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: January 22, 2025 Budget and Finance Committee Meeting

TABLE OF CONTENTS

Item 2 **File 24-1058**	**Department:** Public Utilities Commission

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves the third amendment to the San Francisco Public Utilities Commission's (SFPUC) agreement with AECOM Technical Services, Inc. This amendment increases the contract amount by $9,500,000, bringing the total not-to-exceed amount to $34,000,000, and extends the contract term by five months, from July 31, 2027, to December 30, 2027.

Key Points

- The Mountain Tunnel, a 19-mile water conveyance tunnel built in 1925, is a critical component of the City's water delivery system that runs from Yosemite to the Bay Area. The tunnel requires rehabilitation to address aging infrastructure and maintain system reliability.
- The Mountain Tunnel Improvements Project includes repairs to the tunnel, construction of a flow control facility, access upgrades, and five winter shutdowns to allow for rehabilitation work. The project is expected to be complete by June 2027, with 56% of the $268.7 million project budget spent as of September 2024.
- The proposed additional funds for the construction management contract are required to cover extended inspection services, unforeseen environmental compliance needs, and contract administration efforts to negotiate and ultimately re-bid a portion of construction work due to the original construction contractor's safety concerns.

Fiscal Impact

- Of the $9.5 million increase, $8.1 million is allocated to construction inspection to address extended work shifts, overtime, and increased workforce requirements. These efforts should have been included and the original budget for this contract but were not due to an administrative error by SFPUC staff. The cost of the additional spending is funded by SFPUC Water and Power capital revenues.

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

Mountain Tunnel Project

Mountain Tunnel is a 19-mile-long water tunnel that has been a non-redundant link in the Hetch Hetchy Regional Water System since its construction in 1925. Spanning from Kirkwood Powerhouse to Priest Reservoir, the tunnel conveys all water delivered from the Hetch Hetchy Reservoir in Yosemite National Park to the Bay Area.

Certain sections of the original tunnel lining have deteriorated due to age, original construction deficiencies, and deferred maintenance. Full or partial failure of the tunnel would impact the overall reliability of the San Francisco Public Utilities Commission (SFPUC) water system. To address these concerns, SFPUC initiated the Mountain Tunnel Improvements Project to rehabilitate and upgrade the tunnel. The project scope also includes constructing a flow control facility at Priest Reservoir which will allow control of the water flow and pressure inside the tunnel, updates to access roadways to tunnel access points and adding access points to the tunnel. To complete the in-tunnel improvements, the tunnel must be taken out of service and drained. The project includes five winter shutdowns when demand for water is lowest. The fourth tunnel outage is in effect as of this writing (December 3, 2024, to March 14, 2025) and a fifth outage is scheduled for a similar period in Winter 2025-2026.

SFPUC procured construction management services to oversee the construction work. On October 10, 2018, SFPUC published a request for proposals, seeking a construction management firm with expertise in tunnel rehabilitation and related improvements. As we previously reported on the initial construction management agreement (File 19-0486), the SFPUC and the Contract Monitoring Division (CMD) determined that AECOM Technical Services, Inc. (AECOM) was the highest-ranking firm based on the established scoring criteria.

Project Status

According to the Hetch Hetchy Capital Improvement Program Quarterly Report for the first quarter of FY 2024-25, the Mountain Tunnel Improvement Project is projected to be completed on schedule by June 3, 2027. Construction began 2021 and is expected to be complete in Winter 2026 at an estimated cost of $268.7 million. The current approved budget ($268.7 million) exceeds the October 2020 approved budget at the time the construction contract was awarded ($238.2 million) by 13 percent due to increases in costs associated with anticipated additional work stemming from safety concerns from the construction contractor that were unable to be resolved, additional funding for City provided site security, and additional construction management services, described in more detail below. Actual costs as of September 30, 2024, total $149.6 million, or 56 percent of the forecasted budget.

Contract History

In June 2019, the Board of Supervisors approved an agreement with AECOM to provide construction management services for the Mountain Tunnel Improvement Project (File 19-0486). The original agreement included an eight-year term, ending June 24, 2027, and a not to exceed amount of $24,500,000. The agreement was procured through a competitive solicitation.

The original agreement has been administratively modified twice by the General Manager of the SFPUC. The first modification was approved on January 4, 2021, without altering the contract amount or duration, and added Community Benefits terms and requirements to the scope of services, which was omitted from the original agreement in error. The second modification was approved on August 6, 2021, and updated the "Other Direct Costs" language to correct an error, with no change to the total not-to-exceed amount or contract duration.

On October 22, 2024, by Resolution No. 24-0221, the SFPUC approved the proposed third amendment to the agreement.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves the third amendment to the San Francisco Public Utilities Commission's (SFPUC) agreement with AECOM. This amendment increases the contract amount by $9,500,000, bringing the total not-to-exceed amount to $34,000,000, and extends the contract term by five months, from the original expiration date of July 31, 2027, to December 30, 2027.

Scope of Work

Under the proposed modification, AECOM would continue to provide specialized construction management services for the Mountain Tunnel Improvements Project, including construction management as well as inspection of tunnel rehabilitation work and related improvements. The contractor is responsible for inspecting newly constructed tunnel access points, deep shafts, underground flow control valving, steel piping, lining repairs, and grouting.

According to the October 2024 SFPUC memo to the Commission on the proposed amendment, the SFPUC is proposing to extend the contract by five months to provide additional time for project closeout and to resolve outstanding claims submitted by the contractor given the complexity of the project. As discussed below, the SFPUC is proposing to increase the not-to-exceed amount to cover the extended term as well as additional costs incurred due to increased inspection services, environmental compliance requirements, and unanticipated contract administration efforts.

Subcontractors and Local Business Enterprise (LBE) Participation

The CMD established a 12 percent LBE subconsultant participation requirement for this project. AECOM committed to an LBE subconsultant participation rate of 26.8 percent, exceeding the required minimum.

