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

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SUBJECT: February 15, 2023 Budget and Finance Committee Meeting

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Item 1 **File 23-0097**	**Departments:** Children, Youth and Their Families (DCYF) Human Rights Commission (HRC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance re-appropriates $250,000 as follows: (1) $250,000 from District 10 General City Responsibility to the Department of Children, Youth, and their Families ($80,000) and to the Human Rights Commission ($170,000).

Key Points

- Through an ongoing community input process, the District 10 Office has prepared a Public Safety Plan, which outlines violence prevention strategies. According to the sponsor's office, the proposed ordinance funds youth projects (such as sports, mentoring, and on-site public school programs) consistent with that Plan.

Fiscal Impact

- The proposed ordinance re-appropriates FY 2022-23 funding set-aside for District 10 projects.

Recommendation

- Approve the proposed ordinance.

MANDATE STATEMENT

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

BACKGROUND

Through an ongoing community input process, the District 10 Office has prepared a Public Safety Plan, which outlines violence prevention strategies. According to the sponsor's office, the proposed ordinance funds youth projects (such as sports, mentoring, and on-site public school programs) consistent with that Plan.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance re-appropriates $250,000 as follows: (1) $250,000 from District 10 General City Responsibility to the Department of Children, Youth, and their Families ($80,000) and to the Human Rights Commission ($170,000).

FISCAL IMPACT

The proposed ordinance re-appropriates FY 2022-23 funding set-aside for District 10 projects.

RECOMMENDATION

Approve the proposed ordinance.

Item 3 **File 23-0100**	**Department:** Controller's Office

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution: (1) re-authorizes the issuance by the City of both tax-exempt and taxable lease revenue commercial paper certificates of participation; (2) approves a $163,500,000 revolving credit agreement to replace two agreements expiring in May 2023; (3) authorizes financing documents, including the second supplement to the trust agreement, second amendment to the site lease, second amendment to the sublease, revolving credit agreement, fee agreement, dealer agreement, and a delivery and paying agent agreement; and (4) authorizes other related actions.

Key Points

- Commercial paper is short-term interim financing for capital projects that permits the City to pay capital project costs on an ongoing basis. Under the City's Commercial Paper Program, the City leases City property to a third-party trustee as security for the commercial paper, and leases back this City property from the third-party trustee. The City's payments on the lease-back agreement are equal to the debt service of the relevant commercial paper series.
- The City's $250 million Commercial Paper Program includes three series of commercial paper supported by lines of credit from three banks under revolving credit agreements with each bank. Two revolving credit agreements (with U.S. Bank and State Street Bank) supporting $150 million in commercial paper are scheduled to expire in May 2023 and would be replaced by the proposed $150 million revolving line of credit provided by Wells Fargo.
- Series 1 and 2 were previously secured by the Police Academy in addition to five other City properties. However, since the valuation of $187 million for the five properties is sufficient to secure the $150 million line of credit from Wells Fargo, the proposed second amendment to the site lease and second amendment to the sublease would remove the Police Academy from the Commercial Paper Program's leased assets.

Fiscal Impact

- The City would incur one-time estimated General Fund costs of $554,300 for fees related to the new line of credit for the City's bond counsel and municipal advisor, bank counsel, rating agency fees, and other related closing costs.
- In addition, the City would incur estimated ongoing General Fund costs of $921,198 per year to pay fees for the new line of credit.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

According to City Charter Section 9.113 (e), the Board of Supervisors has the authority to borrow money by the issuance of tax anticipation notes, temporary notes, commercial paper, or other short-term debt instruments.

BACKGROUND

Commercial Paper

Commercial paper is short-term interim financing for capital projects that permits the City to pay capital project costs on an ongoing basis. Commercial paper notes are issued, as needed, to pay capital project costs as they are incurred, supported by a line of credit provided by a bank. Commercial paper has a fixed maturity date of up to 270 days (approximately nine months), compared with a fixed maturity date of 20 to 30 years for long-term debt, such as general obligation bonds. On the maturity date, commercial paper may be refinanced for additional periods of up to 270 days.

Commercial paper may be issued in anticipation of the issuance of previously authorized, but not yet issued long-term debt, or for short-term financing of equipment and/or vehicles. The use of commercial paper can reduce overall borrowing costs associated with the issuance of long-term debt because commercial paper interest rates are typically lower than long-term interest rates.

The City's Commercial Paper Program

The Board of Supervisors approved the creation of the City's Commercial Paper Program in 2009, which allowed the City to issue up to $150,000,000 in commercial paper (Commercial Paper Series 1 and 2) (File 09-0197). The Board of Supervisors approved an increase of $100,000,000 in the Commercial Paper Program (Commercial Paper Series 3) in 2013, allowing the City to issue up to $250,000,000 in commercial paper (File 13-0627). The Board of Supervisors reauthorized $150,000,000 in commercial paper in 2016 (File 16-0427) and reauthorized $100,000,000 in commercial paper in 2022 (File 22-0210). The City's Commercial Paper Program generally applies to the City's General Fund departments and the Port, which is an enterprise department. The City's other enterprise departments have authorization for separate commercial paper programs, including the Public Utilities Commission, Airport, and San Francisco Municipal Transportation Agency.

Under three separate revolving credit agreements, three banks provide lines of credit to support the City's $250,000,000 Commercial Paper Program.[1] A revolving credit agreement with Bank of the West supports $100,000,000 of the City's Commercial Paper Program and will expire in April 2026. Two banks –U.S. Bank and State Street Bank and Trust Company (State Street Bank) –

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[1] The bank provides a line of credit that guarantees that the bank will repay the outstanding commercial paper in the event that the City in unable to make required payments to the commercial paper investors.

provide lines of credit to support the remaining $150,000,000 of the City's Commercial Paper Program. The two revolving credit agreements were extended by two years in May 2021 and are scheduled to expire in May 2023. To replace the two expiring revolving credit agreements, the Controller's Office of Public Finance issued a Request for Proposals (RFP) in October 2022. The Office of Public Finance selected Wells Fargo Bank (Wells Fargo), the top scoring proposal, out of six proposals received based on scoring assessed by an evaluation panel[2] to provide a line of credit.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution: (1) re-authorizes the issuance by the City of both tax-exempt and taxable lease revenue commercial paper certificates of participation;[3] (2) approves a $163,500,000[4] revolving credit agreement to replace two agreements expiring in May 2023; (3) authorizes financing documents, including the second supplement to the trust agreement, second amendment to the site lease, second amendment to the sublease, revolving credit agreement, fee agreement, dealer agreement, and a delivery and paying agent agreement; and (4) authorizes other related actions.

Lines of Credit

As mentioned above, two revolving lines of credit with U.S. Bank and State Street Bank supporting $150,000,000 in commercial paper will expire in May 2023 and would be replaced by the proposed $150,000,000 revolving line of credit provided by Wells Fargo.

Under the proposed resolution, two revolving credit agreements would support the City's Commercial Paper Program. These agreements would include:

- $100,000,000 in an existing line of credit provided by Bank of the West, which will expire in May 2026 (a term of four years).
- $150,000,000 in a new line of credit provided by Wells Fargo from approximately March 2023 to March 2026 (a term of three years).[5]

Financing Documents

Revolving Credit Agreement

Under the proposed revolving credit agreement between the City and Wells Fargo, the City can draw on up to $150,000,000 under the new line of credit. The City would draw on the line of

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[2] The panel consisted of an Office of Public Finance Principal Administrative Analyst II, a San Francisco Public Utilities Commission Senior Administrative Analyst, and a municipal advisor firm Managing Director.

[3] The tax-exempt commercial paper is used for eligible tax-exempt capital projects and taxable lease revenue commercial paper certificates of participation are used for projects that do not qualify for federal and state tax exemptions.

[4] The $163,500,000 total includes $150,000,000 in available principal amount and $13,500,000 in available interest commitment.

[5] According to Office of Public Finance staff, the existing revolving credit agreements with U.S. Bank and State Street Bank would terminate upon the issuance of the Wells Fargo credit facility.

credit only if the City could not make the required payments to the commercial paper investors. According to an Office of Public Finance memo to the Board of Supervisors, the City expects to repay the banks, in the event that the City draws on the line of credit, through refinancing commercial paper or issuing long-term debt. However, under extraordinary circumstances such as the 2008 financial crisis, the City may not be able to repay the banks immediately, in which case the City could potentially pay interest on the commercial paper at a rate of up to 12 percent per year.

Fee Agreement

The City will pay a fee to Wells Fargo for the revolving line of credit equal to approximately 0.25 percent[6] of the line of credit of $163,500,000,[7] or $408,750 per year. The City's existing $75,000,000 line of credit provided by State Street Bank has an annual fee of 0.40 percent, or $327,000 per year. The City's existing $75,000,000 line of credit provided by U.S. Bank has an annual fee of 0.38 percent, or $310,650 per year. The new revolving credit agreement results in annual savings of $228,900 to the Commercial Paper Program.

Dealer Agreement

Commercial Paper dealers sell commercial paper on behalf of the City to investors. Under the First Amendment to Commercial Paper Dealer Agreement between the City and J.P. Morgan Securities Inc., the commercial paper dealer, the fees paid by the City to the dealer would be 0.075 percent per year of the principal amount of commercial paper notes outstanding each quarter. For the new line of credit provided by Wells Fargo, the City would pay the dealer a maximum fee of $112,500 for the year, based on $150,000,000 in outstanding commercial paper debt.

Delivery and Paying Agent Agreement

Similar to a bond trustee, the Commercial Paper delivery and paying agent acts as depository and delivery agent for the Commercial Paper Certificates and paying agent on behalf of Commercial Paper investors. Responsibilities of U.S. Bank Trust Company, the delivery and paying agent for Commercial Paper secured by the proposed Wells Fargo line of credit, are outlined in the Second Amended and Restated Delivery and Paying Agent Agreement.

Lease and Sublease Agreements and Trust Agreement

Under the City's Commercial Paper Program, the City leases City property to a third-party trustee as security for the commercial paper and leases back this City property from the third-party

[6] The fee is based on the City's highest general fund credit rating by each of the three credit rating agencies – Fitch, Moody's, and S&P. The fee percentage of 0.25 percent reflects that the City's highest general fund ratings are AA+ or above (Fitch and S&P) and Aa1 or above (Moody's), currently rated AA+ (Fitch), AAA (S&P) and Aaa (Moody's). In the case where the City's ratings were downgraded, the fee would increase according to the commitment fee schedule in the agreement. For example, if the City's ratings were downgraded by one notch there would be a fee increase of 0.025 percentage points.

[7] The $163,500,000 total includes $150,000,000 in available principal amount and $13,500,000 in available interest commitment.

trustee. The City's payments on the lease-back agreement are equal to the debt service of the relevant commercial paper series. The City has committed the properties shown in Exhibit 1 below to secure the line of credit from Bank of the West and the proposed line of credit from Wells Fargo for the commercial paper. These properties have a value equal to 195 percent of the not-to-exceed Commercial Paper Program amount of $250,000,000, or $488,000,000, as shown in Exhibit 1 below.

Exhibit 1: City Properties Proposed to Secure Commercial Paper Program

Property	Valuation as of January 2023
$150 Million Provided by Wells Fargo (Proposed)	
Series 1 and Series 2 Commercial Paper	
Public Works Corporate Yard	$72,000,000
Fire College	46,000,000
Fire Station 1	7,200,000
Public Health Clinic	18,800,000
Human Services Agency Central Office	43,000,000
Subtotal	$187,000,000
$100 Million Provided by Bank of the West	
Series 3 Commercial Paper	**Valuation as of April 2022**
Public Safety Building	$301,000,000
Subtotal	$301,000,000
Total	**$488,000,000**

Source: Office of Public Finance, Real Estate Division

Under the proposed second supplement to the trust agreement, U.S. Bank serves as the third-party trustee, responsible for: (1) authenticating and delivering the commercial paper; (2) leasing properties from the City; and (3) subleasing these properties back to the City. The City's sublease payments are equal to the principal and interest due on outstanding commercial paper debt. Under the proposed second amendment to the site lease, U.S. Bank would enter into a site lease with the City for the following five properties to secure Commercial Paper Series 1 and 2: (1) Public Works Corporate Yard; (2) Fire College; (3) Fire Station 1; (4) Public Health Clinic; and (5) the Human Services Agency Central Office. Under the proposed second amendment to the sublease, the City would lease back the same properties from U.S. Bank.

Series 1 and 2 were previously secured by the Police Academy in addition to the five properties listed above. However, since the valuation of $187,000,000 for the five properties is sufficient to secure the $150,000,000 in line of credit from Wells Fargo, the proposed second amendment to the site lease and second amendment to the sublease would remove the Police Academy from the Commercial Paper Program's leased assets.

City Capital Projects Accessing the City's Commercial Paper Program

Under Administrative Code Section 10.62(b), City capital projects that have been approved by the Board of Supervisors will be eligible to access the Commercial Paper Program to provide interim financing. Capital projects that currently have approval to obtain short-term interim financing through the Commercial Paper Program are shown in Exhibit 2 below.

