CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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June 10, 2024

TO: Budget and Appropriations Committee

FROM: Budget and Legislative Analyst

SUBJECT: June 13, 2024 Special Budget and Appropriations Committee Meeting

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Item 8 **File 24-0605**	**Department:** Department of Public Health (DPH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would authorize the Department of Public Health (DPH) to bypass the competitive solicitation requirements of City Administrative Code Chapter 21G for the purpose of providing a one-time grant to Planned Parenthood Northern California. The grant would provide funding in an amount not to exceed $456,000 for up to a two-year term, for security personnel at the Planned Parenthood in San Francisco.

Key Points

- According to DPH, the grant will fund Planned Parenthood's ongoing contract with Ledlow Security. Ledlow provides Planned Parenthood 2-3 guards six days a week for 8-12 hours per day. Ledlow Security Personnel are all armed retired police officers who have de-escalation training.

Fiscal Impact

- The proposed grant amount of $456,000 is funded by the Department of Public Health's General Fund budget.

Recommendation

- Because this is consistent with prior Board action, we recommend approval of the proposed ordinance.

MANDATE STATEMENT

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

BACKGROUND

In April 2023, the Board of Supervisors approved an ordinance authorizing the Department of Public Health to award a $400,000 grant to Planned Parenthood without adhering to the competitive solicitation requirements in Administrative Code Chapter 21G (File 23-0217). The purpose of the grant was to fund a security guard contract between Planned Parenthood and security guard firm, for a term up to two years. Prior to that, the City provided security services via a security guard contract between the Human Services Agency and Allied Universal. At the recommendation of the Budget & Legislative Analyst, the ordinance was amended to include a reporting requirement.

According to the May 2024 grant report from Planned Parenthood, the organization contracted with Ledlow Security, which provided security guards during business hours. There were 77 security incidents between April 1, 2023 - March 15, 2024, primarily related to protestors at the Planned Parenthood facility. The City's grant with Planned Parenthood expires in March 2025.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would authorize the Department of Public Health (DPH) to bypass the competitive solicitation requirements of City Administrative Code Chapter 21G for the purpose of providing a one-time grant to Planned Parenthood Northern California (Planned Parenthood). The grant would provide funding in an amount not to exceed $456,000 for up to a two-year term, for security personnel at the Planned Parenthood in San Francisco. The ordinance requires that DPH submit an annual report to the Board of Supervisors regarding security guard staffing and security incidents.

Scope of Services

According to DPH, the grant will fund Planned Parenthood's ongoing contract with Ledlow Security. Ledlow provides Planned Parenthood 2-3 guards six days a week for 8-12 hours per day. Ledlow Security Personnel are all armed retired police officers that have de-escalation training.

DPH Grant Agreement

DPH provided a draft of its grant agreement with Planned Parenthood. The agreement has a two-year term that begins April 2025. The agreement includes reporting requirements DPH regarding security incidents and personnel and also includes training requirements for guards. Once the grant is executed, DPH will make a payment of $228,000 and Planned Parenthood can invoice the City up to the remaining $228,000.

FISCAL IMPACT

The proposed grant amount of $456,000 is funded by the Department of Public Health's General Fund budget. According to DPH, Planned Parenthood's two-year security guard cost is $480,000.

RECOMMENDATION

Because this is consistent with prior Board action, we recommend approval of the proposed ordinance.

Item 11 **File 24-0607**	**Department:** Homelessness & Supportive Housing (HSH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would allow the City to repurpose up to $13,676,000 of interest earned on Homelessness Gross Receipts Tax fund balance in FY 2024-25 for shelter ($6,935,000) and family housing ($6,741,000).

Key Points

- Revenues from the Homelessness Gross Receipts Tax must be allocated to specific populations and programs. Business and Tax Regulations Code Section 2811 states that amendments to the Homeless Gross Receipts Tax are subject to Board of Supervisors approval by a two-thirds vote. Such amendments may only be to further the purpose of the tax. In July 2023, the Board of Supervisors approved an ordinance (File 23-0657) that allowed use of up to $16,360,000 in FY 2023-24 – FY 2024-25 in interest earnings to fund programming outside the typical population/program requirements.
- According to HSH finance staff, the proposed spending is part of a larger $47.2 million spending plan to provide shelter and housing for families. This "Safer Families" Initiative will fund hotel vouchers for up to 115 families (the shelter component) as well as 215 slots for rapid re-housing rental subsidies (the family housing component, including 50 slots for TAY families). This one-time spending is intended to address an increase in unsheltered family homelessness, which increased from 27 families in the 2022 Point-in-Time Count to 143 families in the preliminary 2024 Point-in-Time Count.