Subconsultants include (1) Effective Management Services, Inc., which handles construction and safety inspections; (2) BioMaAs, Inc., which is responsible for environmental compliance and inspections; (3) Galen CM, Inc., which oversees field contracts administration and construction scheduling; and (4) Thier Group, (no longer being utilized) LLC, which provided civil/tunnel construction inspections; and (5) Northbay Inspection & Technical Services, which specializes in supplier quality surveillance and specialty construction inspections (not an LBE).

Community Benefits Commitments

Under its community benefits proposal, AECOM committed to providing $224,500 in financial contributions and 170 volunteer hours. As of the writing of this report, AECOM has provided $30,000 in financial contributions and has not yet provided volunteer hours. The contributions and volunteer hours are due at the time that the contract expires.

Performance Monitoring

SFPUC completed a consultant evaluation for AECOM on December 2, 2024, for the period October 11, 2022, through December 2, 2024. AECOM received an overall rating of “Good” and an "Excellent" rating in "Quality of Service," "Staff and Resources," and "Value of Services." They received a “Good" rating in "Schedule Management," "Cost Management," "Scope Management," and "Administrative Functions." AECOM did not receive any ratings of "Fair" or "Unsatisfactory.”

FISCAL IMPACT

The proposed Amendment No. 3 increases the contract amount by $9,500,000, resulting in a total not-to-exceed amount of $34,000,000 for the extended contract term through December 30, 2027.

Of the $34 million not to exceed amount, $32.5 million (95 percent) will go towards contract staff, including LBE sub-consultants, working across six tasks. The remaining $1.5 million will go towards a five percent mark-up on sub-consultant labor costs and other direct costs, such as travel costs, specialty printing, and task-related permit fees. Exhibit 1 provides a breakdown of the amended budget, with Construction Inspection experiencing the largest increase to reflect unpredicted extended shifts and increased workforce required during critical outage periods.

Exhibit 1: Contract Budget for Construction Management Services from July 2019 to December 2027

Task	Current Budget	Proposed Change	Proposed Budget	Proposed Average Billing Rate
Pre-Construction Services	$706,579	($358,350)	$348,229	$215
Construction Contract Administration	$7,484,558	$961,792	$8,446,350	$197
Construction Contract Management	$2,775,205	$438,150	$3,213,355	$211
Construction Inspection	$8,411,681	$8,116,291	$16,527,972	$208
Construction Project Control	$2,262,557	($286,546)	$1,976,011	$147
Environmental Construction Compliance Services	$2,859,420	$628,663	$3,488,083	$153
Total	**$24,500,000**	**$9,500,000**	**$34,000,000**	**$189**

Source: PUC

Justification for Contract Increase

The proposed budget was calculated for each task based on the number of estimated hours per worker and their corresponding hourly billing rate. Estimates were based on work completed to date. These projections for additional spending were then adjusted for an annual three percent cost-of-living adjustment each year.

The proposed $9.5 million increase accounts for the costs associated with the five-month extension and additional expenses incurred during the initial term. These include increased inspection services due to the need for more inspectors and shifts than originally anticipated, environmental compliance services resulting from unforeseen winter storm damage, increased compliance services to monitor construction water, which discharges into a nearby creek after being treated, and contract administration efforts to negotiate and ultimately re-bid a portion of construction work due to the original construction contractor's safety concerns.

As shown above, the $9.5 million proposed increase is largely driven by an $8.1 million increase for construction inspection. According to the SFPUC memo, the original budget did not anticipate the continuous construction work schedules (24 hours per day, 7 days per week), 12-hour inspector work shifts to align with the construction crews and resulting overtime, and the total number of inspectors needed during the five winter shutdown periods. The original budget assumed 40,633 hours for construction inspection and an average hourly billing rate of approximately $207 including overhead and overtime. The proposed budget estimates 53,300 hours for construction inspection, which is 31 percent greater compared to the original budget, and an average hourly billing rate of approximately $310, which is 50 percent greater compared to the original budget due to an increase in overtime and cost of living increases. These efforts should have been included and the original budget for this contract but were not due to an administrative error by SFPUC staff.

Funding Source

This project is part of the SFPUC's Hetch Hetchy Capital Improvement Program, which is supported by Hetch Hetchy Power bonds and Hetch Hetchy Water revenue bonds.

Total Project Budget

The Mountain Tunnel Improvements Project has an approved total budget of $268.7 million, which includes a budget allocation of $40.8 million for construction management services. With the proposed increase, the total contract amount for construction management services with AECOM Technical Services, Inc. would be $34,000,000, remaining within the budgeted amount allocated for construction management. Therefore, the increase in the not-to-exceed amount keeps the construction management costs under the approved budget for this component of the project, as shown below in Exhibit 2.

Exhibit 2: Mountain Tunnel Improvements Project Total NTE

Project Activity	Approved Budget ($)
Construction	148,876,976
Construction Management	40,796,388
Construction Contingency	34,480,026
Design (includes bid and award)	14,545,670
Engineering Support	13,631,980
Project Management	$6,756,364
Planning	5,233,862
Environmental Review and Compliance	3,822,471
Legal Support	495,305
Land and Right of Way Costs	29,881
Total	**$268,668,923**

Source: SFPUC

RECOMMENDATION

Approve the proposed resolution.

Item 6 **File 24-1156**	**Department:** Office of Contract Administration

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves a three-year agreement between the Office of Contract Administration (OCA) and Pitney Bowes, Inc., with an option to extend for two additional years, and a total not-to-exceed amount of $23,550,000, for mailroom equipment, supplies, and postage services.

Key Points

- Since 2021, City departments have independently procured Pitney Bowes equipment and services without a City-wide contract. The proposed City-wide agreement ensures compliance with purchasing regulations and centralizes procurement processes, consolidating existing leases and purchases under one umbrella contract.
- OCA waived competitive solicitation requirements and designated Pitney Bowes as a sole-source provider because their proprietary equipment was already being utilized by various City Departments.
- Over 97% of historical spending on Pitney Bowes services comes from the ReproMail Division in the City Administrator’s Office, which processes about 7.29 million mail pieces annually.
- 99.66% of costs under this contract are estimated to go towards USPS postage, based on historical spending patterns, with the remainder allocated to equipment rental, maintenance, and supplies.