Exhibit 2: Capital Projects with Board Approval to Access Commercial Paper Program

Year Approved	Project	Project Description	Total COP/CP Amount Approved
2013	TIDA Utility Infrastructure System	Utility infrastructure improvements on Treasure Island and Yerba Buena Island	$13,500,000
2016	Housing Trust Fund	Development, acquisition, rehabilitation of affordable housing	95,000,000
2019	HOPE SF	Rebuilding of public housing under the jurisdiction of the San Francisco Housing Authority	83,600,000
2019	Hall of Justice Relocation - Tenant Improvements [a]	Improvement of Hall of Justice facilities and acquisition of adjacent property	58,195,000
2020	DPH Facilities COPs	DPH capital improvement projects, including construction of office facilities to relocate DPH staff from 101 Grove Street and General Hospital Chiller and Cooling Tower Replacement, and acquisition of Homeless Services Center	157,000,000
2021	Police Vehicle Acquisition [b]	Acquisition of 60 vehicles for the Police Department	2,425,000
2021	Critical Repairs & Recovery Stimulus COPs	Multiple projects approved by the Board of Supervisors in the 10-Year Capital Plan including improvements to City facilities and public right-of-way and projects that would stimulate the local economy	67,500,000
2022	Critical Repairs & Recovery Stimulus & Street Repaving COPs	Multiple projects approved by the Board of Supervisors in the 10-Year Capital Plan including improvements to City facilities and public right-of-way and projects designed to help build a more resilient and equitable San Francisco as part of the City's recovery from the COVID-19 pandemic	140,000,000
		Total	**$612,220,000**

Source: Office of Public Finance

[a] The Board of Supervisors authorized the issuance of $62 million in certificates of participation for Hall of Justice Relocation Tenant Improvements in 2019, of which $3,805,000 has been issued to date. The remaining balance ($58,195,000) reflects the amount eligible to access the Commercial Paper Program.

[b] The Board of Supervisors did not authorize the issuance of certificates of participation for the Police vehicle acquisition, only commercial paper. The City intends to pay down the commercial paper from the General Fund over a five-year period once it is issued.

The Controller may draw on commercial paper prior to Board of Supervisors' approval of long-term financing in the event of an emergency declared under Charter Section 3.100. However, this has not occurred to date according to Office of Public Finance staff.

FISCAL IMPACT

The proposed resolution replaces two $75,000,000 revolving lines of credit held by U.S. Bank and State Street Bank with one $150,000,000 revolving line of credit to be held by Wells Fargo. The City would incur one-time estimated General Fund costs of $554,300 for fees related to the new line of credit for the City's bond counsel and municipal advisor, bank counsel, rating agency fees and other related closing costs.

The City would incur estimated ongoing General Fund costs of $921,198 per year to pay fees for the new line of credit, as shown in Exhibit 3 below.

Exhibit 3: Estimated Ongoing Costs for $150 Million New Line of Credit

Cost	Amount
Line of Credit Fee (0.25%)	$408,750
Dealer Fee (0.075%)	112,500
Other Fixed Expenses	
Credit Surveillance Fees [a]	55,500
Issuing and Paying Agent Fee [b]	11,450
Risk Management Property Insurance Premiums [c]	332,998
Subtotal Other Fixed Expenses	399,948
Total	**$921,198**

Source: Office of Public Finance

[a] The credit surveillance fee is for credit agencies to monitor the City's financial condition.

[b] The issuing and paying agent fee is for the coordination and issuance of the commercial paper by U.S. Bank, which is the paying agent.

[c] The risk management property insurance premiums refers to property insurance for the leased assets.

The Commercial Paper Program currently has $34,430,000 in outstanding commercial paper, as shown in Exhibit 4 below. To reduce interest costs to projects, commercial paper is not issued until the City has already paid invoices or billed hours to a project. Most capital projects initially use the commercial paper authority through appropriation release requests[8] sent to the Controller's Office so that project staff can enter into contracts and begin work. Once spending has occurred, project staff submit reimbursement requests to the Office of Public Finance, which results in commercial paper issuance.

[8] Appropriations for debt issuances are typically placed on Controller's Reserve until funding is available.

Exhibit 4: Current Outstanding Commercial Paper

Issuance Date	Maturity Date	Project	Tax Status	Outstanding Principal Amount	Interest Rate
Series 1 & 2 Commercial Paper					
12/20/22	3/2/23	DPH Facilities	Tax Exempt	$8,797,955	2.70%
12/20/22	3/2/23	Critical Repairs/Recovery Stimulus	Tax Exempt	1,669,424	2.70%
12/20/22	3/2/23	Police Vehicle Acquisition	Tax Exempt	2,441,489	2.70%
12/20/22	3/2/23	HOJ Tenant Improvements	Tax Exempt	41,132	2.70%
		Subtotal Series 1 & 2		*$12,950,000*	
Series 3 Commercial Paper					
1/18/23	3/2/23	Housing Trust Fund	Taxable	18,250,620	4.62%
1/18/23	3/2/23	HOPE SF	Taxable	3,229,380	4.62%
		Subtotal Series 3		*$21,480,000*	
			Total	**$34,430,000**	

Source: Office of Public Finance

Commercial paper is paid through the issuance of long-term debt, such as certificates of participation. As mentioned above, the use of commercial paper can reduce overall borrowing costs associated with the issuance of long-term debt because commercial paper interest rates are typically lower than long-term interest rates. For example, the interest rate on outstanding tax-exempt commercial paper is 2.7 percent (as shown above), which is less than the estimated true interest costs of 6.56 percent for long-term general obligation bond issuance approved by the Board of Supervisors in January 2023.

RECOMMENDATION

Approve the proposed resolution.

Item 4 File 23-0011	Department: Human Services Agency

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the second amendment to the grant agreement between the Human Services Agency (HSA) and Meals on Wheels for the Home-Delivered Nutrition Services for Older Adults program, increasing the not-to-exceed amount by $4,173,350, for a total not to exceed $35,653,759.
- The proposed amendment does not modify the term of the agreement; it remains through June 30, 2025.

Key Points

- In March 2021, the Human Services Agency (HSA) issued a Request for Proposals (RFP) for five nutrition service programs, including Home Delivered Nutrition Services for Older Adults. Meals on Wheels was one of seven respondents who met the minimum qualifications. In July 2021, HSA executed a grant agreement with Meals on Wheels for a term of one year, from July 1, 2021 through June 30, 2022, and an amount not to exceed $8,571,790. According to HSA Management, HSA chose to execute a one-year agreement due to uncertainty around the COVID-19 pandemic.
- In March 2022, the Board of Supervisors approved an amendment to this agreement which extended the grant term by three years through June 30, 2025 and increased the not-to-exceed amount by $22,908,619, for a total not to exceed $31,480,409 (File 22-0121). The first amendment to the grant agreement provided that Meals on Wheels would serve approximately 3,200 unduplicated consumers and 1,446,658 meals annually at a cost to HSA of approximately $4.81 per meal.

Fiscal Impact

- The proposed second amendment would increase the not-to-exceed amount of the grant agreement by $4,173,350, for a total not to exceed $35,653,759.
- The proposed amendment reflects an increase in the General Fund's share of support for the agreement — from 69 percent to 72 percent. In addition, it reflects a total reduction in proposed in-kind program support from Meals on Wheels of approximately $1.3 million, reducing the estimated subsidy from $2.00 to $1.81 per meal. The proposed amendment reflects an increase in the average subsidy cost per meal to HSA from $4.81 to $5.29.

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 March 2021, the Human Services Agency (HSA) issued a Request for Proposals (RFP) for five nutrition service programs, including Home Delivered Nutrition Services for Older Adults. HSA received seven proposals for this program and an evaluation panel scored them, as shown in Exhibit 1 below.[1]

Exhibit 1: Proposals and Scores from RFP

Proposer	Average Score
Self-Help for the Elderly	85.7
Meals on Wheels of San Francisco	81.7
Kimochi	81.3
On Lok Day Services	79.7
Jewish Family Children's Services	78.3
Centro Latino	75.0
Russian American Community Services	72.7

Source: HSA

HSA determined that all seven proposers, including Meals on Wheels, met minimum qualifications and awarded them grant agreements.[2] In July 2021, the Department of Disability and Aging Services (DAS) commission approved the grant agreement and HSA executed a grant agreement with Meals on Wheels for a term of one year, from July 1, 2021 through June 30, 2022, and an amount not to exceed $8,571,790. According to HSA Management, HSA chose to execute a one-year agreement due to uncertainty around the COVID-19 pandemic and available funding sources and the need to provide services immediately. The grant agreement did not require Board of Supervisors approval because it did not exceed 10 years or $10 million.

First Amendment

In March 2022, the Board of Supervisors approved an amendment to this agreement which extended the grant term by three years through June 30, 2025 and increased the not-to-exceed

[1] The panel consisted of an Alameda County Senior Nutritionist, a Solano/Contra Costa County Nutrition Consultant, and a retired Ploughshares Fund Director of Operations.

[2] According to Senior Administrative Analyst Lee, nutrition grants were awarded to multiple community-based organizations based on supervisorial district and/or cultural cuisine to ensure needs are covered.

amount by $22,908,619, for a total not to exceed $31,480,409 (File 22-0121). While Meals on Wheels estimated serving approximately 3,600 unduplicated consumers and 1,616,136 meals in Year 1 of the grant agreement, the first amendment to the grant agreement provided that in subsequent years, Meals on Wheels would serve approximately 3,200 unduplicated consumers and 1,446,658 meals annually. According to HSA staff, this reduction in the number of meals and consumers served reflects the anticipated reduction in supplemental funding for nutrition services in future years. According to the first amendment, over the four-year term of the grant agreement, Meals on Wheels would deliver approximately 5,956,110 total meals, at a cost to HSA of approximately $4.81 per meal, including Nutrition Compliance and Quality Assurance[3] (NCQA) costs.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the second amendment to the grant agreement between HSA and Meals on Wheels for the Home-Delivered Nutrition Services for Older Adults program, increasing the not-to-exceed amount by $4,173,350, for a total not to exceed $35,653,759. The proposed amendment does not modify the term of the agreement; it remains through June 30, 2025.

Services Provided

Under the grant agreement, Meals on Wheels delivers meals to older San Francisco residents who are frail and homebound due to illness or disability, or are otherwise isolated, lack a support network, and have no safe, healthy alternative for meals. Special attention is given to individuals who are low income, have limited or no English-speaking proficiency, minority populations, frail, or LGBTQ+. To meet eligibility for services, an individual must meet one of the following criteria: (1) an older adult (60+) living in San Francisco who is homebound due to illness or disability, or is otherwise isolated; (2) a spouse of domestic partner of an older adult enrolled in the program if an assessment by the grantee's social worker or assessment staff concludes that it is in the best interest of the enrolled older adult; or (3) an individual with a disability who resides at home with an enrolled older adult, if an assessment by the grantee's social worker or assessment staff concludes that it is in the best interest of the enrolled older adult.

This proposed agreement provides for Meals on Wheels to deliver 6,001,918 meals over the four years, at a cost to HSA of approximately $5.29 per meal, including NCQA costs, which is an increase of the current City cost per meal of $4.81 noted above. These meals will serve an estimated 3,200 unduplicated consumers in the final three years of the agreement, which is a decrease from 4,000 unduplicated served in FY 2021-22. The proposed increase in the not to

[3] Nutrition Compliance and Quality Assurance (NCQA) are required components of congregate and home-delivered nutrition services that include actions that ensure food safety, certify menu compliance, provide nutrition education, confirm consumer eligibility, nutrition counseling, and assessing consumers' well-being and need for nutrition and other supportive services.

exceed amount funds an increase of approximately 42,204 meals during the grant term and increases the City-subsidy per meal.

The increase in the not-to-exceed amount includes $253,000 in a State grant for the agency to purchase three vehicles and one meal label printer, as well as cost-of-doing-business increases in salaries and operating expenses.

Performance Monitoring

The Department conducted two program monitoring site visits in June 2022 at two site locations. The program monitoring report indicates that the grantee met or exceeded all performance measures.

Consumer Survey Results

Under the grant agreement, Meals on Wheels is required to administer an annual consumer survey by March 15 or a mutually agreed upon time with a sample size of at least 40 percent of unduplicated consumers. The objectives of the survey for 75 percent of consumers to report increased consumption of fruits, vegetables, and/or whole grains, 85 percent of consumers to feel less worried about getting enough food to meet their needs, and 85 percent of consumers to rate the quality of meals they received as excellent or good.

A summary of the FY 2021-22 survey results is provided in Exhibit 2 below.

Exhibit 2: FY 2021-22 Performance Results

Survey Results	Objective	Actual
Unduplicated Clients Served	3,600	4,000
Meals Served	1,576,196	1,585,905
% of unduplicated consumers surveyed	40%	14%
Increased consumption of fruits, vegetables and/or whole grains	75%	91%
Feel less worried about getting enough food to meet their needs	85%	96%
Rate quality of food as excellent or good	85%	86%

Source: HSA

As shown, Meals on Wheels achieved or exceeded three of the four performance objectives specified in the grant agreement. With 485 consumers participating, the actual survey response rate of 14 percent was lower than the objective of 40 percent.

Fiscal and Compliance Monitoring

As part of the Citywide Fiscal and Compliance Monitoring program, Meals on Wheels was assessed in November 2021 with no findings. As a result, Meal on Wheels received a Good Performance Waiver for FY 2021-22. According to Department staff, per City policy, the agency will receive fiscal and compliance monitoring this fiscal year.

Actual 21-22 Spending and Services Delivered

According to Department staff, Meals on Wheels spent $8,438,011 in FY 2021-22, which was $189,744 less than the budgeted amount of $8,627,755.

FISCAL IMPACT

The proposed second amendment would increase the not-to-exceed amount of the grant agreement by $4,173,350, for a total not to exceed $35,653,759. The projected sources and uses of funds over the four-year term of the grant agreement are shown in Exhibit 3 below.