Fiscal Impact

- The proposed ordinance reallocates $13,676,000 of interest earnings for general housing, youth housing, prevention, and mental health to shelter and housing for families in FY 2024-25. According to HSH finance staff, the $13,676,000 amount is the total available interest that has not already been budgeted.

Recommendation

- Approval of the proposed ordinance is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

Charter Section 2.105 requires that legislative acts be accomplished by ordinance, subject to approval by a majority of the Board of Supervisors.

Business and Tax Regulations Code Section 2811 states that amendments to the Homeless Gross Receipts Tax are subject to Board of Supervisors approval by a two-thirds vote. Such amendments may only be to further the purpose of the tax.

BACKGROUND

The Homelessness Gross Receipts Tax was authorized by voters in November 2018 with the passage of Proposition C and became effective in January 2019. The tax added between 0.175% to 0.69%, depending on the businesses type, to the gross receipts tax on businesses earning over $50 million in a given year.

In general, under current law, expenditures of Homelessness Gross Receipts Tax revenues must be spent in the following manner:

- At least of 50 percent on permanent housing
  - Of which, at least 20 percent must be spent on transitional aged youth (TAY), defined as underage 30
  - Of which, at least 25 percent must be spent on family housing
  - Of which, the remaining portion must be spent on general housing, serving all populations
  - Of which, no more than 12 percent can be spent on short-term (less than five-year) rental subsidies
- Up to 10 percent on shelter and hygiene programs
- Up to 15 percent on prevention programs
- At least 25 percent on mental health services

2023 Ordinance

In July 2023, the Board of Supervisors approved an ordinance (File 23-0657) that allowed use of up to $16,360,000 in interest earnings to fund programming outside of the spending requirements outlined above. The programming amounts in FY 2023-24 were $4.6 million for prevention and $1.34 million for shelter and in FY 2024-25 were $6.5 million for shelter and $3.9 million for prevention. The 2023 ordinance also provided a waiver for the 12 percent cap on short-term rental subsidies for FY 2023-24 and FY 2024-25.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would allow the City to repurpose up to $13,676,000 of interest earned on Homelessness Gross Receipts Tax fund balance in FY 2024-25 for shelter ($6,935,000) and family housing ($6,741,000). The ordinance would also reaffirm that the City may exceed the 12 percent cap on short-term rental subsidies in FY 2024-25. The proposed change in allowable spending is in addition to the $10,376,000 approved in 2023 for FY 2024-25.

Planned Programming

According to HSH finance staff, the proposed spending is part of a larger $47.2 million spending plan to provide shelter and housing for families.[1] This "Safer Families" Initiative will fund hotel vouchers for up to 115 families (the shelter component) as well as 215 slots of rapid re-housing rental subsidies (the family housing component, including 50 slots for TAY families). The hotel vouchers will be used to provide emergency shelter for families and provide case management to connect families to other resources including housing. HSH's rapid rehousing program typically provides short-term rental subsidies and move-in assistance for up to two years, though the spending plan allows for some families to remain subsidized for up to five years, which will be evaluated on a case-by-case basis.

The one-time spending is intended to address an increase in unsheltered family homelessness, which increased from 27 families in the 2022 Point-in-Time Count to 143 families in the preliminary 2024 Point-in-Time Count. According to the Mayor's Office, 380 families were waiting for shelter as of May 2024.

FISCAL IMPACT

Exhibit 1 below shows the sources and uses of the proposed spending. According to HSH finance staff, the $13,676,000 amount is the total available interest that has not already been budgeted.

Exhibit 1: Sources and Uses of Proposed Spending

Sources, Interest Earned	FY 2024-25
Housing (general)	4,853,000
Housing (youth)	1,765,000
Prevention	2,647,000
Mental Health	4,411,000
Total Sources	**13,676,000**
Uses	
Shelter	6,935,000
Housing (families)	6,741,000
Total Uses	**13,676,000**

Source: Proposed Ordinance

[1] The Safer Families Initiative is primarily funded by Homelessness Gross Receipt Tax and the General Fund ($2.9 million).

In the proposed ordinance, sources total $13,677,000, which is $1,000 more than the proposed uses. HSH intends to request a correction the to mental health source of funds, which, in the ordinance, is $1,000 higher than intended.

RECOMMENDATION

Approval of the proposed ordinance is a policy matter for the Board of Supervisors.