Fiscal Impact

- The agreement includes a $20,481,652 estimated cost for five years based on historical expenditures, plus a 15% contingency of $3,072,248, resulting in an NTE amount of $23,550,000.
- Funds will be sourced from individual departments based on usage using a mix of General Fund and enterprise funds.

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) any modification to such contracts of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

Pitney Bowes, Inc.

The Office of Contract Administration (OCA) administers City-wide contracts to provide centralized procurement services, ensuring that departments across the City have access to goods and services through pre-established agreements. Since 2021, departments have independently purchased equipment and services from Pitney Bowes, Inc. without a City-wide contract. OCA now wants to establish the first City-wide agreement to ensure compliance with the City's purchasing regulations.

As allowed under Administrative Code Chapter 21.5(b), OCA has waived competitive solicitation requirements for the proposed new agreement, designating Pitney as the sole source provider for mailroom equipment and services currently owned or rented by various City Departments. Once this agreement is in place, those leases will be moved to this City-wide agreement. According to OCA, Pitney Bowles is a widely used mail and postage provider.

Historical Spending

Since 2021, nine City departments have leased or purchased mailroom equipment, supplies, and postage services from Pitney Bowes, Inc., with the City Administrator's Office Reproduction and Mail Services (ReproMail) being the primary user. ReproMail serves as the central printing and mailing facility for all City departments, providing printing and mailing services.

Exhibit 1 below illustrates the top five departmental users of Pitney Bowes' services from 2021 to 2023.

Exhibit 1: Top 5 City Departments by Expenditure on Pitney Bowes Services, CY 2021-2023

Department	2021	2022	2023	Total	Annual Average
City Administrator's Office	$3,122,189	$5,006,243	$3,871,599	$12,000,031	$4,000,010
Human Services Agency	$73,039	$45,203	$10,911	$129,152	$43,051
Airport	$66,817	$22,000	$22,890	$111,708	$37,236
Planning	$8,450	$4,849	$4,997	$18,296	$6,099
Retirement System	$4,653	$5,650	$7,289	$17,592	$5,864
Other Departments	$7,506	$9,275	$21,832	$27,701	$9,234
Total	**$3,282,653**	**$5,093,220**	**$3,939,518**	**$12,304,480**	**$4,101,494**

Source: OCA Memo

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve an agreement between the Office of Contract Administration and Pitney Bowes, Inc., for mailroom equipment, supplies, and postage services. The agreement includes an initial term of three years, from February 1, 2025, through January 31, 2028, with an option to extend for two additional years. The total not-to-exceed amount of the contract is $23,550,000. The resolution also authorizes the Office of Contract Administration to make necessary non-material changes to the agreement, provided it does not materially increase the City's liabilities.

Scope of Work and Goods

The agreement provides for the rental or purchase of various mailroom equipment, including postage meters, automated mailing systems, envelope openers, and document scanners. Under the contract, Pitney Bowles equipment should have 95 percent or better uptime. Additionally, departments can procure maintenance services for all rented or purchased equipment, mailing supplies, and U.S. Postal Service (USPS) postage through Pitney Bowes.

Examples of mailing supplies include toner, ink cartridges, ribbons, envelopes, mailing boxes, shipping supplies, packaging tape, and postage scales. The agreement specifically excludes staples and paper.

Major Print Jobs

The ReproMail Division processed approximately 7.29 million mail pieces in FY 2023-24. Major contributors include City departments such as the Public Utilities Commission (PUC), which accounted for 2.05 million pieces, including water bill statements and CleanPowerSF notices. The Treasurer-Tax Collector (1.06 million pieces) and the Employee Retirement Division (607,000 pieces) also handled a large volume of mail, including property tax bills and retirement checks.

Some printed communications may be mandated by regulations. However, exploring digital options for non-mandated items and encouraging customers to opt-in to paper statements could offer a cost-effective alternative to printed government communications.

Pricing and Discounts

The proposed contract does not specify equipment or service pricing but states that pricing will be aligned with Pitney Bowes' standard local and state government pricing. The contract notes certain service discounts, which are shown below but subject to change at any time during the agreement:

1. Up to 88% savings on USPS shipping labels.
2. A 4-cent discount per First-Class Mail letter compared to retail stamp prices.
3. Up to 46% savings on First-Class postage through presorting services

The contract allows City departments to purchase postage and mailing equipment on an as-needed basis. Costs will be negotiated for each transaction. OCA notes that because Pitney Bowles is widely used by other governments, pricing indexes for Pitney Bowles products are publicly available and may be used to benchmark City transactions.

FISCAL IMPACT

The total not to exceed amount for this agreement is $23,550,000, covering a three-year term and the option to extend for two additional years. The basis for the spending outlined below in Exhibit 2.

Exhibit 2: Contract Spending Projection 2025-2028

Description	Amount
Average Annual Encumbrances	$4,096,330
New Contract Duration	5 Years
Subtotal	*20,481,652*
Contingency (15%)	3,072,248
Proposed Revised Executed Contract NTE	23,553,900
Proposed Revised Executed Contract NTE (Rounded)	**$23,550,000**

Source: OCA

Note: To estimate the not exceed amount of the proposed agreement, OCA used the average purchase order amount for current Pitney Bowles contracts ($4,096,330), which is slightly less than the average actual spending of $4,101,494 noted in Exhibit 1.

As noted above, over 97 percent of historical contract spending has been in the ReproMail Division of the City Administrator's Office. ReproMail recovers costs for this contract and its operations by charging other City Department end users for mailing services. The proposed spending will be funded by a mix of General Fund and enterprise funds.

According to OCA, nearly 99.66% of the total NTE, or approximately $23,470,575, is expected to be spent on USPS postage based on historical expenditure patterns. The projected annual allocation of funds is summarized below in Exhibit 3.

Exhibit 3: Projected Annual Usage

Category	Annual Average	Annual Average
Maintenance	$7,373	0.18%
Supplies	409	0.01
Meter Rental	6,144	0.15
USPS Postage	4,082,402	99.66
Total	**$4,096,330**	**100%**

Source: OCA

RECOMMENDATION

Approve the proposed resolution.