Exhibit 3: Projected Sources and Uses of Funds for Grant Agreement

Sources	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	Total
City General Fund	$6,238,852	$6,059,435	$5,543,916	$5,543,916	$23,386,119
State Funds	485,156	685,203	432,203	432,203	2,034,765
Federal Funds	1,903,747	1,695,959	1,695,959	1,695,959	6,991,624
Subtotal	*$8,627,755*	*$8,440,597*	*$7,672,078*	*$7,672,078*	*$32,412,508*
Contingency (10%)	862,776	844,060	767,208	767,208	3,241,251
Total Sources	**$9,490,531**	**$9,284,657**	**$8,439,286**	**$8,439,286**	**$35,653,759**

Uses	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	Total
Salaries & Benefits	$3,555,728	$3,626,552	$3,365,997	$3,365,997	$13,914,274
Operating Expenses	3,592,660	3,548,403	3,293,439	3,293,439	13,727,941
Capital/Subcontractor Expenses	384,369	253,000			637,369
Nutrition Compliance & Quality Assurance	1,094,998	1,012,642	1,012,642	1,012,642	4,132,924
Subtotal	*$8,627,755*	*$8,440,597*	*$7,672,078*	*$7,672,078*	*$32,412,508*
Contingency (10%)	862,776	844,060	767,208	767,208	3,241,251
Total Uses	**$9,490,531**	**$9,284,657**	**$8,439,286**	**$8,439,286**	**$35,653,759**

Source: Proposed second amendment to grant agreement.

Funding Sources

The grant agreement includes a 10 percent contingency to cover unanticipated expenses. As shown above, the grant agreement is funded approximately 72 percent by the City's General Fund, approximately six percent by State sources, and approximately 22 percent by Federal sources. In addition to HSA's grant, Meals on Wheels anticipates that it will provide approximately $10,777,599 in program funding through fundraising, project income, and in-kind volunteering, which would subsidize costs by approximately $1.81 per meal.

This proposed amendment reflects an increase in the General Fund's share of support for the agreement — from 69 percent to 72 percent. In addition, it reflects a total reduction in proposed in-kind program support from Meals on Wheels of approximately $1.3 million, reducing the estimated subsidy to costs from $2.00 to $1.81. According to Department staff, the economic downturn has resulted in reduced contributions and donations, despite the agency's fundraising efforts. In addition, Meals on Wheels ended FY 2021-22 with an operating deficit due primarily to significant increases in food and fuel prices, as well as permanently maintaining pandemic "hazard pay" as part of hourly employee base rates. According to Department staff, food and fuel costs have continued to rise in FY 2022-23, while nearly all pandemic program funding and donations have ended.

The proposed amendment reflects an increase in the average cost per meal to HSA from $4.81 to $5.29.

RECOMMENDATION

Approve the proposed resolution.

Item 5 File 23-0012	Department: Human Services Agency (HSA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the first amendment to the grant agreement between the City and Project Open Hand for Congregate Nutrition Services for Older Adults. The first amendment would increase the contract not-to-exceed amount by $2,224,772, from $9,557,451 to $11,782,223, with no change to the original four-year contract term, from July 1, 2021 through June 30, 2025.

Key Points

- Congregate nutrition services support individuals to live independently in their own homes and communities, while helping ensure their well-being through improved nutrition and reduced isolation. Congregate meal gatherings also serve as an access point for other services.
- Following a competitive bid process in July 2021, HSA entered into an original grant agreement with Project Open Hand to provide a congregate meal program for older adults (age 60 and above) for a four-year term from July 1, 2021 through June 30, 2025, in an amount not-to-exceed $9,557,451.
- Under the proposed first amendment, the number of meals (including breakfast, lunch, and dinner) served in FY 2022-23 would increase by 32,794 (13 percent) from 251,388 to 284,182. The number of meals served in the remaining years of the contract (FY 2023-24 and FY 2024-25) would increase by 26,847 in each year.

Fiscal Impact

- Approximately 86 percent of the total contract is funded by General Fund sources. The remaining amounts are funded by Federal (8 percent) and State (6 percent) sources. In addition to HSA's grant, Project Open Hand anticipates that it will provide approximately $4,237,419 in program funding through fundraising, project income, and in-kind volunteering.
- The proposed amendment reflects an increase in the City's share of support for the meals — from 60 percent to 72 percent. In addition, it reflects a total reduction in proposed in-kind program support from Project Open Hand of approximately $1.5 million.

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 March 2021, the Human Services Agency (HSA) issued a Request for Proposals (RFP) for seven nutrition service programs, including Congregate Nutrition Services for Older Adults. HSA received nine proposals for this program and an evaluation panel scored them, as shown in Exhibit 1 below.[1]

Exhibit 1. Proposals and Scores from RFP

Organization	Score (out of 100)
Self-Help for the Elderly	80.3
Project Open Hand	**80.0**
On Lok Day Services	78.7
Glide Foundation	77.3
Russian American Community Services	75.3
Episcopal Community Services	74.7
Bayview Senior Services	74.0
Kimochi	71.3
Centro Latino de SF	70.0

Source: HSA

HSA determined that all nine proposers, including Project Open Hand,[2] met minimum qualifications and awarded them grant agreements.

Original Grant Agreement

In July 2021, HSA entered into an original grant agreement with Project Open Hand to provide a congregate meal program for older adults (age 60 and above) for a four-year term from July 1, 2021, through June 30, 2025, in an amount not-to-exceed $9,557,451. The total not-to-exceed grant agreement amount included a base of $8,688,592 and a 10 percent contingency amount of up to $868,859 available in the final year of the contract (July 1, 2024 through June 30, 2025). The original grant agreement did not require approval by the Board of Supervisors because the grant amount was below $10 million and had a term of less than 10 years.

[1] The panel consisted of a City of Berkeley Dietitian, a staff member from SteppingStone Health, and a Solano/Contra Costa County Nutrition Consultant.

[2] Project Open Hand is a nonprofit organization founded in San Francisco in 1985 that supports the nutritional health of sick and elderly people through prepared meals, groceries, nutrition assessments, and other food and nutrition services.

The broader goal of congregate nutrition services is to support individuals to live independently in their own homes and communities, while helping ensure their well-being through improved nutrition and reduced isolation. Congregate meal gatherings also serve as an access point for other services.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the first amendment to the grant agreement between the City and Project Open Hand for Congregate Nutrition Services for Older Adults. The first amendment would increase the contract not-to-exceed amount by $2,224,772, from $9,557,451 to $11,782,223, with no change to the original four-year contract term, from July 1, 2021 through June 30, 2025.

Services

Under the proposed first amendment, Project Open Hand would continue providing congregate nutrition services for older adults. This includes the provision of nutritious meals, nutrition education, and nutrition risk screening. Project Open Hand provides a nutrition education session (in person or remote) at least once per quarter to consumers participating in services, as well as nutrition counseling services to consumers who request it.

Consumers enrolled in the program are eligible to receive free meals and services. Signage is posted at all locations listing a senior voluntary contribution rate of $2.00 per meal and a non-senior guest fee of $6.00 per meal, for all meals. To be eligible for program enrollment, a person must be: (1) age 60 or older; (2) the spouse or domestic partner of an older adult, regardless of age; (3) disabled, under the age of 60 who resides in housing facilities occupied primarily by older adults at which congregate nutrition services are provided; or (4) disabled and reside at home with and accompany an older adult who participates in the program.

Change in Contracted Level of Service

Under the first amendment, the number of meals (including breakfast, lunch, and dinner) served in FY 2022-23 would increase by 32,794 (13 percent) from 251,388 to 284,182, and the number of unduplicated consumers would stay the same at 178 for breakfast and 4,043 for lunch/dinner.[3] The number of meals served in the remaining years of the contract (FY 2023-24 and FY 2024-25) would increase by 26,847 in each year.

Performance Monitoring

HSA program monitoring activities include: (a) site visits to assess compliance with program standards and requirements; and (b) a review of outcome objectives based on an annually administered consumer survey. According to the monitoring report from the most recent site visit in July 2022, Project Open Hand met and exceeded the contractual target numbers for consumer enrollment and meals provided in the congregate nutrition program for older adults. Although Project Open Hand met all five outcome objectives based on survey responses in FY 2021-22, less than five percent of consumers completed the survey. According to the grant

[3] Prior modifications by HSA increased the number of meals served by 27,625 in FY 2021-22 without changes in funding.

agreement, the sample size should be equal to or greater than the average number of daily meals served by the grantee. According to the site monitoring report, Project Open Hand collected survey responses through a mail-in survey due to COVID-19. The site monitoring report recommended that Project Open Hand staff strategize ways to increase the response rate for FY 2022-23.

A summary of the FY 2021-22 survey results is provided in Exhibit 2 below.

Exhibit 2: FY 2021-22 Service and Outcome Performance Results

Objective	Objective	Actual
Unduplicated consumers served	4,590	5,292
Meals served	273,390	301,882
% of unduplicated consumers surveyed	16%*	5%
Clients report increased consumption of fruits, vegetables and/or whole grains	75%	98%
Clients feel less worried about getting enough food to meet their needs	85%	97%
Clients rate quality of food as excellent or good	85%	88%
Clients feel a greater sense of connection to their community	85%	96%
Clients feel safe and welcomed by program staff	85%	100%

Source: Original Grant Agreement, HSA Program Monitoring Reports
* The sample size is supposed to be equal to or greater than the average number of daily meals served by the grantee, which was 827 (16% of 5,292 consumers) based on 301,882 meals served in FY 2021-22.

According to the FY 2021-2022 Program Monitoring report, Project Open Hand exceeded the target contracted units of service for the year, serving 5,292 unduplicated consumers a total of 301,882 meals (includes breakfast, lunch, and dinner).

Fiscal and Compliance Monitoring

Project Open Hand was granted a one-year good performance waiver for FY 2021-22 from citywide fiscal and compliance monitoring. Project Open Hand qualified for the waiver by meeting certain requirements, including that Project Open Hand had no major areas of concern identified by funding departments, and that it had received at least two years of City funding.[4] The waiver program policy requires that contractors receive a site visit the following year.

FISCAL IMPACT

The proposed second amendment would increase the not-to-exceed amount of the grant agreement by $2,224,772, for a total not to exceed $11,782,223. The projected sources and uses of funds over the four-year term of the grant agreement are shown in Exhibit 3 below.

[4] Other good performance waiver requirements for the contractor include: (a) no significant findings from the prior year; (b) no Executive Director and/or CFO turnover within the last year; and (c) no funding from a source that mandates site visits.

Exhibit 3. Summary of Proposed Contract Spending, FY 2021-22 to FY 2024-25

	Year 1 FY 2021-22	Year 2 FY 2022-23	Year 3 FY 2023-24	Year 4 FY 2024-25	Total
Sources					
General Fund	$2,839,390	$2,171,298	$2,171,298	$2,171,298	$9,353,284
Cost of Doing Business Allocation (General Fund)		88,071	88,071	88,071	264,213
Additional State and City Funding[5]		458,377	256,659	256,659	971,695
NCQA Fund[6]	30,480	30,480	30,480	30,480	121,920
Total Sources	**$2,869,870**	**$2,748,226**	**$2,546,508**	**$2,546,508**	**$10,711,112**
Expenditures					
Salaries & Benefits	$1,570,388	$1,678,010	$1,665,026	$1,665,025	$6,578,449
Operating Expenses[7]	$863,328	$712,052	$622,272	$622,272	$2,819,924
Indirect Cost (10%)	$243,374	$239,007	$228,730	$228,731	$939,842
Subtotal	*$2,677,090*	*$2,629,069*	*$2,516,028*	*$2,516,028*	*$10,338,215*
Capital & Subcontractor[8]	$18,400	$88,678			$107,078
One Time Only Expenses[9]	$143,900				$143,900
NCQA Expenditures[10]	$30,480	$30,480	$30,480	$30,480	$121,920
Total Expenditures	**$2,869,870**	**$2,748,227**	**$2,546,508**	**$2,546,508**	**$10,711,112**
Contingency (10%)					$1,071,111
Total Not-To-Exceed					**$11,782,223**

Source: Proposed First Amendment to the Grant Agreement Appendix B-2 and Appendix B-3

As shown in Exhibit 3 above, salaries and benefits comprise the majority (61 percent, or $6.6 million) of total contract expenses. Operating expenses, which include the cost of food, are 26 percent (or $2.8 million). The proposed new contract total not-to-exceed amount of $11,782,223 includes a 10 percent contingency amount of $1,071,111.

In addition to HSA's grant, Project Open Hand anticipates that it will provide approximately $4,237,419 in program funding through fundraising, project income, and in-kind volunteering, which would subsidize costs by approximately $3.77 per meal.

5 Includes one-time state funding of $201,718 in FY 2022-23 and on-going add-back funding from the Mayor's Office.
6 DAS funding for NCQA required activities.
7 Operating expenses include property rental, building maintenance, utilities, materials and supplies, and other costs.
8 Capital & Subcontractor Detail includes kitchen equipment.
9 One Time Only Expenses are for a Bilingual Linkage Coordinator, Software/IT, and DEI Training.
10 National Committee for Quality Assurance (NCQA) is a health plan accreditation organization. NCQA Expenditures include the cost of menu planning and nutrition analysis, nutrition education, and kitchen and food service monitoring necessary to meet NCQA standards.

Funding Sources

Approximately 86 percent of the total contract is funded by General Fund sources. The remaining amounts are funded by Federal (8 percent) and State (6 percent) sources.

The proposed amendment reflects an increase in the City's share of support for the meals — from 60 percent to 72 percent. In addition, it reflects a total reduction in proposed in-kind program support from Project Open Hand of approximately $1.5 million, reducing the estimated subsidy from $5.71 to $3.77 per meal.[11] The proposed amendment also reflects an increase in the average cost per meal (including breakfast and lunch/dinner) to HSA from $8.69 to $9.53. The cost per meal is increasing by nine percent for breakfast ($5.94 to $6.44), and nine percent for lunch/dinner ($9.31 to $10.18).

Actual Spending

According to HSA, actual expenditures through December 31, 2022 totaled $3,734,456.

RECOMMENDATION

Approve the proposed resolution.

[11] According to HSA, Project Open Hand's fundraising efforts have resulted in lowered than anticipated revenues.

Item 6 File 23-0013	Department: Human Services Agency (HSA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would retroactively approve the first amendment to the grant agreement between the Human Services Agency and the San Francisco-Marin Food Bank to provide free supplemental groceries to residents citywide, increasing the amount by $4,930,828 for a total not to exceed amount of $11,228,328 and extending the term by five months from February 1, 2023 through June 30, 2023.

