \$100 of assessed value	1.1792	0.084
Property Taxes Payable in FY 2015-16	\$8,297.74	\$596.97
Total Increase / (Decrease) in Property Taxes Payable in FY 2015-16 as Compared to FY 2014-15 for a Single-Family Residence with a Prior Year Assessed Value of \$700,000	\$102.32	(\$47.03)

RECOMMENDATION

Approve the proposed ordinance.

² The State calculates the allowable inflation factor based on the California Consumer Price Index (CCPI) using a weighted equation that combines the metropolitan areas of San Francisco, Los Angeles, San Diego, and the national average.

Item 21 File 16-0409	Department: Human Services Agency (HSA)
EXECUTIVE SUMMARY	
Legislative Objectives	
<p>The proposed resolution would approve a new lease between BC Capp, LLC, as landlord, and the City and County of San Francisco, as tenant. The initial term of the lease is five years, with two five-year options to extend and is for the continued use of the building located at 165 Capp Street as a homeless resource center.</p>	
Key Points	
<ul style="list-style-type: none"> • The proposed new lease is for the entire building of approximately 6,500 square feet located at 165 Capp Street, which currently serves as a neighborhood homeless drop-in and referral center. Responsibility for the neighborhood homeless drop-in and referral center and the lease would be transferred from the Human Services Agency (HSA) to the new Department of Homelessness and Supportive Housing. • The proposed lease has an estimated commencement date of August 1, 2016 with annual base rent of \$240,500 (\$37 per square foot per year) and increases of 3 percent per year, for a five-year term, ending in 2021. Two options to extend the lease may be exercised for five years each, with terms ending in 2026 and 2031. 	
Fiscal Impact	
<ul style="list-style-type: none"> • The proposed new lease would expend \$1,276,847 in rent payments over the initial five-year term, and \$4,473,039 over the full fifteen-year term if both options to extend are exercised. • The Department of Homelessness & Supportive Housing's FY 2016-17 and FY 2017-18 budgets, approved by the Board of Supervisors in July 2016, include funds to pay for the proposed lease. 	
Recommendation	
<ul style="list-style-type: none"> • Approve the proposed resolution. 	

MANDATE STATEMENT

San Francisco Administrative Code Section 23.37 states that leases on behalf of the City as tenant are subject to approval by the Board of Supervisors by resolution.

BACKGROUND

In 2000, the Board of Supervisors approved a ten-year lease for the 6,500 square-foot building at 165 Capp Street between the Human Services Agency (HSA) as tenant and BC Capp, LLC, as landlord. HSA uses the location as a homeless drop-in and referral center. HSA seeks to continue the location's use as a neighborhood homeless drop-in and referral center as well as administrative offices.

According to Ms. Claudine Venegas, Senior Real Property Officer at the City's Real Estate Division, upon expiration of the initial lease in December 2010, HSA continued as tenant on a month-to-month basis. Mr. Robert Walsh, HSA Contracts Manager, and Ms. Venegas both note that HSA did not commit to a new lease upon expiration of the original lease term and elected instead to continue month-to-month due to the uncertainty of General Fund appropriations to the homeless drop-in and referral center in HSA's annual budget. During the holdover period from December 2010 through June 2016, the rent paid by HSA remained unchanged from the annual rent of \$222,037 in 2010.¹

HSA requested in September 2015 that the Real Estate Division begin reviewing comparable properties and negotiate a new lease. According to Ms. Venegas, the Real Estate Division and HSA determined that the existing location at 165 Capp Street was the most suitable property for use as the homeless drop-in and referral center because (1) HSA had already spent approximately \$167,839 on significant renovations to the property, including installation of showers and medical exam rooms; and (2) the price per square foot under the proposed lease is less than comparable properties in the neighborhood.²

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new five-year lease, with two five-year options to extend, between the City, on behalf of the new Department of Homelessness and Supportive Housing, as tenant, and BC Capp, LLC, as landlord, for 6,500 square feet of space for the continued use as a homeless drop-in and referral center. Table 1 below summarizes the major provisions of the proposed new five-year lease.

¹ According to Ms. Venegas, the original lease allowed the landlord to increase the rent by 10 percent during the holdover period. If the lease were to remain in holdover status, the landlord requested a 10 percent increase, effective July 1, 2016, which would increase the rent to \$244,240.

² The monthly rent per square foot for 165 Capp Street under the proposed lease is approximately \$3.08, which is at the low end of the rent per square foot for eight locations in the neighborhood, which ranged from \$2.89 per square foot to \$4.58 per square foot. According to Ms. Venegas, only one of the eight locations was comparable in size to 165 Capp Street, and that location, which consisted of 7,400 square feet, had a monthly rent per square foot of \$4.58.

Table 1: Summary of the Major Lease Provisions

Premises	Entire building comprising approximately 6,500 square feet
Permitted Use	Neighborhood homeless drop-in and referral center plus administrative office and incidental uses, provided the premises may not be used as a shelter for temporary or permanent housing
Initial Lease Term	Five (5) years, estimated commencement date of August 1, 2016 and end of July 31, 2021
Option to Extend	Two five-year options to extend through July 2031
First Year Rent	\$240,500
Rent per Square Foot	\$37 per year
Rent Increases in Initial Term	3% per year
Rent Adjustment on Exercise of Options to Extend	Rent will be set at 95% of the prevailing market rate
Utilities & Services	City will be responsible for costs of electricity, gas, telecommunications, and water utility services provided to the premises in addition to janitorial, pest, and debris services
Maintenance & Repairs	Landlord will be responsible for maintenance of the exterior and structural portions of the building and the building systems such as the heating, ventilating, air conditioning, plumbing, and electrical systems. City will be responsible for maintenance and repairs to the interior portions of the premises
Building Insurance	Landlord will obtain property insurance for the building and City will reimburse landlord up to \$2,500 per year for the insurance premium
Tenant Improvement Allowance	None

FISCAL IMPACT

HSA currently pays annual rent to BC Capp, LLC for 165 Capp Street of \$222,037, which would increase in the first year by 8.3 percent, or \$18,463 to \$240,500. According to Ms. Venegas, the 8.3 percent increase in rent is reasonable because (1) the landlord has not increased the rent since expiration of the original lease in December 2010, and (2) the rent represents fair market value.

The total rent payments for the initial five-year lease term are \$1,276,847, as shown in Table 2 below.

Table 2: Rent Costs for 165 Capp Street for the Initial Five-Year Lease Term

Lease Year	Rent Costs*
Lease Year 1	\$ 240,500
Lease Year 2	\$ 247,715
Lease Year 3	\$ 255,146
Lease Year 4	\$ 262,801
<u>Lease Year 5</u>	<u>\$ 270,685</u>
<i>Total five-year initial rent</i>	<i>\$ 1,276,847</i>

*Annual increases are 3% per year

The Department of Homelessness & Supportive Housing's FY 2016-17 and FY 2017-18 budgets, approved by the Board of Supervisors in July 2016, include funds to pay for the proposed lease.

RECOMMENDATION

Approve the proposed resolution.