Item 7 File 24-1152	Department: Office of Contract Administration

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves a new five-year contract between the Office of Contract Administration (OCA) and Agurto Corporation (dba Pestec) for Integrated Pest Management (IPM) services. The contract has a not-to-exceed (NTE) amount of $15,500,000, including a 15% contingency, and runs from February 15, 2025, to February 14, 2030.

Key Points

- OCA issued a Request for Proposals (RFP) in August 2024 for IPM services. Pestec was the sole respondent, scoring 234.9 out of 250 possible points based on price proposals, written responses to technical questions, and oral interviews with a site evaluation.
- The contract covers Structural IPM Services (e.g., pest control in buildings) and Public Health IPM Services (e.g., addressing mosquitoes and rodents). Service categories include short-term, ongoing, emergency services, and consulting or training.
- Pestec will charge hourly rates for services, with rates varying by infrastructure type (SFPUC and non-SFPUC infrastructure) and service category. Adjustments to pricing may be requested annually based on the Consumer Price Index.

Fiscal Impact

- Annual spending under this contract aligns with historical trends, which averaged $3 million annually across City departments. The contract will be funded by individual departmental budgets.

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) any modification to such contracts of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

Integrated Pest Management

San Francisco Environment Code Chapter 3 governs pest management practices on all City-owned . It covers any unwanted insects, rodents, birds, weeds, or other organisms across San Francisco's extensive network of public buildings, including hospitals, government offices, and utility infrastructure. The Code generally requires the City to minimize use of pesticides (unless approved by the Department of the Environment), apply natural biological processes to pest management (such as traps, use of predators, and changes to ecosystems), and monitor and evaluate pest treatment effectiveness. Each City Department is required to develop its own Integrated Pest Management policy within those guidelines, submit those polices to the Department of Environment for review and approval, and keep records of all pest management activities. Finally, any entity that contracts with the City must also keep records of their pesticide use and pest management activities.

Current IPM Contracts

According to the Office of Contract Administration, between 2021 and 2023, City departments spent approximately $9.3 million for pest management services, averaging $3 million annually. Nearly 90% of this spending occurred through term contracts established by the Office of Contract Administration (OCA). The largest users of these services include the Public Utilities Commission (PUC), the Municipal Transportation Agency (MTA), and the Department of Public Health (DPH) which constitute 75 percent of total City spending.

OCA maintains only one city-wide contract for Citywide pest management services. The City's current contract for pest management services is with Agurto Corporation (doing business as Pestec). This agreement, managed by OCA, began on October 1, 2021, and expired on December 31, 2024.

Procurement Process For Proposed New Contract

On August 8, 2024, OCA issued a Request for Proposals to secure a new contract for IPM services. The proposals were evaluated by a panel including one Integrated Pest Management Specialist from the Recreation and Park Department, one Integrated Pest Management Specialist from the Public Utilities Commission, and one Project Manager from the Airport.

Pestec was the only respondent and received the highest evaluation, earning 235 out of a possible 250 points, as demonstrated below in Exhibit 1.

Exhibit 1: RFP Scores

Evaluation Phase	Maximum Points	Score Received
Minimum Qualifications Documentation	Pass/Fail	Pass
Price Proposal	100 Points	100 Points
Written Proposal	120	110.9
Oral Interviews	30	24
Total	**250 Points**	**234.9 Points**

Source: OCA

Minimum Qualifications refers to the proposer having the proper IPM licenses and certifications, having had at least 5 years' experience as an IPM business, and having responded properly to the City's required proposer documentation (questionnaire, written proposal, price proposal).

The price proposal section gave points to each proposer based on Proposer's Total Proposed Price compared to the Lowest Total Proposed Price.

The written proposal required proposers to respond to 13 detailed questions addressing their qualifications, experience, methodologies, and compliance. Key areas assessed included company profile, past project examples, compliance with state regulations, training and safety programs, equipment, reporting capabilities, and specific scenarios like pest management in office buildings and SRO hotels. Responses were evaluated on a 120-point scale, with a minimum score of 95 points required to qualify for oral interviews, based on the quality and completeness of responses.

The oral interview consisted of a site visit evaluation where proposers conducted a pest inspection at a City location with an existing pest issue. Proposers were required to prepare a Sample Integrated Pest Management (IPM) Plan based on their findings, which was reviewed and scored by the Evaluation Panel, alongside their on-site performance and responses to panel questions.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new contract between the Office of Contract Administration and Agurto Corporation (dba Pestec). The contract has a five-year term, from February 15, 2025 to February 14, 2030 and no options to extend the term. The contract has a not to exceed spending amount is $15,500,000. The proposed resolution also authorizes OCA to amend the contract so long as the amendments do not increase liabilities of the City.

Local Business Enterprise Subcontracting Requirement

Since this is a contract for Services, the Local Business Enterprise subcontracting participation requirement would typically apply. However, the requirement has been waived because requiring the prime contractor to subcontract would undermine the accuracy, consistency, and effectiveness of the pest management services, and there are not enough qualified local businesses to fulfill the scope of work.

Scope of Work

Pestec will provide IPM services for City-owned or leased properties. The City's IPM Program encompasses Structural IPM Services and Public Health IPM Services. Structural IPM focuses on preventing, controlling, or eliminating pests that may invade properties, including insects, rodents, and birds. Public Health IPM targets pests that pose health hazards or may spread disease, such as mosquitoes, feral cats, and dead animals.

The contract includes four service categories:

<u>Category 1: Short-Term IPM Services</u> address minor pest issues, typically resolved within one or two visits.

<u>Category 2: Ongoing IPM Services</u> are designed for chronic or complex pest problems, such as those in larger facilities requiring regular pest management.

<u>Category 3: Emergency IPM Services</u> cover urgent pest issues requiring immediate action and are distinct from routine follow-up visits under the contract.

<u>Category 4: IPM Meetings, Consulting, and Training Services</u> require Pestec to provide four hours per month of complimentary IPM meetings, consulting, or training. This includes one 2-hour IPM Technical Advisory Committee meeting per month, led by the SFE IPM Program Manager, and participate in quarterly meetings with key staff from SFPUC and the Department of Public Health to evaluate the effectiveness of treatments, discuss product rotations and less toxic alternatives, and plan future IPM strategies. Unused hours cannot carry over to subsequent months, and any additional time is billed at the applicable hourly rate.