Key Points

- On June 9, 2022, the Human Services Agency (HSA) issued a new Request for Proposals (RFP) for a contract to provide free supplemental groceries to residents citywide with a focus on high-need neighborhoods. The San Francisco-Marin Food Bank, a nonprofit organization, was the only vendor who submitted a proposal. On July 28, 2022, the Human Services Commission determined that the vendor met solicitation requirements and retroactively approved a grant agreement with the San Francisco-Marin Food Bank in the amount of $6,297,500 for the period of July 1, 2022, through January 31, 2023.
- The San Francisco-Marin Food Bank will continue to provide free supplemental groceries to residents citywide with a focus on serving food-insecure adults, children, and other community members in high-need neighborhoods. According to the most recent monthly service program report (November 2022), the San Francisco-Marin Food Bank has met service objectives, distributing an average of 73,043 grocery units per month from July through November 2022 and serving an average of 59,335 unduplicated participants per month from July through November 2022.

Fiscal Impact

- The contract is entirely funded by the City's General Fund. Approximately 24.2 percent of the budget for the proposed amendment will be used to fund 18.22 full time equivalent (FTE) employees and 58.7 percent will be used towards operating expenses, including food purchases and transportation costs.

Policy Consideration

- The San Francisco-Marin Food Bank has exceeded service objectives and has spent 96.8 percent of the existing not-to-exceed amount as of November 2022 with 28.6 percent of the original term remaining. If the San Francisco-Marin Food Bank continues to provide groceries at this rate under the proposed amended grant agreement, the agreement spending authority would be exhausted by April.

Recommendations

- Amend the proposed resolution to clarify that approval is retroactive and that the extended contract term begins on February 1, 2023, and 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

On June 9, 2022, the Human Services Agency (HSA) issued a new Request for Proposals (RFP) for a contract to provide free supplemental groceries to residents citywide with a focus on high-need neighborhoods. The San Francisco-Marin Food Bank, a nonprofit organization, was the only vendor who submitted a proposal. A selection panel[1] evaluated the proposal based on program approach, organizational capacity, and fiscal capacity. The San Francisco-Marin Food Bank received a score of 93.7 out of 100. On July 28, 2022, the Human Services Commission determined that the vendor met solicitation requirements and retroactively approved a grant agreement with the San Francisco-Marin Food Bank in the amount of $6,297,500 for the period of July 1, 2022, through January 31, 2023. The contract did not require Board of Supervisors' approval because it was less than $10 million and had a term of less than 10 years.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would retroactively approve the first amendment to the grant agreement between the Human Services Agency and the San Francisco-Marin Food Bank to provide free supplemental groceries to residents citywide, increasing the amount by $4,930,828 for a total not to exceed amount of $11,228,328 and extending the term by five months from February 1, 2023 through June 30, 2023. The RFP states that the City has the option to extend the term up to three additional years, depending on funding availability and need. The proposed resolution should be amended for retroactive approval and state that the contract term begins on February 1, 2023.

Services

Under the proposed first amendment, the San Francisco-Marin Food Bank will continue to provide free supplemental groceries to residents citywide with a focus on serving food-insecure adults, children, and other community members in high-need neighborhoods.[2] The grantee is responsible for procuring all food and packaging and administering and managing grocery distribution across 20-plus "pop-up pantry" sites, as well as screening and enrolling all clients into the program. Grocery bags distributed to residents include 18 to 28 pounds of food for at least seven meals and feature a variety of fresh and seasonal produce, protein, and grains. Under the

[1] Selection panelists include the following staff: Program Support Analyst at the Department of Homelessness and Supportive Housing, Senior Workforce Development Specialist II at the Office of Economic and Workforce Development, and Senior Health Program Planner at Department of Public Health.

[2] High-need neighborhoods are defined as the following zip codes in the agreement: 94102, 94103, 94112, 94124, 94134, 94109, 94110, 94133, 94115, 94122.

contract, the grantee is required to meet the following service objectives: (1) provide a minimum of 40,000 grocery units per month; and (2) have a minimum of 10,000 enrolled unduplicated participants actively utilizing the program per month.

Fiscal & Performance Monitoring

According to the most recent monthly service program report (November 2022), the San Francisco-Marin Food Bank has met service objectives, distributing an average of 73,043 grocery units per month from July through November 2022 and serving an average of 59,335 unduplicated participants per month from July through November 2022. In addition, as part of the contract, the vendor is required to conduct a survey and report on the following outcome objectives: (1) at least 90 percent of participants who use the program will report that they had a dignified experience; (2) at least 85 percent of the participants who use the program will report that they are satisfied with the selection and quality of food items at the program; (3) at least 85 percent of the participants who use the program will report that the food they received were culturally appropriate; and (4) at least 85 percent of participants who use the program will report that access to the program has decreased their food insecurity. According to HSA, the vendor will complete this survey and report on measures within 15 days following the end of the fiscal year.

A summary of service and outcome objectives from the agreement are provided in Exhibit 1 below.

Exhibit 1: FY 2022-23 Service and Outcome Performance Results, As of February 2023

Survey Results	Objective	Actual
Grocery units provided per month	40,000	73,043
Unduplicated participants per month	10,000	59,335
Participants report they had a dignified experience	90%	*pending*
Participants report they are satisfied with the selection and quality of food items	85%	*pending*
Participants report that the food they received was culturally appropriate	85%	*pending*
Participants report decreased food insecurity from access to program	85%	*pending*

Source: HSA

Fiscal and Compliance Monitoring

As part of the Citywide Fiscal and Compliance Monitoring program, San Francisco-Marin Food Bank was assessed in FY 2020-21 with no findings. As a result, the contractor received a Good Performance Waiver[3] for FY 2021-22. According to Department staff, per City policy, the agency will receive fiscal and compliance monitoring this fiscal year.

[3] To qualify for a one-year waiver the contractor must have: (a) no significant findings from the prior year; (b) no major areas of concern identified by funding departments; (c) no executive Director and/or CFO turnover within the last year; (d) at least two years of City funding; and (e) no funding from a source that mandates site visits.

FISCAL IMPACT

The proposed resolution would increase the not-to-exceed amount of the grant agreement by $4,930,828, for a total not to exceed $11,228,328. The projected sources and uses of funds over the proposed one-year term of the grant agreement are shown in Exhibit 2 below.

Exhibit 2: Projected Sources and Uses of Funds for Grant Agreement

	Original 7/1/22 - 1/31/23	Proposed Increase 2/1/23 - 6/30/23	Total Proposed 7/1/22 - 6/30/23
Sources			
General Fund	$5,725,000	$4,090,000	$9,815,000
Cost of Doing Business (General Fund)		392,571*	392,571
Total Sources	**$5,725,000**	**$4,482,571**	**$10,207,571**
Expenditures			
Salaries & Benefits	1,519,355	1,085,445	2,604,800
Operating Expenses	3,685,191	2,632,737	6,317,928
Indirect Costs (10%)	520,454	371,818	892,272
Cost of Doing Business		392,571*	392,571
Total Expenses	**$5,725,000**	**$4,482,571**	**$10,207,571**
Contingency (10%)	572,500	448,257	1,020,757
Total Not-to-Exceed	**$6,297,500**	**$4,930,828**	**$11,228,328**

Sources: HSA and Appendix B of Contract Amendment
*CODB amount added to grant in November

Approximately $1.1 million (24.2 percent) of the budget for the proposed amendment will be used to fund 18.22 full time equivalent (FTE) employees, $2,632,737 (58.7 percent) will be used towards operating expenses, including food purchases,[4] food storage and distribution, food transportation costs, program supplies, contracted labor for pop-up pantry support,[5] utilities, office supplies and other costs, and $371,818 is for indirect costs, which is 10 percent of salary and benefit costs and operating expenses. The number of FTE employees (18.22) remains unchanged from the original budget.

Funding Source

The contract is entirely funded by the City's General Fund. A 10 percent contingency is included to account for expansion of the existing program. According to HSA staff, the contingency amount would only be disbursed if authorized by the City and if funding is identified and certified as available by the Controller's Office. The contract includes a Cost of Doing Business (CODB) percentage of four percent. This is the citywide CODB percentage for FY 2022-23 as approved by

[4] 602,571 bags at $6.33/bag
[5] According to HSA staff, the food bank generally relies heavily on volunteers to provide labor for the pop-up pantries. However, as many volunteers have now returned to full-time work and volunteers sometimes cancel at the last minute, the food bank hires contracted labor to fill these gaps.

the Board of Supervisors. HSA staff states that the CODB was added to the contract in November 2022.[6]

Actual Spending

According to HSA, actual expenditures through November 2022 totaled $6,094,351, or approximately 96.8 percent of the existing not-to-exceed amount, with two months (28.6 percent of the original term) remaining. The grantee will bill the remaining amount for December and will not invoice for January because the original grant amount will have been fully expended according to HSA.

POLICY CONSIDERATION

As discussed above, the San Francisco-Marin Food Bank has exceeded service objectives and has spent 96.8 percent of the existing not-to-exceed amount as of November 2022 with 28.6 percent of the original term remaining. If the San Francisco-Marin Food Bank continues to provide groceries at this rate under the proposed amended grant agreement, the agreement spending authority would be exhausted by April. Amendments to the agreement that exceed $500,000 would require Board of Supervisors' approval.

RECOMMENDATIONS

1. Amend the proposed resolution to clarify that approval is retroactive and that the extended contract term begins on February 1, 2023, not January 31, 2023.
2. Approve the proposed resolution as amended.

[6] According to HSA staff, this is because CODB guidelines from the Controller's Office were not finalized until August 2022. CODB letters with specific amounts were emailed to grantees in late October.

Item 7 **File 23-0014**	**Department:** Human Services Agency (HSA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a second amendment to the grant agreement with Self-Help for the Elderly, increasing the not to exceed amount by $1,216,203, from $10,665,010 to $11,881,213. There is no change to the grant's term.

Key Points

- Self-Help for the Elderly, a non-profit, was one of nine congregate meal providers that were awarded grant agreements in 2021 following a competitive solicitation. Self-Help for the Elderly was awarded a contract for $9,514,190 with a four-year term from July 1, 2021, through June 30, 2025. The original agreement did not require Board of Supervisors approval because it was less than 10 years and less than $10 million. In June 2022 the Board of Supervisors approved the first amendment to the agreement, increasing the not-to-exceed amount to $10,665,010 (File 22-0444) and increasing the number of budgeted meals from 1,104,502 to 1,156,792 meals over the four-year term.
- The proposed second amendment will increase funding to cover the costs of providing 85,703 additional meals over the grant term. The number of unduplicated clients to be served each year in FY 2022-23 through FY 2024-25 remains 5,500.
- The Department conducted program monitoring site visits in July 2022. The FY 2021-22 program monitoring report indicates that the grantee met or exceeded all performance measures.

Fiscal Impact

- The average cost per meal during the entire term of the grant agreement is $12.36; City funding provides $8.69 per meal. City funding is paid for by 82% in General Fund monies and 18% in federal funds.
- In addition to HSA's grant, Self-Help for the Elderly anticipates that it will provide approximately $4,557,289 in program funding through fundraising, project income, and in-kind volunteering, which would subsidize costs by approximately $3.67 per meal.

Policy Consideration

- According to the FY 2021-22 program monitoring report, Self-Help provided 407,905 meals in FY 2021-22. The proposed amendment's budget provides for 288,658 meals in FY 2022-23 and 276,192 meals in both FY 2023-24 and FY 2024-25. According to Department staff, the decrease in meals is due to funding availability, not a decrease in projected need.

Recommendation

- Approved 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

The Congregate Nutrition Services for Older Adults is a program established under the auspice of the Human Service Agency that provides free and low-cost meals to seniors in an effort to reduce hunger and improve nutrition amongst San Francisco's elderly residents. In March of 2021 the Human Service Agency issued a Request for Proposals (RFP) to Identify vendors for five programs: (1) Congregate Nutrition Services for Older Adults and Adults with Disabilities, (2) Home Delivered Nutrition Services for Older Adults and Adults with Disabilities, (3) Emergency Home-Delivered Nutrition Services, (4) Home-Delivered Meals Initial and Annual Assessments for Adults with Disabilities, and (5) Home Delivered Groceries – Supplement to Congregate Nutrition Services and Home-Delivered Nutrition Services.

The Department received nine responses to the RFP, which were scored by an evaluation panel as shown below in Exhibit 1.[1] HSA determined that all nine proposers, including Self-Help for the Elderly,[2] met minimum qualifications and awarded them grant agreements. Self-Help for the Elderly was awarded a contract for $9,514,190 with a four-year term from July 1, 2021, through June 30, 2025. The original agreement did not require Board of Supervisors approval because it was less than 10 years and less than $10 million.

Exhibit 1: RFP Results for Congregate Nutrition Services

Proposer	Score
Self-Help for the Elderly	80.3
Project Open Hand	80.0
On Lok Day Services	78.7
Glide Foundation	77.3
Russian American Community Services	75.3
Episcopal Community Services	74.7
Bayview Senior Services	74.0
Kimochi	71.3
Centro Latino de SF	70.0

Source: HSA

[1] The panel consisted of a dietician from the City of Berkeley, an executive director of a non-profit that serves older adults, and a nutrition consultant that works in Solano and Contra Costa Counties.
[2] Self-Help for the Elderly is a nonprofit organization founded in San Francisco in 1966. The organization provides services to older adults and operates in San Francisco, San Mateo, Santa Clara Alameda, and Contra Costa counties.