<u>Pricing</u>

Pestec's pricing is billed hourly, with the first hour calculated as a full hour and subsequent time billed in 30-minute increments. Rates are categorized based on the type of infrastructure and category of service provided.

The scope of work (SOW) and pricing for SFPUC infrastructure differs significantly from the Non-SFPUC SOW. For example, SFPUC treatment sites primarily include sewers, catch basins, and other utility infrastructure, while Non-SFPUC sites are mainly commercial buildings. Additionally, the contractor may bill the City for travel time when performing Service Category 2 services under the SFPUC SOW, but such billing is not permitted under any Service Category for Non-SFPUC work.

For Non-SFPUC infrastructure, the hourly rates are as follows:

<u>Category 1:</u> $230

Category 2: $195

Category 3: $260

Category 4: $250

For SFPUC infrastructure, the rates are:

Category 1: $180

Category 2: $180

Category 3: $260

Category 4: $250

In addition to hourly service rates, Pestec may charge the City 20% above its cost for materials and supplies associated with Service Categories 1, 2, and 3.

Pestec may request price adjustments beginning 12 months after the Proposal Due Date of September 9, 2024, and annually thereafter. Any request must be supported by the U.S. Department of Labor's Consumer Price Index for Urban Wage Earners and Clerical Workers available at the time of the request.

Historical Performance

As this contract falls under General Services (per Administrative Chapter 21), formal performance reviews are not required. Oversight is generally shared between OCA, which manages the contract terms, and the Department of Environment (ENV), which ensures that services align with ENV's requirements. In the event of a performance failure, the responsible department will notify OCA or DOE, and the issue will be addressed accordingly.

The Department of Environment's Integrated Pest Management Program has been under the supervision of Shoba Lyer for approximately one year. According to Shoba Lyer, there have been no reported performance failures by Pestec under their existing contract.

Contract Compliance and Penalty Structure

Appendix C of the proposed contract includes performance metrics for the contractor, specifying performance failures and associated penalties. Failures include not meeting response times, incomplete deliverables, billing inaccuracies, and violations of pesticide use or record-keeping requirements. Penalties vary based on severity and frequency: minor issues, like billing errors or incomplete deliverables, incur $25 per incident, while more serious infractions, such as failure to follow professional standards or improper pesticide use, result in fines of up to $300 per occurrence. For ongoing violations, such as delayed record submissions, daily penalties of $25 per day may apply. Thresholds for allowable performance failures range from one to three incidents per contract before penalties are triggered.

FISCAL IMPACT

The proposed contract with Pestec has a Total Bid Price of $2,681,691 per year over a 5-year duration. This results in an initial not-to-exceed (NTE) amount of $13,408,456, with an additional 15% contingency of $2,011,268, bringing the total estimated NTE to $15,419,725 (rounded to $15,500,000). The NTE calculations are demonstrated below in Exhibit 2.

Exhibit 2: Total NTE Calculations

Category	Amount
Annual Total Bid Price	$2,681,691
Contract Duration (Years)	5
Subtotal	13,408,456
Contingency (15%)	2,011,268
Total Estimated Spending	15,419,725
Total (rounded)	**$15,500,000**

Source: OCA

This amount aligns closely with historical spending trends under previous pest management agreements, which averaged approximately $3 million annually. The breakdown of Annual Total Bid Price is demonstrated below in Exhibit 3.

Exhibit 3: Breakdown of Annual Total Bid Price

Location	Service Type	Amount
Non-SFPUC Infrastructure	Short-Term IPM Services	$288,100
	Ongoing IPM Services	1,300,686
	Emergency IPM Services	275,057
SFPUC Infrastructure	Short-Term IPM Services	612,063
	Ongoing IPM Services	116,906
	Emergency IPM Services	3,120
Both	Meetings, Consulting, Training	17,500
Both	Supplies	68,259
Total		**$2,681,691**

Source: OCA

Funding Source

Funding for this contract will come from individual department budgets.

RECOMMENDATION

Approve the proposed resolution.

Items 9 & 10 **Files 24-1170, 24-1171**	**Department:** Controller's Office, Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution (File 24-1171) would authorize the issuance and sale of not to exceed $40,000,000 in Taxable General Obligation Bonds (Series 2025E) and approve associated transaction documents. The proposed ordinance (File 24-1170) would appropriate $40,000,000 of Series 2025E bond proceeds to the Mayor's Office of Housing and Community Development (MOHCD) to acquire, improve and rehabilitate, and to convert residential buildings to permanent affordable housing, and placing these funds on Controller's Reserve pending the sale of General Obligation Bonds in FY 2024-25.

Key Points

- In 1992, San Francisco voters approved Proposition A, which authorized $350 million of general obligation bonds to provide loans for seismic improvements of buildings. In 2016, San Francisco voters approved Proposition C, which amended this authorization to add the eligibility to finance the cost to acquire, improve, and rehabilitate and to convert at-risk multi-unit residential buildings to affordable housing and to perform needed safety upgrades for habitability. The program is now known as the Preservation and Seismic Safety (PASS) bond program and is administered by MOHCD. Of the $350 million bond authorization, $85,684,550 remains available for future bond issuances.
- MOHCD has announced two projects that would receive PASS financing from the proposed bond sale proceeds: (1) Larkin Pine Senior Housing (rehabilitation of 63 units, adding five units, and converting existing units from SROs to studios), and (2) 2901 16th Street (acquisition and rehabilitation of 55 studios, two SROs, and eight commercial units for affordable housing). MOHCD reports that additional loans are currently under negotiation.

Fiscal Impact

- Based on an estimated 6.88 percent true interest cost and an anticipated par amount of $38.3 million, the total debt service paid over the estimated 40-year term of the bonds is approximately $109.7 million, or approximately $2.7 million per year.
- OPF estimates that the increase in property tax rates from the bonds would range from $0.05 to $0.75 per $100,000 of assessed valuation over the 40-year term of the bonds.

Recommendations

- Amend the proposed ordinance in File 24-1170 to correctly state that the funds would be placed on Controller's Reserve pending the sale of general obligation bonds.
- Approve the proposed resolution and ordinance as amended.

MANDATE STATEMENT

City Charter Section 9.106 states that the Board of Supervisors approves the issuance of general obligation bonds. Section 9.106 also limits outstanding general obligation bond indebtedness to three percent of the assessed value of all taxable real and personal property located within the City.

City Charter Section 9.105 states that amendments to the Annual Appropriation Ordinance are subject to Board of Supervisors approval by ordinance after the Controller certifies the availability of funds.

BACKGROUND

In 1992, San Francisco voters approved Proposition A, which authorized $350 million of general obligation bonds for the Seismic Safety Loan Program (SSLP), to provide loans for seismic improvements of buildings. Of this amount, $150 million was allocated for affordable housing buildings and $200 million was allocated for commercial or other buildings.

In 2016, San Francisco voters approved Proposition C, which amended the Proposition A authorization to add the eligibility to finance the cost to acquire, improve, and rehabilitate and to convert at-risk multi-unit residential buildings to affordable housing and to perform needed safety upgrades for habitability. The program is now known as the Preservation and Seismic Safety (PASS) bond program and is administered by the Mayor's Office of Housing and Community Development (MOHCD).

Under the PASS program, the City may provide loans at market rate or below market. Borrowers of below-market rate loans pay back the borrowed principal and one third of the City's interest cost, leaving a net impact to the property tax levy of two-thirds of the interest cost. Additionally, for $60 million of the $150 million allocated for below-market rate loans, repayment of principal and interest is deferred for up to 55 years, which increases the property tax levy in the short term. Borrowers of market rate loans pay back the borrowed principal with an interest rate one percent greater than the City's interest rate. MOHCD typically provides PASS loans to projects with both market rate and below market rate loan terms, which extends the below market rate lending pool to a broader set of borrowers while also providing them blended financing costs.

In February 2019, the Board of Supervisors approved the issuance and sale of $260,684,550 in general obligation bonds for the PASS program, which was the remaining financing authority available under Proposition A. Of this authorization, $175,000,000 in bonds have been issued to date, leaving $85,684,550 of the financing authority available for future bond issuances.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution (File 24-1171) would authorize the issuance and sale of not to exceed $40,000,000 in taxable general obligation bonds (Series 2025E) and approve associated transaction documents. The proposed ordinance (File 24-1170) would appropriate $40,000,000 of Series 2025E general obligation bond proceeds to MOHCD to acquire, improve and rehabilitate, and convert at-risk multi-unit residential buildings to permanent affordable housing, and placing these funds on Controller's Reserve pending the receipt of general obligation bond proceeds in FY 2024-25.[1]

MOHCD has announced two projects that would receive PASS loans from the proposed bond sale proceeds:

- **Larkin Pine Senior Housing:** Rehabilitation project of 63 units of senior housing owned by Chinatown Community Development Center for seismic safety, adding five units, and converting existing units from single-room occupancy (SROs) to studios. Estimated PASS budget of $10,861,360.
- **2901 16th Street:** Acquisition and rehabilitation of 55 studios, two SROs, and eight commercial units by Mission Economic Development Agency for affordable housing. Estimated PASS budget of $9,509,000.

MOHCD reports that additional loans are currently under negotiation.

FISCAL IMPACT

The proposed legislation would authorize the issuance and sale of general obligation bonds in an amount not to exceed $40,000,000. The bond proceeds would be appropriated to MOHCD for the PASS program and placed on Controller's Reserve. The sources and uses of bond proceeds are shown in Exhibit 1 below.

Exhibit 1: Estimated Sources and Uses of Bond Proceeds

Sources	Amount
Estimated Par	$38,255,000
Reserve for Market Uncertainty	1,745,000
Total Sources	**$40,000,000**

Uses	Amount
Project Fund	$37,398,360
Cost of Issuance	627,110
General Obligation Bond Oversight Committee Fee (0.1% of Proceeds)	38,255
Underwriter's Discount	191,275
Reserve for Market Uncertainty	1,745,000
Total Uses	**$40,000,000**

Source: Office of Public Finance

Debt Service

The estimates above are based on good faith estimates provided to the Office of Public Finance (OPF) by Public Resources Advisory Group. Based on an estimated 6.88 percent true interest cost

[1] The proposed ordinance in File 24-1170 erroneously states that the funds would be placed on Controller's Reserve pending the sale of Certificates of Participation. The Budget and Legislative Analyst recommends correcting this error to state that the funds would be placed on Controller's Reserve pending the sale of general obligation bonds.

and an anticipated par amount of $38.3 million, the total debt service paid over the estimated 40-year term of the bonds is approximately $109.7 million, or approximately $2.7 million per year. OPF and MOHCD believe that a 40-year term most closely aligns with the loan repayment term. The bond maturity date would be approximately June 2065.

Property Tax Impact

Repayment of debt service on general obligation bonds is recovered by increases to the property tax rate. As noted above, borrowers of PASS loans for below-market rate loans pay back the borrowed principal and one third of the City's interest cost, leaving a net impact to the property tax levy of two-thirds of the interest cost. Borrowers of market rate loans pay back the borrowed principal with an interest rate one percent greater than the City's interest rate. OPF estimates that the increase in property tax rates from the bonds would range from $0.05 to $0.75 per $100,000 of assessed valuation over the anticipated 40-year term of the bonds. The owner of a property with an assessed valuation of $600,000, assuming a homeowner's exemption of $7,000, would pay additional property taxes ranging from $0.31 to $4.52 per year if the $38,255,000 in bonds are sold.

Debt Limit

Section 9.106 of the City Charter limits general obligation bond debt to three percent of the assessed value of the property in the City. As of November 1, 2024, the City had approximately $2.23 billion in outstanding aggregate principal amount of general obligation bonds, equal to approximately 0.63 percent of the net assessed valuation for FY 2024-25. If all of the City's authorized and unissued bonds were issued, the total general obligation bond debt would be 1.19 percent of the net assessed value in the City. If the proposed bond issuance is approved, the debt ratio would increase from 0.63 percent to approximately 0.65 percent.