First Amendment

Due to increases in the number of meals being served, in June 2022 the Board of Supervisors approved the first amendment to the agreement, increasing the not-to-exceed amount to $10,665,010 (File 22-0444). The original grant agreement was budgeted to provide 1,104,502 meals. The first amendment increased the number of meals provided to 1,156,792 meals, or 52,290 more meals over the four-year term, including congregate and pick-up meals. The increase reflected the fact that meal demand in FY 2021-22 was elevated by the pandemic and the ability to complement one-time state and federal funding sources to provide additional pandemic-related nutritional support.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a second amendment to the grant agreement with Self-Help for the Elderly, increasing the not to exceed amount by $1,216,203, from $10,665,010 to $11,881,213. There is no change to the grant's term.

Services Provided

Self-Help has been contracted to provide congregate meals and other nutrition services to elderly residents of the City and County of San Francisco. The congregate nutrition services program includes nine sites and is intended to support individual's ability to live independently, ensure health and well-being through improved nutrition, to reduce isolation, and serve as an access point for other services.

In addition to providing older adults with direct meal services, Self-Help is required to provide nutrition education and conduct nutrition risk screenings. Special attention is given to individuals who are low income, with limited or no English-speaking proficiency, minority populations, frail, or LGBTQ+. To qualify for services, an individual must meet one of the following criteria: (1) A person who is 60 years of age or older (older adult); (2) The spouse or domestic partner of an older adult, regardless of age; (3) A person with a disability, under the age of 60 who resides in housing facilities occupied primarily by older adults at which congregate nutrition services are provided; or (4) A disabled individual who resides at home with and accompanies an older adult who participates in the program.

Change In Contracted Level of Service

Under the previously approved grant agreement, Self-Help was contracted to provide 1,156,792 meals during the four-year grant term through FY 2024-25. The proposed second amendment increases the total meals to be provided to 1,242,495 or 85,703 more meals. The number of unduplicated clients to be served each year in FY 2022-23 through FY 2024-25 remains 5,500.

Performance Monitoring

The Department conducted program monitoring site visits in July 2022. The FY 2021-22 program monitoring report indicates that the grantee met or exceeded all performance measures.

Consumer Survey Results

Under the grant agreement, Self-Help for the Elderly is required to administer an annual consumer survey by March 15 or a mutually agreed upon time with a sample size of at least 40 percent of unduplicated consumers. The objectives of the survey for 75 percent of consumers to report increased consumption of fruits, vegetables, and/or whole grains, 85 percent of consumers to feel less worried about getting enough food to meet their needs, and 85 percent of consumers to rate the quality of meals they received as excellent or good.

A summary of the FY 2021-22 survey results is provided in Exhibit 2 below.

Exhibit 2: FY 2021-22 Performance Results

Survey Results	Objective	Actual
Unduplicated Clients Served	6,250	7,027
Meals Served	401,453	407,905
Target consumer survey sample size equal to or greater than the average number of daily meals served by the grantee.	1,557	1,409
Increased consumption of fruits, vegetables and/or whole grains	75%	99%
Feel less worried about getting enough food to meet their needs	85%	98%
Rate quality of food as excellent or good	85%	93%
Feel a greater sense of connection to their community	85%	99%
Feel safe and welcomed by staff	85%	99.8%

Source: HSA

As shown, Self Help for the Elderly achieved or exceeded three of the four performance objectives specified in the grant agreement. With 1,409 consumers participating, the actual target number of responses was 1,557, which is approximately 10% less than the target.

Fiscal and Compliance Monitoring

As part of the Citywide Fiscal and Compliance Monitoring program, Self-Help for the Elderly was assessed for FY 2020-21 with no findings and therefore received a waiver from such monitoring in FY 2021-22. According to Department staff, the organization will receive fiscal and compliance monitoring this fiscal year.

FISCAL IMPACT

The projected uses of funds over the four-year term of the grant agreement are shown in Exhibit 3 below.

Exhibit 3: Projected Uses of Funds for Grant Agreement

Uses	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	Total
Salaries & Benefits	866,855	737,376	701,669	701,669	3,007,569
Operating Expenses	2,115,277	1,533,589	1,471,264	1,471,264	6,591,394
Indirect Cost	299,786	227,096	217,293	217,293	961,468
Capital/Subcontractor Expenditures	139,700	11,600			151,300
NCQA Expenditures[3]	22,343	22,343	22,343	22,343	89,372
Subtotal, Expenditures	**3,443,961**	**2,532,004**	**2,412,569**	**2,412,569**	**10,801,103**
Contingency (10%)					1,080,110
Not to Exceed					11,881,213

Source: Appendix B-2 of Proposed Second Amendment

The average cost per meal during the entire term of the grant agreement is $12.36; City funding provides $8.69 per meal. Annual costs are declining due to a decrease in the annual number of meals served (see Policy Consideration section below). According to Department staff, actual spending to date is $4,770,387.

Funding Sources

The grant agreement includes a 10 percent contingency to cover unanticipated expenses. Expenditures are paid for by 82% in General Fund monies and 18% in federal funds.

In addition to HSA's grant, Self-Help for the Elderly anticipates that it will provide approximately $4,557,289 in program funding through fundraising, project income, and in-kind volunteering, which would subsidize costs by approximately $3.67 per meal. This is an increase from the existing agreement, which provides for $4,385,390 of Self-Help fundraising and volunteering.

POLICY CONSIDERATION

According to the FY 2021-22 program monitoring report, Self-Help provided 407,905 meals in FY 2021-22. The proposed amendment's budget provides for 288,658 meals in FY 2022-23 and 276,192 meals in both FY 2023-24 and FY 2024-25. According to Department staff, the decrease in meals is due to funding availability, not a decrease in projected need.

RECOMMENDATION

Approve the proposed resolution.

[3] Nutrition Compliance and Quality Assurance (NCQA) are required components of congregate and home-delivered nutrition services that include actions that ensure food safety, certify menu compliance, provide nutrition education, confirm consumer eligibility, nutrition counseling, and assessing consumers' well-being and need for nutrition and other supportive services.

Item 8 **File 23-0015**	**Department:** Human Services Agency

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves the second amendment to the grant agreement between the City and County of San Francisco and Glide Foundation for administration of the Free Meals program, increasing the agreement by $4,187,149 from $7,868,234 to $12,055,383 with no change to the grant period of July 1, 2021 through June 30, 2025.

Key Points

- The purpose of the Free Meals program is to provide three nutritious meals a day in a safe environment for individuals who do not have access to healthy food. Services are provided at 330 Ellis Street, targeting clients who live in the Tenderloin and South of Market neighborhoods, but it is open to any individual who lives in San Francisco.
- The second modification increases the number of meals served to 439,887 annually from FY 2022-23 through FY 2024-25. In FY 2021-22 Glide provided 540,539 meals.
- According to the FY 2021-22 monitoring reports, Glide met or exceeded each of the objectives in the agreement and had no findings in their fiscal and compliance monitoring.

Fiscal Impact

- The proposed amendment reflects an increase in the average cost subsidy per meal covered by HSA from $4.04 under the existing agreement to $6.16 under the proposed second amendment.
- City funding is from General Fund revenue. Glide will provide $7,733,031 in program funding through cash contributions, in-kind donations, and federal assistance.
- The increase in City funding is driven by expenses that were previously covered by private fundraising, increases in the cost of food and non-food supplies, and a Cost of Doing Business (CODB) increase of 4 percent.

Policy Consideration

- If Glide continues to serve meals at the FY 2021-22 rate, the contract spending authority would be exhausted in the first quarter of final year of the agreement.
- Glide is “delinquent” in registering as a non-profit with the State and therefore may not operate as a non-profit or solicit donations. Glide submitted their renewal for FY 2020-21 on December 29, 2022. It can take up to 90 days for the State’s registry to update.

Recommendations

- Amend the proposed resolution to request that HSA provide a written report confirming that Glide Foundation’s registration with the State is in good standing by March 30, 2023 and submit the report to the legislative file.
- Approval of the proposed resolution is a policy matter.

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

Free Meals Program Procurement

In January 2021, the Human Services Agency (HSA) and the Department of Disability and Aging Services (DAS) released a competitive Request for Proposals (RFP) #907 seeking proposals from nonprofit organizations interested in providing the Free Meals program, which provides three free meals a day, seven days a week. The program targets services to low-income individuals in the Tenderloin and South of Market neighborhoods; however, the meals are open to every resident of the City. The proposed term in the RFP was four years from July 1, 2021, to June 30, 2025.

HSA received one response to their RFP from the Glide Foundation (Glide). Glide's proposal was evaluated by a panel of three readers and scored an average of 92 out of a total 100 points.[1] Out of the 100 points, the proposal was evaluated based on program approach, receiving an average of 40 points out of a maximum 45 points; organizational capacity, receiving an average of 28 points out of a maximum 30 points; and, fiscal capacity, receiving an average of 24 points out of a maximum 25 points.

Grant Agreement Terms and Amendments

HSA entered into an agreement with Glide Foundation effective July 1, 2021, through June 30, 2025, to provide the free meals program for a not to exceed amount of $7,076,776. The agreement was amended in May 2022, to increase the not to exceed amount by $791,458 from $7,076,776 to $7,868,234. Neither the initial agreement nor the amendment met the Board of Supervisor's $10 million threshold for review and approval, so it did not previously come before the Board. The grant was previously administered by DAS, but it is now administered by HSA's Citywide Food Access Team.

The original agreement conformed to the RFP for the free meals program. The RFP also stated that the recipient would provide an additional snack meal program through CAAP-CalFresh, which would provide snacks to the CAAP-CalFresh clients scheduled to work during organized shifts. HSA reports that this was also awarded to Glide Foundation but as a separate grant.

[1] Panelists included: a Wellness Program Manager, a Chief Operating Officer & Housing Director, and a Chief Program Officer.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves the second amendment to the grant agreement between the City and the non-profit Glide Foundation for administration of the Free Meals program, and increases the grant agreement amount by $4,187,149 from $7,868,234 to $12,055,383 with no change to the grant period of July 1, 2021 through June 30, 2025.

Program Requirements

The purpose of the Free Meals program is to provide three nutritious meals a day in a safe environment for individuals who do not have access to healthy food. The goals of the program are to reduce hunger, food insecurity, and improve nutrition for individuals who are at-risk. Services are provided at 330 Ellis Street and target clients who live in the Tenderloin and South of Market neighborhoods, but it is open to any individual who lives in San Francisco.

Glide's obligations in their grant agreement include, but are not limited to:

- Preparing and serving breakfast, lunch, and dinner to clients seven days a week at a location accessible to clients living in the Tenderloin and South of Market neighborhoods.
- Ensuring that the three meals provided collectively meet 100 percent of the daily Dietary Recommended Intake for major nutrients and comply with national Dietary Guidelines for Americans.
- Ensuring that the meal site is a focal point where clients have access to information, resources, and referral services.
- Ensuring a registered dietician provides analysis of the nutrient components of the planned menus, quarterly trainings for nutrition program staff, and conducts and documents on-site kitchen safety and sanitation monitoring.

Change in Contracted Level of Service

The second amendment to the grant agreement revises the service objectives, increasing the number of meals provided annually from the originally budgeted 390,000 in the original agreement to 439,887 meals annually in FY 2022-23 through FY 2024-25. The number of meals provided in FY 2021-22 has previously been revised from 390,000 to 409,450.

Performance Monitoring

The second amendment revises the outcome objectives to include a fifth objective that requires all relevant staff obtain and maintain food handler certifications. Exhibit 1 below summarizes the service and outcome objectives as well as the performance of Glide on these measures based on their FY 2021-22 performance monitoring conducted by DAS. According to the monitoring report, Glide met or exceeded each of the objectives in the agreement. The report noted that there were only 52 respondents who provided consumer feedback, likely a small percentage of total consumers based on the 514,754 meals provided as of May 2022. DAS recommended Glide staff strategize about ways to increase the response rate for the next fiscal year. DAS also found that Glide was deficient in meeting nutrition compliance and quality assurance (NCQA) requirements in FY 2021-22 due to staffing changes with the contractor used to provide nutrition support. DAS requested and received a corrective action plan from Glide to address these deficiencies.

Exhibit 1: Glide Foundation Free Meals Program Service & Outcome Objective Performance

Objective	Target	FY 2021-22 Performance
Service Objective		
Meals served	409,450	514,754*
Outcome Objectives		
1. Clients report increased consumption of fruits, vegetables, and/or whole grains	75%	98%
2. Clients feel less worried about getting enough food to meet their needs	85%	98%
3. Clients rate the quality of meals received as excellent or good	85%	100%
4. Clients feel safe and welcomed by program staff	85%	98%
5. Relevant staff obtain and maintain their ServSafe Food Handler certification	100%	N/A (New objective)

Source: FY 2021-22 DAS Nutrition Program Monitoring Report
*514,754 meals were provided as of May 2022 when the performance monitoring report was conducted, but HSA reports that Glide provided 540,539 meals for the full 2021-2022 fiscal year.

Fiscal and Compliance Monitoring

The Department on the Status of Women conducted FY 2021-22 fiscal and compliance monitoring for Glide, including the Free Meals program agreement. As of April 2022, their review of Glide's fiscal documents, including the most recent audited financial statements and financial reports, resulted in no findings, and they reported that Glide conforms with all governance best practices.

As of February 1, 2023, Glide Foundation is reported as "Delinquent" in submitting their charity renewal form on the State Attorney General's Charity Registration Search tool. Their renewal expired November 15, 2021. According to the California Attorney General's website, "Delinquent Status" is assigned "to charity registrants that are out of compliance and may not operate or solicit until required annual reporting and/or fees are submitted to the Registry. Required annual filings include a renewal report (Form RRF-1), a complete, unredacted copy of IRS Form 990, including all schedules as-submitted to the IRS, a renewal fee determined by gross annual revenue, and other documentation as required or requested by the Registry."

HSA staff report that Glide submitted their FY 2020-21 renewal form as of December 29, 2022, and it was received on December 30, 2022. Glide has been told it can take 30 to 90 days for Glide's status to be updated online; 90 days from receipt is March 30, 2023. According to a February 2023 Controller's Office policy, "Policy and Procedures regarding City Nonprofit Supplier Compliance with California Attorney General Registry of Charitable Trusts," existing non-profit suppliers must remedy noncompliance status by June 30, 2023. HSA staff report that the FY 2021-22 filing is not due until May 15, 2023.

If approved, the Budget and Legislative Analyst recommends amending the proposed resolution to request that HSA provide a written report confirming that Glide Foundation's registration with the State is in good standing by March 30, 2023 and submit the report to the legislative file.

FISCAL IMPACT

HSA is requesting an additional $4,187,149 in funding for Glide to provide the Free Meals program, increasing the not-to-exceed amount of the grant agreement from $7,868,234 to $12,055,383. The grant agreement includes a 10 percent contingency to cover unanticipated expenses. The projected sources and uses of funds over the four-year term of the grant agreement are shown in Exhibit 2 below.

Exhibit 2: Projected Sources and Uses of Funds for Proposed Grant Agreement

	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	Total
HSA Funding					
General Funds	$1,767,297	$3,026,695	$3,026,695	$3,026,695	$10,847,381
One time only HSA General Funds	112,057				112,057
Total HSA Revenues	**$1,879,354**	**$3,026,695**	**$3,026,695**	**$3,026,695**	**$10,959,439**
Expenditures					
Salaries & Benefits	780,583	1,251,229	1,251,229	1,251,229	4,534,271
Operating Expenses	756,197	1,380,679	1,380,679	1,380,679	4,898,234
Indirect Cost Rate (15%)	230,517	394,786	394,786	394,786	1,414,876
One Time Only Expenses	112,057				112,057
Total Expenditures	**$1,879,354**	**$3,026,695**	**$3,026,695**	**$3,026,695**	**$10,959,439**
Contingency (10%)					1,095,944
Not to Exceed Amount					**$12,055,383**

Source: Appendix B-3 of the Original Grant Agreement, First Amendment, and Proposed Second Amendment
Note: Differences are due to rounding

The total cost for each meal is $10.51; City funding would subsidize costs by approximately $6.16 per meal.

Funding Sources

All funding from HSA is from General Fund revenue. In addition to HSA's grant, Glide anticipates that it will provide approximately $7,733,031 in program funding through cash contributions, in-kind donations, and $10,000 in federal assistance funding.

Increase in City Funding

Across the four-year period covered by the grant agreement with Glide, the total City funding from HSA (excluding the contingency amount) increases by $3,806,499 from what was budgeted in the first amendment. This is primarily driven by: (1) expenses that were previously covered by private fundraising, including salaries and benefits as well as operating expenses, such as staff training and travel, security program uniforms and supplies, and additional garbage and recycling costs; (2) increases in the cost of food and non-food supplies (to-go meal containers, cleaning and kitchen supplies) – the cost per meal for raw food and congregate food service supplies increases in this amendment from $0.94 per meal to $2.67 per meal; and (3) an increase from the 4 percent Cost of Doing Business allocation.

Funding Source Changes

The overall share of program costs that are covered by the City's General Fund is increasing to 58.6 percent under the proposed amendment from 54.3 percent under the previous budget. The share of program costs covered by private fundraising is decreasing to 41.4 percent from 45.7 percent. The proposed amendment also reflects an increase in the average cost subsidy per meal covered by HSA from $4.04 under the existing agreement to $6.16 under the proposed second amendment.

Program Actuals vs. Budgeted

HSA reports that in FY 2021-22, the total HSA spending on the Free Meals program was $2,079,625, which is $5,659 less than the $2,085,284 budgeted for FY 2021-22. In years, FY 2022-23 through FY 2024-25, HSA is budgeting $3,026,695 in annual costs for the Free Meals program. This is an increase of $941,411 (46 percent) compared to actual spending in FY 2021-22.

POLICY CONSIDERATION

Modification 1 to the existing agreement included 409,450 meals served in FY 2021-22, however, according to HSA, 540,539 meals were actually served. If Glide continues to serve meals at this rate, it would serve 2,162,156 meals over four years, which exceeds the 1,777,927 meals that is included in the proposed amendment. Based on this projection, the contract spending authority would be exhausted in the first quarter of final year of the agreement. Amendments to the contract that exceed $500,000 would require Board of Supervisors approval.

Delinquent Status

As noted above, The Controller's new policy allows non-profit suppliers to be paid until June 30, 2023 if they have delinquent status. Glide Foundation is "delinquent" in registering as non-profit with the California Attorney General and therefore may not operate as a non-profit or solicit donations, both of which are essential to the proposed grant agreement. We therefore consider approval of the proposed resolution to be a policy matter.

RECOMMENDATIONS

1. Amend the proposed resolution to request that HSA provide a written report confirming that Glide Foundation's registration with the State is in good standing by March 30, 2023 and submit the report to the legislative file.
2. Approval of the proposed resolution is a policy matter for the Board of Supervisors.

Item 11 File 23-0102	Department: Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would: (1) approve a Purchase and Sale Agreement for the City to acquire property at 4200 Geary Boulevard, (2) approve a ground lease with 4200 Geary Associates, L.P. for a term of 75 years, with a 24-year option to extend and an annual base rent of $15,000, and (3) approve a $20,537,592 amended and restated loan with 4200 Geary Associates, L.P.

Key Points

- The 4200 Geary Boulevard Project (the Project) will be a seven-story, 98-unit senior affordable housing building managed by project sponsor Tenderloin Neighborhood Development Corporation (TNDC). 57 of the building's units will be one-bedroom units, and 41 units will be studios. The building will also include 1,908 square feet of commercial space.
- In April of 2021, the Board approved a loan of $14,538,982, funded by Proposition A General Obligation Bond proceeds, to 4200 Geary Associates, L.P., a subsidiary of TNDC, for the 4200 Geary site. That $14,538,982 loan included (a) $11,064,369 for property acquisition, and (b) $3,474,613 for predevelopment costs.
- The proposed Purchase and Sale Agreement will transfer ownership of the 4200 Geary property from 4200 Geary Associates, L.P. to the City and forgive $11,064,639 of the prior loan. Under the proposed amended and restated loan agreement, the remaining City loan would increase from $3,474,613 to $20,537,592.

Fiscal Impact

- Total development costs are $87,166,770 or $889,457 per unit. The City's total subsidy for the housing development costs, including acquisition costs, is $31,601,961, or $322,469 per unit. The proposed loan is funded by 2019 General Obligation Bond proceeds, Citywide Affordable Housing Fund monies, and Affordable Housing Fund Inclusionary Fees.

Policy Consideration

- The City could have completed the Purchase and Sale Agreement in 2021, but by providing acquisition funding through a loan to TNDC instead at that time, the City avoided assuming certain costs and risks associated with owning a vacant property, according to MOHCD staff.

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.

Administrative Code Section 23.3 states that the Board of Supervisors must approve acquisitions of real property by resolution. An appraisal of the property is required if the Real Estate Division determines that the fair market value is greater than $10,000 and an appraisal review if the fair market value is greater than $200,000.

Administrative Code Section 23.30 states that the Board of Supervisors shall approve all leases on behalf of the City as landlord by resolution for which the term is longer than a year and costs over $15,000 per month. Leases of City property that require Board of Supervisors approval may be less than market rate if the Board of Supervisors finds that doing so would serve a public purpose.

BACKGROUND

4200 Geary Boulevard Project

The 4200 Geary Boulevard Project (the Project) will be a seven-story, 98-unit senior affordable housing building managed by project sponsor Tenderloin Neighborhood Development Corporation (TNDC). 15 units will be supported by the City's Senior Operating Subsidy (SOS), for seniors making up to 15 percent of San Francisco Area Median Income (AMI), and another 15 units will be set aside for seniors making up to 25 percent of AMI and also supported by SOS. There will be 12 units set aside for senior veterans, supported by a HUD operating subsidy, and 20 units will be permanent supportive housing units set aside for formerly homeless residents, supported by the City's Local Operating Subsidy Program (LOSP). The remaining 35 affordable units will be available to seniors making up to 50 percent of AMI. One unit will be a manager's unit. 57 of the building's units will be one-bedroom units, and 41 units will be studios. The building will also include 1,908 square feet of commercial space.

Construction is scheduled to start in March of 2023, pending approval of the proposed gap financing, and TNDC anticipates leasing units starting in 2025 at construction completion. The project site was previously a mortuary, which closed in 2020.

Predevelopment Funding

San Francisco voters approved Proposition A in 2019, authorizing the issuance of up to $600 million in general obligation bonds to finance affordable housing development. In December of 2019, the Mayor's Office of Housing and Community Development (MOHCD) issued a Notice of Funding Availability (NOFA) for $30 million in Proposition A funding for acquisition and predevelopment financing of affordable housing in Districts 1, 2, 4, 7, and 8, including $15 million allocated to projects serving low-income seniors.

MOHCD awarded financing to the two projects that responded to the NOFA, 4200 Geary Boulevard (subject of the proposed resolution) and a separate project at 2550 Irving Street, also sponsored by TNDC. In April of 2021, the Board approved a loan of $14,538,982, funded by Proposition A General Obligation Bond proceeds, to TNDC for acquisition and predevelopment costs at the 4200 Geary site (File 21-0363). That $14,538,982 loan included (a) $11,064,369 for property acquisition, and (b) $3,474,613 for predevelopment costs. The enacted resolution stated that the City intended to acquire the property and lease it to TNDC through a ground lease following the closing of the Project's construction loan.

TNDC acquired 4200 Geary Boulevard, formerly a funeral home, on May 13, 2020, with interim funding of $13,065,000 from the Housing Accelerator Fund (HAF), which included an original purchase price of $10,675,930,[1] which is more than the appraised market value of $10,050,000 from December 2019. Total acquisition costs of $11,064,369 include closing and other costs of purchase. The City's 2021 predevelopment loan paid off the initial loan from the HAF and other costs of purchase.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would:

1) Approve the acquisition of 4200 Geary Boulevard from 4200 Geary Associates, L.P. (a subsidiary of the TNDC) for $11,064,369
2) Place the property under MOHCD jurisdiction for the purpose of affordable housing construction;
3) Approve a ground lease with 4200 Geary Associates, L.P. for a term of 75 years, with a 24-year option to extend and an annual base rent of $15,000;
4) Approve a not-to-exceed $20,537,592 amended and restated loan agreement for a minimum loan term of 57 years between the City and 4200 Geary Associates, L.P.;
5) Find that the 4200 Geary Boulevard property is exempt from the California Surplus Land Act;
6) Determine that the below market rate rent of the ground lease serves a public purpose by providing affordable housing for low-income households in need;
7) Find that the project and related transactions are consistent with the City's General Plan and the priority policies of the Planning Code;

[1] The purchase amount of $11,675,930 was funded by a loan from the Housing Accelerator Fund to TNDC of $11,175,930 and TNDC equity of $500,000. The purchase price of $11,675,930 included extension fees due to the delay in closing the purchase caused by the pandemic.

8) Authorize the Director of Property and the Director of MOHCD to amend the Purchase Agreement, Ground Lease and Loan Agreement, provided amendments do not increase the obligations or liabilities to the City; and
9) Authorize the Director of Property and the Director of MOHCD to take other actions if necessary to protect the City's financial security and enforce the Project's affordable housing restrictions.

Purchase and Sale Agreement

The proposed Purchase and Sale Agreement will transfer ownership of the 4200 Geary property from 4200 Geary Associates, L.P. to the City.

Section 2 of the Purchase Agreement states that the City previously loaned $11,064,369 to fund TNDC's acquisition of the 4200 Geary property. The City will pay $9,210,000 (the "Purchase Price") as a credit toward the unpaid principal balance of that acquisition loan. The remaining balance of $1,854,369 from the acquisition loan will also be forgiven to ensure the financial feasibility of the project. The "Purchase Price" of $9,210,000 is based on an appraisal from December 2022. This is $840,000 less than the December 2019 appraised value which supported the acquisition loan amount and reflects a citywide decrease in real estate values due to COVID. A more recent appraisal was required by Chapter 23 of the Administrative Code.

Ground Lease & Affordability Restrictions

The proposed ground lease has a term of 75 years and gives TNDC one 24-year extension option. During the initial lease term, proposed base rent is $15,000 per year, plus residual receipts, up to a total rent of 10 percent of appraised fair market value. (Consistent with MOHCD's Residual Receipts policy, the term "residual receipts" refers to up to two-thirds of net income after operating costs, ground lease base rent, and replenishing operating reserves.) Base rent during the extension period would be negotiated between TNDC and the City and would have to be at least the annual rent of the initial lease term.

Affordability restrictions to preserve the affordability of the housing units in the proposed development are included in the loan agreement between the City and the affordable housing operator and recorded against the property as a Declaration of Restrictions, which requires TNDC to reserve all units (except for the manager's unit) for seniors aged 62 or older and to set aside:

- **20 units** for households of formerly homeless seniors, referred through the Coordinated Entry Program,[2]

[2] Should TNDC stop receiving the relevant Local Operating Subsidy Program (LOSP) subsidy during the agreement, the agreement calls for these units to be set aside for seniors making up to 50% of Area Median Income.

- **12 units** for senior veterans, referred and supported by the U.S. Department of Housing and Urban Development,[3]
- **15 units** for seniors making up to 15% of Area Median Income, supported through the Senior Operating Subsidy program,[4]
- **15 units** for seniors making up to 25% of Area Median Income, also supported through the Senior Operating Subsidy program, and
- **35 units** for seniors making up to 50% of Area Median Income.