Capital Plan

Under financial constraints adopted by the City's Capital Planning Committee, debt service on approved and issued general obligation bonds may not increase property owners' long-term property tax rates above FY 2005-06 levels. The FY 2005-06 property tax rate for the general obligation bond fund was $120.13 per $100,000 of assessed value. If the proposed bond issuance is approved, the property tax rate for general obligation bonds for FY 2024-25 would be maintained below the FY 2005-06 rate and within the Capital Planning Committee's approved financial constraint.

RECOMMENDATIONS

1. Amend the proposed ordinance in File 24-1170 to correctly state that the funds would be placed on Controller's Reserve pending the sale of general obligation bonds.
2. Approve the proposed resolution and ordinance as amended.

Item 12 File 24-1135	Department: Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the first amendment to the loan agreement and related documents between the Mayor's Office of Housing and Community Development (MOHCD) and 2530 18th, LLC, an affiliate of the non-profit, Homeless Prenatal Project (HPP). This loan would fund a 100 percent affordable housing building being developed with Mercy Housing California. The amendment increases MOHCD's loan to HPP from $4,900,000 to $6,900,000 and increases total City funding to the 2530 18th Street project from $9,846,900 to $11,846,900.

Key Points

- The Homeless Prenatal Project and Mercy Housing (the project sponsors) are developing 2530 18th Street into affordable housing. HPP acquired the site using non-City funding, however the development timeline is taking longer than expected. To reduce holding costs, MOHCD is proposing to replace HPP's acquisition debt with a City loan that has no interest.
- The project was awarded City funding following a competitive solicitation in 2022. The original included space for HPP on the ground and a total of 74 units, with half of the units to be built as permanent supportive housing. However, in order to increase the likelihood that the project will be eligible for state and tax credit financing, the project sponsor is eliminating the HPP space and increasing the number of units from 74 to approximately 96 (with half of the units still being for formerly homeless households). As a result, total project costs have increased from $88.5 million to $106 million, or, a slight decrease in the per unit cost from approximately $1.19 million to $1.13 million.

Fiscal Impact

- The proposed $2,000,000 loan increase is funded by Homelessness Gross Receipts tax revenue. This loan is to refinance acquisition debt held by 2530 18th, LLC, an affiliate of the Homeless Prenatal Project.

Policy Consideration

- The project has high per unit construction costs that are impacting its competitiveness for state financing. Despite value-engineering, the construction budget is still approximately 17 percent more per bedroom than similar projects. According to MOHCD, these high costs are due to ongoing volatility in the construction market combined with the relatively small size of the original project as well as a complex ground floor design. The project's high costs may render its completion infeasible without additional City funding beyond the $16 million that is already earmarked for the project.

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

Project Sponsor

In June 2020, the non-profit Homeless Prenatal Program (HPP)[1] acquired the 2530 18th Street site, situated on a 0.3-acre lot at the corner of 18th and Hampshire Streets in the Mission District adjacent to the HPP main building. HPP's acquisition cost totaled $7,037,000, financed by a $4.9 million loan from First Republic Bank, a short-term loan from the seller[2] of $1.25 million, and Homeless Prenatal Program funds of $887,000. Subsequently, in January 2022, HPP obtained a $2 million bridge loan from Common Spirit Health Operating Investment Pool, LLC to pay off the seller financing as well as expand the HPP facility. HPP's outstanding acquisition loans total $6.9 million.

HPP established 2530 18th, LLC for the purposes of acquiring the property to build affordable housing and expand their services. HPP's development partner, Mercy Housing California, established Mercy Housing California 104, L.P. (a California limited partnership) as an affiliate to conduct predevelopment activities for the construction of a 100 percent affordable housing building on the property. Mercy's initial predevelopment work was funded by a $3 million loan from the San Francisco Housing Accelerator Fund.

City Funding Award

In April 2022, the Department of Homelessness and Supportive Housing (HSH) and the Mayor's Office of Housing and Community Development (MOHCD) jointly released a Notice of Funding Availability (NOFA) for $16 million for acquisition and predevelopment financing of new permanent affordable housing for families, with a requirement to provide at least 50 percent of units to families experiencing homelessness, according to the NOFA. The $16 million is funded by Homelessness Gross Receipts tax revenue and from the San Francisco Housing Trust Fund. According to MOHCD, the proposal from 2530 18th, LLC was the only qualifying proposal submitted, and received a score of 93 out of 100 points.

[1] The Homeless Prenatal Program non-profit based in San Francisco provides services to low-income and homeless families.

[2] This is a situation in which the property seller acts as a lender, providing financing to the buyer for a portion or the entire purchase price.

In October 2023, MOHCD provided a $4,900,000 loan to the Homeless Prenatal Program to pay down the First Republic acquisition loan, leaving approximately $2,000,000 in outstanding acquisition loans held by HPP as of this writing.

In December 2023, MOHCD provided a $4,946,900 loan to Mercy Housing to pay off the Housing Accelerator Fund loan and continue to fund predevelopment activities, such as design, permit applications, and securing financing.

In total, the 2530 18th Street project has $9,846,900 in City loans ($4,900,000 for HPP and $4,946,900 for Mercy Housing).

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the first amendment to the loan agreement and related documents between MOHCD and 2530 18th, LLC, an affiliate of the Homeless Prenatal Project. The amendment increases MOHCD's loan to HPP from $4,900,000 to $6,900,000 and increases total City funding to the 2530 18th Street project from $9,846,900 to $11,846,900.

The proposed resolution would also find that the loan is consistent with the City's General Plan and priority policies of the Planning Code and would authorize the Director of MOHCD to amend the loan agreements provided the amendments do not increase the obligations or liabilities to the City.

The purpose of the additional $2,000,000 in City funding is to refinance HPP's acquisition debt by replacing it with a City loan that carries no interest. The project is being redesigned and HPP is no longer planning to expand its business operations at the 2530 18th site and so the City is paying off HPP's Common Spirit loan which was originally intended for site acquisition interim financing takeout ($1.25 million) and on expansion ($0.75 million). This will lower monthly holding costs while the project sponsor updates the project design and seeks state financing.