Amended & Restated Loan Agreement

As noted above, the 2021 loan agreement between MOHCD and 4200 Geary Associates, L.P. (4200 Geary), a subsidiary of the Tenderloin Neighborhood Development Corporation, included $3,474,613 for predevelopment costs. MOHCD proposes to amend that portion of the loan and promissory note and provide additional gap financing of $17,062,979: under the proposed amended and restated loan agreement, the City loan would increase to the loan amount to a not-to-exceed amount of $20,537,592. 4200 Geary Associates, L.P. must repay the loan by the later of (a) the 57th anniversary of the deed of trust and (b) the 55th anniversary of the date on which predevelopment and construction financing for the Project from the City is converted into permanent financing. Simple interest will accrue to the principal loan balance at a rate of three percent per year according to the Amended and Restated Secured Promissory Note.

On January 6, 2023, the Citywide Affordable Housing Loan Committee approved the $22,867,715 in gap financing and $2,155,000 in a permanent debt bridge loan recommended by staff. This was subsequently decreased to a not-to-exceed amount of $20,537,592 in gap financing due to cost savings and an increase of permanent debt that the project sponsor and MOHCD have identified since loan committee approval.

Sponsor Performance

The MOHCD loan evaluation does not include details about the past audits or other performance evaluations of TNDC's performance. According to MOHCD staff, TNDC has no outstanding performance issues and is in good standing.

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[3] Should TNDC stop receiving the relevant subsidies through the Housing Assistance Payments (HAP) contract during the agreement, the agreement calls for these units to be set aside for seniors making up to 50% of Area Median Income.

[4] Should TNDC stop receiving the relevant Senior Operating Subsidy (SOS) during the agreement, the agreement calls for 15 of the units previously receiving this subsidy to be set aside for seniors making up to 50% of Area Median Income, and the remaining 15 of the units previously receiving this subsidy to be set aside for seniors making up to 60% of Area Median Income.

FISCAL IMPACT

Total Development Costs

The total development costs for the Project are $87.2 million, as shown in Exhibit 1 below. Of the approximately $87.2 million, $31.6 million (36.3%) are City funds, $52.3 million (60.0%) are State funds, and $3.3 million (3.8%) are private funds.

Exhibit 1: Total Development Sources and Uses of Funds

	City	State	Private	Total
Sources				
MOHCD Gap Loan	$20,537,592			$20,537,592
MOHCD Acquisition Loan (Forgiven)	11,064,369			11,064,369
HCD California Housing Accelerator		32,284,809		32,284,809
HCD Multifamily Housing Program (MHP)		20,000,000		20,000,000
Permanent Loan			2,280,000	2,280,000
Federal Housing Loan Banks Affordable Housing Program (AHP)			1,000,000	1,000,000
Total Sources	**$31,601,961**	**$52,284,809**	**$3,280,000**	**$87,166,770**
Uses				
Acquisition	11,064,369			11,064,369
Hard Costs	4,905,840	50,572,031	3,280,000	58,757,871
Soft Costs	13,880,871	612,778		14,493,649
Reserves	650,881			650,881
Developer Fees	1,100,000	1,100,000		2,200,000
Total Uses	**$31,601,961**	**$52,284,809**	**$3,280,000**	**$87,166,770**

Source: MOHCD

The development budget shown above includes $1,430,534 in costs associated with the creation of a shell of commercial space as part of the project, funded by the proposed gap loan.

Funding Sources for City Loan

Sources of funds for the proposed amended and restated loan of up to $20,537,592 include:

- $1,000,000 in Citywide Affordable Housing Fund monies
- $17,639,814 in 2019 General Obligation Bonds
- $1,897,778 in Affordable Housing Fund Inclusionary Fees, paid by developers of market rate housing.

The source of the City's acquisition loan, which will be forgiven as part of the property purchase, was 2019 General Obligation Bonds.

The City's Subsidy per Housing Unit

Total development costs are $87,166,770 or $889,457 per unit. The City's total subsidy for the housing development costs, including acquisition costs, is $31,601,961, or $322,469 per unit, as shown in Exhibit 2 below. The City funding shown below also includes $1,430,534 in funding for creation of a commercial space shell.

Exhibit 2: City Subsidy for Affordable Housing Units

Number of Units	98
Total residential area (sq. ft.)	77,631
Development Cost	$87,166,770
Total City subsidy	$31,601,961
Development cost per unit	$889,457
City Subsidy per unit	$322,469
City Subsidy per sq. ft.	$407

Source: MOHCD

Total development costs per unit for the 4200 Geary Project ($889,457) are 10 percent higher than comparable projects ($808,344) due to higher than average acquisition costs ($112,902 per unit compared to $16,908 per unit) and higher than average construction costs. According to the December 2022 MOHCD loan evaluation memo for the proposed gap loan, construction costs per square foot for the 4200 Geary Project ($737) are 10 percent higher than comparable projects due primarily to: (a) additional costs associated with building at such a tight site; (b) the fact that the building is a mid-rise and thus less efficient than taller buildings; (c) overall construction cost inflation; and (d) high allowances for uncertain costs, including costs associated with connecting the building to the power grid.

Operating Revenues and Expenses

According to the 20-year cash flow analysis for the 4200 Geary Boulevard Project, the project will have sufficient revenues to cover operating expenses, operating reserves, and mortgage loan payments. Operating expenses include some on-site supportive service costs, such as intake and assessment, case management, supportive counseling, crisis intervention, mediation, housing stabilization and eviction prevention. Project revenues consist of tenant rents and City and Federal tenant assistance payments, including the City's Local Operating Subsidy Program, the City's Senior Operating Subsidy program, and project-based Veterans Affairs Supportive Housing (VASH) vouchers allocated by the San Francisco Housing Authority.

A portion of net income after operating expenses (residual receipts) will be used to repay the MOHCD and California Department of Housing and Community Development (HCD) loans. The Project is not expected to generate sufficient net revenues to make residual rent payments under the proposed Ground Lease.

POLICY CONSIDERATION

The proposed resolution approves the City's acquisition of 4200 Geary, which is consistent with City policy to own the land for City-sponsored affordable housing projects and enter into long-term ground leases with the project sponsor. The credit and forgiven loan amount total $11,064,369, which reflects TNDC's costs to acquire the property in May 2020. This is higher than the current appraised value of $9,210,000, reflecting changes in market conditions since TNDC purchased the site. However, completing the acquisition at this cost is consistent with the 2019 Notice of Funding Availability, which included property acquisition costs as eligible funding uses. The City could have completed the Purchase and Sale Agreement in 2021, but by providing acquisition funding through a loan to TNDC instead at that time, the City avoided assuming certain costs and risks associated with owning a vacant property, according to MOHCD staff.

RECOMMENDATION

Approve the proposed resolution.

Item 14 File 23-0049	Department: San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve Modification No. 3 to the license and services agreement between San Francisco International Airport (Airport) and Airport Research and Development Foundation (ARDF), extending the term by two years through March 12, 2025, and increasing the not-to-exceed amount by $288,000, for a total not to exceed $1,970,000.

Key Points

- In 2014, the Airport began issuing permits to Transportation Network Companies (TNCs), such as Uber and Lyft. Airport staff developed an application-based commercial ground transportation (ABCT) system in-house, which can monitor TNC trips to the Airport and collect the appropriate fees. The ABCT system can be licensed to other airports that charge trip fees to TNCs.
- In March 2015, the Board of Supervisors approved a license and service agreement with ARDF, in which the Airport would license the ABCT system to ARDF. The contract has been modified twice and extended through March 12, 2023. ARDF monitors TNC trips and collects trip fees on behalf of the Airport, and the Airport pays ARDF an Administrative Services Fee of five percent of total trip fee revenues, capped at $144,000 per year. ARDF may enter into service agreements with other airports to implement and operate the ABCT system, including (1) collecting Administrative Services Fees from participating airports; and (2) paying to the Airport the Service Development Fee, equal to 25 percent of total Administrative Services Fee revenues received from the participating airports.

Fiscal Impact

- Under the proposed Modification No. 3, the Airport would pay ARDF an amount not to exceed $288,000 in Administrative Services Fees for the two-year extension period, for a total not to exceed $1,970,000 for the 10-year contract term.
- Over the two-year extension term, the Airport projects that it will receive approximately $92,000,000 in TNC revenues and $675,000 in Service Development Fees, for total revenues of $92,675,500. After deducting Administrative Services Fees, the Airport projects net revenues of approximately $92,387,500.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(a) states that contracts entered into by a department, board, or commission that (i) have anticipated revenues of $1 million or more, or (ii) have anticipated revenues of $1 million or more and require modifications, are subject to Board of Supervisors approval.

BACKGROUND

In 2014, San Francisco International Airport (Airport) began issuing permits to Transportation Network Companies (TNCs), such as Uber and Lyft. Airport staff developed an application based commercial ground transportation (ABCT) system in-house, which can monitor TNC trips to the Airport and collect the appropriate fees. The ABCT system is technically compatible with the TNCs that have permits to pick up and drop off Airport passengers.

The ABCT system defines a perimeter around the Airport using geographic coordinates. TNCs are required by the terms of their permits to operate at the Airport to send data to the Airport's ABCT system any time that one of their respective vehicles enters, leaves, picks up, or drops off passengers within the perimeter. The ABCT system stores this trip data for future auditing and passes this trip data to the Airport's financial system for invoicing. The ABCT system can be licensed to other airports that charge trip fees to TNCs.

In March 2015, the Board of Supervisors approved a license and services agreement between the Airport and Airport Research and Development Foundation (ARDF), in which the Airport would license the ABCT system to ARDF (File 15-0512).[1] The contract had an initial two-year term, from March 13, 2015 through March 12 2017, with three one-year options to extend through March 12, 2020. In June 2017, the Board of Supervisors retroactively approved Modification No. 1 to the contract, exercising all three one-year options to extend through March 12, 2020, and capping the Administrative Services Fee paid by the Airport to ARDF at $250,000 annually in the extension period (File 17-0322). In March 2020, the Board of Supervisors approved Modification No. 2 to the contract, extending the term of the contract by three years through March 12, 2023, and reducing the cap of the Administrative Services Fee to $144,000 annually, for a total not to exceed $1,682,000 over the eight-year term, and providing for an additional two-year option to extend through March 12, 2025 (File 20-0082).[2]

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Modification No. 3 to the license and services agreement between the Airport and ARDF, extending the contract term by two years through March 12,

[1] The contract was awarded to ARDF on a sole source basis. The Airport investigated companies that could serve as its licensee and determined that a not-for-profit trade organization representing the interests of the Airport industry was the only option because it could use the ABCT system to provide services to other airports at reasonable rates. Of the not-for-profit trade organizations representing the interests of the Airport industry, the Airport determined that ARDF was the only such organization with the technical expertise and clearinghouse capabilities to adequately provide the desired services.

[2] The annual cap was reduced from $250,000 to $144,000 because the bulk of the work developing the ABCT system had been completed.

2025, and increasing the not-to-exceed amount by $288,000, for a total not to exceed $1,970,000. Other contract terms would not change.

Under the license and services agreement, ARDF monitors TNC trips and collects trip fees on behalf of the Airport. The Airport pays ARDF an Administrative Services Fee of five percent of total trip fee revenues,[3] which has been capped at $144,000 annually since approval of Modification No. 2 in March 2020. The Airport has paid a total of $1,682,000 in Administrative Services Fees since the contract began in 2015.

Under the license and services agreement, the ABCT system remains the exclusive property of the City. ARDF may enter into service agreements with other airports to implement and operate the ABCT system, including (1) collecting Administrative Services Fees from participating airports; and (2) paying to the Airport the Service Development Fee, equal to 25 percent of total Administrative Services Fee revenues received from the participating airports. As of January 2023, 32 other airports have entered into agreements with ARDF to use the ABCT system.

The contract was originally awarded to ARDF on a sole-source basis, and the proposed Modification No. 3 would be the third contract extension, for a total term of 10 years. According to Annie Chung, Airport Data Analytics Manager and Hearing Officer, the Airport plans to issue a competitive solicitation for an ABCT system operator before the proposed contract extension expires in 2025.

FISCAL IMPACT

Under the proposed Modification No. 3, the Airport would pay ARDF an amount not to exceed $288,000 in Administrative Services Fees for the two-year period from March 13, 2023 through March 12, 2025, for a total not to exceed $1,970,000 for the 10-year period from March 13, 2015 through March 12, 2025.

The Airport would also receive TNC fee revenues collected through the ABCT system, as well as the Service Development Fee paid by ARDF, equal to 25 percent of total Administrative Services Fee revenues received from the participating airports. From January through November 2022, the Airport received $35,109,606 in TNC trip fees, as well as $966,000 in TNC fines, for total revenue of $36,075,606. The Airport also received $191,694 in Service Development Fees. Over the two-year term of the contract extension, the Airport projects that it would receive net revenues of $92,387,500, as shown in Exhibit 1 below.

Exhibit 1: Airport TNC Revenue Projections over Extension Period

	Extension Year 1	Extension Year 2	Two-Year Total
TNC Revenues	$41,000,000	$51,000,000	$92,000,000
Service Development Fees	332,750	342,750	675,500
Administrative Services Fees (Paid to ARDF)	(144,000)	(144,000)	(288,000)
Net Revenues	**$41,188,750**	**$51,198,750**	**$92,387,500**

Source: Airport

[3] In the Airport's FY 2022-23 Rates and Charges, the TNC fee paid to the Airport is $5.50 per trip.

RECOMMENDATION

Approve the proposed resolution.

Item 15 File 23-0067	Department: Homelessness and Supportive Housing (HSH) Real Estate Division (RED)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve an amendment to the lease between the City and 33 Gough, LLC for property located at 33 Gough Street. The proposed lease amendment would extend the term from March 14, 2023 to March 13, 2025, with an option to extend the term for one year through March 2026.

Key Points

- On March 30, 2020, the Board of Supervisors approved a resolution authorizing the City to enter a three-year lease with 33 Gough, LLC to operate a low-barrier shelter program from March 14, 2020 to March 14, 2023 (File 20-0044). The site currently houses the City's first non-congregate cabin program, the Cabin Pilot Program (CPP) serving up to 100 adults experiencing homelessness in 70 private, stand-alone shelter units.
- The City entered into a grant agreement with nonprofit Urban Alchemy from December 1, 2021 to March 31, 2023 for Urban Alchemy (UA) to operate and provide services for the CPP. HSH is negotiating an extension to this agreement and does not expect any increases in costs, at the time of this writing.

Fiscal Impact

- The proposed lease amendment would increase the base rent by approximately 9 percent, from $1,259,300 to $1,372,000 per year. Total leasing costs, which includes property taxes and insurance, for the two-year lease term are estimated at $3,461,027 or, with the one-year extension, $5,213,204. In addition to leasing costs, the City pays for services at the site. The estimated total leasing and operating costs per cabin are $78,879 per year, or $6,573 per month.
- Companion legislation (File 22-0105) would approve HSH to accept and expend $10.9 million of a State grant that will be used to fund the lease and associated operating costs in FY 2022-23 and a portion of those costs in FY 2023-24. HSH is planning to request appropriation of additional State monies to fund the remaining cost in FY 2023-24 during FY 2023-24 budget process.

Recommendation

- Approve the resolution.

MANDATE STATEMENT

Administrative Code Section 23.27 states that the Board of Supervisors shall approve all Leases on behalf of the City as tenant by resolution for which the term is longer than a year or costs over $15,000 per month.

BACKGROUND

33 Gough

33 Gough is a property located between Market Street and Mission Street in the South of Market District. The property includes approximately 49,000 rentable square feet and two adjacent parking lots. The property is owned by City College, but 33 Gough, LLC has property control under a long-term lease agreement with City College.

Current Lease Agreement

On March 30, 2020, the Board of Supervisors approved a resolution authorizing the Director of Property, on behalf of HSH, to enter a three-year lease with 33 Gough, LLC for the 33 Gough site to operate a low-barrier shelter program (File 20-0044). This lease includes a base rent of $1,259,300 per year, or $104,941.67 per month. The lease commenced March 14, 2020 and will expire March 14, 2023.

The current lease agreement does not include an option to extend. The original lease had a three-year term because the landlord intended to eventually redevelop the property at 33 Gough Street as an affordable and workforce housing residential development with a likely mix of market rate and affordable units. The landlord was unwilling to commit beyond three years, because construction was initially expected to start as early as 2023. However, according to Tracy Irvin, Senior Real Property Officer for the San Francisco Real Estate Division, the owner of the property has experienced delays in their development approvals which has allowed HSH to propose an extension of the current lease agreement. Mr. Irvin stated the City's use of this site serves as an interim use as the owner works on their plans for the site. According to HSH, the plan to relocate the services provided at 33 Gough, once the owner resolves construction delays, is to be determined.

Under this lease, the City pays real estate taxes, landlord's insurance, and other operating expenses (e.g., utilities) of the property. The City also is to perform and pay for capital and tenant improvements needed to occupy and operate the property for the intended purposes. According to HSH, there is no intention to perform or pay for any additional capital and tenant improvements for this site, at the time of this writing. The City and landlord may mutually agree to have landlord perform certain remediation or other work at the direction of the Department of Public Works.

Transition of 33 Gough Street's Intended Uses

SAFE Navigation Center to Safe Sleep Site

The original intended use of the 33 Gough Street was a 200-bed Upper Market SAFE Navigation Center[1] (File 22-0044). In Spring 2020, the Mayor's Office issued new budget instructions requiring departments to propose expenditure reductions and focus available resources on funding the COVID-19 public health emergency response; therefore, according to HSH staff, plans for the Navigation Center, a congregate shelter, were put on hold.

In Spring 2020, the Department repurposed the site for use by the COVID Command Center (CCC) to store personal protective equipment and other supplies and to create a Safe Sleep site within the site's two parking lots. The Safe Sleep Site consisted of 44 tents at the 33 Gough property. In response to a citywide RFQ for COVID-19 shelter service, the Safe Sleep site was operated by Urban Alchemy.

Safe Sleep Site to Cabin Pilot Program (CPP)

By Spring 2022, HSH converted the Safe Sleep tent site to the City's first non-congregate cabin program serving up to 100 adults experiencing homelessness in 70 private, stand-alone shelter units located in the parking areas. The operations of the CPP opened in phases: the first 12 cabins opened in March 2022, the next 24 cabins in April 2022, and all 70 cabins were fully operational by May 2022. The construction of the cabins was privately funded through donations for a total cost of $2.3 million, or $32,857 per cabin. HSH paid the Department of Public Works $67,385 to conduct needed services to complete the cabins including permitting, design code compliance, and monitoring of procurement processes. The 33 Gough Site currently consists of 70 individual cabins, case manager offices, clinic space,[2] a computer lab, a dining hall, and showers and toilets.

HSH decided to transition this site to the cabin pilot program given the ability to pilot a new model with private funding provided by Tipping Point Community and DignityMoves. HSH relied on Administrative Code Chapter 21B, which allows selection of homeless providers without competitive solicitations, to maintain Urban Alchemy as the service provider for the cabin program.

Responsibilities of Parties Involved in the CPP

The various parties involved in the Cabin Pilot Program (CPP) at 33 Gough Street signed a Memorandum of Understanding (MOU) termed September 2021 until the termination of the City's current lease of 33 Gough Street in March of 2023. According to HSH staff, the Department

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[1] SAFE Navigation Centers are low-threshold, high-service temporary shelter programs for adults experiencing homelessness in San Francisco.

[2] According to HSH, the clinic space is intended to be staffed by the San Francisco Department of Public Health (DPH) to provide shelter health services. DPH has not yet staffed the clinic and the site is receiving limited medical support from DPH.

will amend the existing MOU if the Board approves the proposed lease extension. The responsibilities of the involved parties are listed below.

- Urban Alchemy (UA), a California nonprofit corporation, is responsible for managing and operating the CPP at 33 Gough Street pursuant to its agreement with HSH. In collaboration with HSH, UA will establish service delivery and referral pathways for clients of the cabins. HSH will maintain oversight of the placements.
- HSH will identify new CPP clients through outreach, hospital discharge, Coordinated Entry, or other initiatives. HSH will also fund the operations and services at 33 Gough Street.
- DignityMoves, a nonprofit public benefit corporation, is responsible for serving as the "project manager" of the CPP by providing pre-development and general project management services. DignityMoves contracted with Swinerton, a commercial construction company headquartered in the City, as the general contractor to assemble and install the cabins. DignityMoves donated $1.3 million of the $2.3 million cabin construction cost.
- Tipping Point Community (TPC), a non-profit public benefit corporation is responsible for serving as a funder and ambassador of the CPP. TPC is responsible for promoting the CPP in promotional material, working on state and local policy proposals relevant to the TCC, and working collaboratively with the parties of the MOU to ensure the CPP operates as intended. TPC donated $1 million of the $2.3 million cabin construction cost.
- Home First Services of Santa Clara County (HomeFirst) is a nonprofit public benefit corporation based in the City of Santa Clara and is responsible for serving as the "unit owner." HomeFirst is responsible for leasing the cabins to UA for $1.00 for use at the CPP site. HomeFirst also assumes the long-term and ongoing maintenance, storage, and transportation obligations and costs of the purchased units until the expiration of the MOU.

Urban Alchemy Grant Agreement

The City entered into a grant agreement with nonprofit Urban Alchemy from December 1, 2021 through March 31, 2023 for Urban Alchemy (UA) to provide the Cabin Pilot Program (CPP) at 33 Gough Street. This grant agreement has a not to exceed amount of $5,022,514. The agreement does not require Board of Supervisors approval because it is less than $10 million and has a term of less than10 years.

Through this agreement, UA is responsible for the operations of the site and provides intakes, program orientation, wellness checks, and referrals for the clients of 33 Gough. UA also performs data collection and entry and attends required HSH trainings. According to the results of a site visit conducted by HSH, the 70 cabins at 33 Gough Street were fully occupied on June 3, 2022. According to HSH, as of February 1, 2023, the site has served 135 clients since March 2022.

Program and Fiscal Monitoring of Urban Alchemy

A programmatic monitoring site visit conducted by HSH on June 3, 2022 of UA at 33 Gough resulted in no findings; however, HSH made three recommendations with required implementation by September 30, 2022. According to HSH staff, UA has implemented all three of these recommendations.

In the July 7, 2022 FY 2021-22 Fiscal Monitoring report of UA, a review of four of UA's contracts including the 33 Gough Cabins contract, there were 21 findings. An update to the findings on August 12, 2022 demonstrated UA was still "Not Yet in Conformance" with two standards. The monitoring team was unable to confirm that employees included on January 2022 invoices were listed on the applicable payroll tax form. Also, a FY 2020-21 audit of UA's financial statements was not completed within the six months of the close of the contractor's fiscal year. At the time of the fiscal monitoring report, an audit had not yet started, but UA expected the audit to be completed approximately nine months after the close of the fiscal year. According to HSH staff, UA is still not yet in conformance with either standard. In addition to the identified non-conformance of these two standards, the fiscal monitoring report found that UA does not follow two identified best practices of including their annual cash flow projections in the agency-wide budget and preparing requested documents upon the arrival of monitoring team.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would: (1) approve an amendment to the lease between the City and 33 Gough, LLC for property located at 33 Gough Street for a two-year term extension at a base rent of $1,372,000 per year; and (2) authorize the Director of Property to execute documents, make certain modifications, and take certain actions in furtherance of the extended term of the lease and the resolution to commence following Board approval.

Lease Amendment

Lease Extension

The current lease agreement is set to expire March 14, 2023. The proposed lease amendment would extend the term from March 14, 2023 through March 13, 2025. The amendment also adds an option for the City to extend the term for one year through March 2026 by giving written notice to the landlord no later than 180 calendar days and no more than 365 calendar days before the expiration of the term to be extended.

Base Rent

The current lease agreement has a base rent of $1,259,300 per year, or $104,941.67 per month. The proposed lease amendment would increase the base rent by approximately 9 percent, to $1,372,000 per year, or $114,333.33 per month. Under the proposed amendment, the annual rent of $1,372,000 would be paid in two installments on March 14, 2023 and March 14, 2024, for a total of $2,744,000. According to the Real Estate Division, the increase in base rent is tied to an increase in the landlord's lender's interest rate; the landlord's construction loan was refinanced due to construction delays. If the one-year option to extend is exercised, the base rent would remain $1,372,000.

FISCAL IMPACT

The proposed lease amendment provides a base rent of $1,372,000 per year (or $114,333.33 per month). Table 1 below summarizes the leasing costs of the two-year term of the proposed lease amendment with the option to extend for an additional year. Total leasing costs over the two-year lease term for 33 Gough are estimated at $3,461,027. If the one-year option to extend is exercised, the total leasing costs, including the proposed amendment, are estimated at $5,213,204, or an estimated annual leasing cost per cabin of $24,825.

Table 1: Total Leasing Costs Under Proposed Lease Amendment for 33 Gough Street

Year	Base Rent (Per Square Feet)	Square Feet	Total Rent Payments	Taxes and Insurance[3]	Total Leasing Costs
1	$28	49,000	$1,372,000	$351,472	$1,723,472
2	28	49,000	1,372,000	365,555	1,737,555
3 (Optional)	28	49,000	1,372,000	380,177	1,752,177
Total			**$4,116,000**	**$1,097,204**	**$5,213,204**

Source: Lease Amendment, HSH, & BLA Calculations

According to real estate data provided by the Real Estate Division, the base rent of $28 per square foot per year of the proposed lease amendment is at or below the fair market rental value. The proposed base rent does not meet the independent appraisal requirement threshold of $45 per square foot per year as required by Section 23.27 of the Administrative Code.[4]

In addition to leasing costs noted in Table 1, the proposed lease requires the City to pay for utilities, services, and routine maintenance.

On-Site Services

As mentioned above, HSH currently has an active agreement with UA to provide services and operate the cabin program at 33 Gough, which expires March 31, 2023. According to Gigi Whitley, HSH Deputy Director for Administration and Finance, HSH is in the process of negotiating an extension to the agreement, but the Department does not expect an increase in cost from the

[3] Values are escalated by 4% of current liabilities.

[4] Per Administrative Code Section 23.27, the Director of Property shall determine the Market Rent of such lease based on a review of available and relevant data. If the Market Rent of the lease is more than $45 per square foot per year as base rent, the Director of Property shall obtain an appraisal for such Lease.

current UA agreement to the extension of the agreement. The UA agreement funds 65.83 annual FTEs, and it includes an annual operating cost of $3,270,083, as show in Table 2 below.

Table 2: Annual Costs for UA Operating Agreement of 33 Gough

Operating Costs	Amount
Salaries and Benefits	$2,324,920
Operating Expense	539,290
Indirect Cost	405,873
Total Costs	**$3,270,083**

Source: Budget Director, HSH

In addition to the services provided through the Urban Alchemy agreement, Salvation Army will provide clients meals twice a day, at an estimated annual cost of $528,000. The estimated annual operating cost for 33 Gough, including provided meals, is approximately $3.8 million, or $54,285 per cabin. Including the lease, the annual cost per cabin is approximately $78,879. These totals do not include shelter health services provided by DPH or HSH facilities and other HSH support staff time.

Source of Funds

Companion legislation (File 22-0105) that will be considered at the February 15, 2023 Budget & Finance meeting would allow HSH to accept and expend $10.9 million of a State grant that will be used to fund the lease and associated operating costs in FY 2022-23 and a portion of those costs in FY 2023-24. HSH is planning to request appropriation of additional State monies to fund the remaining cost in FY 2023-24 during FY 2023-24 budget process.

RECOMMENDATION

Approve the resolution.