Loan Agreement

The proposed loan carries no interest and must be repaid at the earlier of construction loan closing or by December 2028. Upon construction start, the land will transfer to MOHCD, and the $6.9 million MOHCD acquisition loan would be considered paid in kind, up to the appraised value of the land.

Project Design

Restrictions to preserve the affordability of the housing units in the proposed development are included in the loan agreement between the City and 2530 18th, LLC. The unit mix includes one-, two-, and three-bedrooms for households earning up to 70 percent of the area median income.

The 2022 NOFA used to award funding for this project required that half of the units be set aside for formerly homeless households. The project design originally included a total of 74 units, with half of the units to be built as permanent supportive housing and set aside for families who have experienced homelessness. However, in order to increase the likelihood that the project will be eligible for state and tax credit financing, the project sponsor is increasing the number of units from 74 to approximately 96 (with half still being for formerly homeless households). Due to this redesign, estimated final completion and lease up of the housing units has been delayed from December 2026 to March 2029 and is dependent on securing additional financing.

The permanent supportive housing units will be leased up through HSH's Coordinated Entry prioritization system. The remaining units will be leased through MOHCD's DAHLIA system.

Land Use

The site underwent a zoning map change approved by the Board of Supervisors in August 2021, which changed the zoning designation from Production, Distribution and Repair[3] to Urban Mixed-Use (File 21-0182).[4]

The project received notice of final approval for permit streamlining in June 2022 under a state law known as SB 35—Chapter 366, Statutes of 2017 (SB 35, Wiener), which requires streamlined, ministerial approval for jurisdictions that have not met their state-mandated Regional Housing Needs Allocation targets; the project is therefore exempt from environmental review under the California Environmental Quality Act.

The project sponsor merged two lots and subdivided the vertical lot into three air rights parcels for residential units, all of which will be transferred to the City at the end of construction.

FISCAL IMPACT

The proposed $2,000,000 loan increase is funded by Homelessness Gross Receipts tax revenue. As noted above, this loan is to refinance acquisition debt held by 2530 18th, LLC, an affiliate of the Homeless Prenatal Project. Exhibit 1 below shows the current and proposed City loans for the project.

Exhibit 1: Current and Proposed City Loans for 2530 18th Street

	HPP (2530 18th LLC)	Mercy (104 LP)	Total City Loans
Current Loan	$4,900,000	$4,946,900	$9,846,900
Proposed Loan	2,000,000	0	2,000,000
New Total	**$6,900,000**	**$4,946,900**	**$11,846,900**

Source: Loan Agreements

[3] Production, Distribution and Repair refers to land zoned for business activities that share a need for flexible operating space that includes large open interior spaces, high ceilings, freight loading docks and elevators, floors capable of bearing heavy loads, and large (often uncovered exterior) storage areas, according to the San Francisco Planning Code.

[4] Urban Mixed Use is intended to promote a vibrant mix of uses while maintaining the characteristics of formerly industrially-zoned areas and serve as a buffer between residential districts and Production, Distribution and Repair districts in the Eastern neighborhoods, according to the San Francisco Planning Code.

Project Costs

As noted above, the project sponsor is seeking to increase the number of residential units to enhance the cost effectiveness of the project, which in turn may help to ensure a state funding award in 2025 after attempts to seek state funding in 2022 and 2023 were unsuccessful. As a result, according to MOHCD's November 2024 staff memo to the Citywide Affordable Housing Loan Committee, total project costs have increased from $88.5 million to $106 million. This also results in a slight decrease in the per unit cost from approximately $1.19 million to $1.13 million. Any additional modifications to the proposed loan greater than $500,000 would require Board of Supervisors approval.

The project sponsor is still identifying sources of funding for construction and to permanently finance the development. The project's pro forma at 74 units does not assume any additional City funding beyond the $16 million that has already been allocated to the project, and MOHCD has not revised the financing assumptions in light of the planned increase to 96 units.

The City is planning to incur ongoing costs to subsidize the homeless units (through the City's Local Operating Subsidy Program) and provide services to those households (contractors funded by the Department of Homelessness and Supportive Housing). At 74 units, MOHCD's pro forma for this project shows LOSP costs starting at $574,195 in year one, which would increase to $729,383 with the addition of ten more LOSP units. The support services will likely cost $400,000 to $500,000 per year.

POLICY CONSIDERATION

High Construction Costs and Competition for State Financing

The project has high per unit construction costs that are impacting its competitiveness for state financing. Despite value-engineering that reduced construction costs by $900,000, the construction budget is still approximately 19 percent more per unit and 17 percent more per bedroom than similar projects. According to MOHCD, these high costs are due to ongoing volatility in the construction market combined with the relatively small size of the original project (at 74 units) as well as the complex ground floor design. As the redesign progresses, MOHCD says it intends to review the updated design with the goal of reducing costs.

The total development cost is approximately 36 percent above average costs per unit and 23 percent above average costs per square foot, primarily driven by acquisition costs and soft costs to prepare additional permit materials, conduct value engineering, and design additional units.

Despite the $2 million proposed new funding, the project's high costs may render its completion infeasible without additional City funding beyond the $16 million that is already earmarked for the project.

The state's Department of Housing and Community Development's Multi-family Housing Program for funding affordable housing projects has become increasingly competitive, according to MOHCD. The project applied for funding from the Multi-family Housing Program and the state's Infill Infrastructure Grant, but did not receive funding in 2022. The project then reapplied for funding from these two state programs in July 2023, and again did not receive an award. MOHCD notes that a tax credit allocation will also be competitive, since the project has high per unit construction costs and is in a so-called “moderate resource” area, per the California Tax Credit Allocation Committee/Department of Housing and Community Development Opportunity Map. Relative to projects with lower per unit construction costs and in “high- and highest-resource” areas, the project is less competitive for tax credits and an allocation of bonds. The project sponsor also applied for a Community Care Expansion program grant from the California Department of Social Services for $13 million, and did not receive the funding award.

RECOMMENDATION

Approve the proposed resolution.