Item 13 **File 24-0604**	**Department:** Early Childhood (DEC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would allow the City to use interest earned in the Babies and Families First Fund to reduce early care and education baseline spending requirements in FY 2024-25, FY 2025-26, FY 2026-27, and FY 2027-28. In addition, the proposed ordinance would halt growth in the baseline spending amount through FY 2027-28, unless the City's financial condition improves.

Key Points

- Approved by voters in June 2018, Proposition C created a tax on commercial rents. Of the revenues, 15 percent is transferred to the General Fund and 85 percent is deposited into the Babies and Families First Fund and must be spent on early care and education. Proposition C also requires the City to maintain a baseline level of early care and education spending, based on funding levels in FY 2017-18 and adjusted annually unless the City projects a certain General Fund deficit. Baseline spending is funded by the General Fund as well as the Public Education and Enrichment Fund and work orders from the Department of Children, Youth, and Families.
- In July 2023, the Board of Supervisors approved an ordinance that allowed interest earned within the Babies and Families First Fund to reduce baseline spending requirements and also to suspend growth in baseline spending requirement through FY 2024-25.

Fiscal Impact

- In the March 2024 Joint Report, the City is projecting General Fund deficits that exceed $209 million per year through FY 2027-28, so growth in the early care and education baseline would likely be suspended even without the proposed ordinance. The primary fiscal impact of the proposed ordinance is to reduce early care and education baseline spending by the amount of interest earned in the Babies and Families First Fund. The proposed ordinance allows interest credits to baseline spending up to $16.6 million in FY 2024-25, up to $16.9 million in FY 2024-25, and up to the amount of interest earned in FY 2026-27 and in FY 2027-28.
- According to the Mayor's Budget Office, the savings will be used to fund food access programs at the Human Services Agency ($10 million per year) and to partially backfill non-profit service provision funded by the Department of Children Youth and Families ($11.3 million per year).

Recommendation

- Approval of the proposed ordinance is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

Charter Section 2.105 requires that legislative acts in San Francisco be by ordinance, subject to approval by a majority of the Board of Supervisors.

Business and Tax Regulations Code Section 2113 states that amendments to or repeal of Article 21 of the Business and Tax Regulations Code are subject to Board of Supervisors approval by ordinance without voter approval.

BACKGROUND

Commercial Rents Tax

The Early Care and Education Commercial Rents Tax was authorized by the voters in June 2018 with the passage of Proposition C and went into effect on January 1, 2019. The validity of the tax was litigated and resolved in the City's favor. The law is codified in Article 21 of the Business and Tax Regulation Code.

The commercial rents tax applies to businesses leasing commercial space that are subject to the City's gross receipts tax and is in addition to gross receipts or payroll taxes paid by non-residential businesses in the City. Of the revenues, 15 percent is transferred to the General Fund and 85 percent is deposited into the Babies and Families First Fund and must be spent on early care and education.

Proposition C (June 2018) also requires the City to maintain a baseline level of early care and education spending, based on funding levels in FY 2017-18 and adjusting annually by the percent change in the City's aggregate discretionary revenues. Baseline spending is funded by the General Fund as well as the Public Education and Enrichment Fund and work orders from the Department of Children, Youth, and Families. The City may suspend growth in the early care and education baseline funding if the City's projected budget deficit at the time of the Joint Report of the Five-Year Financial Plan exceeds $200 million, adjusted annually by the percent change in the City's aggregate discretionary revenues. According to the December 2023 Joint Report, the deficit trigger early care and education baseline is $209 million. Because the March 2024 Update to the Joint Report projected the City's General Fund deficit at $235.9 million for FY 2024-25, growth in early care and education baseline for FY 2024-25 would be paused, regardless of any legislative action.

2023 Ordinance

In July 2023, the Board of Supervisors approved an ordinance that modified the early care and education baseline funding requirement in FY 2023-24 and FY 2024-25 in two ways (File 23-0661). The ordinance allowed up to $20 million interest earned on fund balance in FY 2023-24 and up to $10 million in FY 2024-25 as a credit against early care and education baseline spending. The General Fund savings were used to fund nutrition assistance programs provided by the Human Services Agency. The 2023 ordinance also suspended growth in early care and education baseline spending amount in FY 2024-25. Growth in the baseline spending was suspended in FY 2023-24 due to the projected deficit in 2023, so the baseline spending amount remains at the FY 2022-23 level ($93.8 million).

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would allow the City to use interest earned in the Babies and Families First Fund to reduce early care and education baseline spending requirements in FY 2024-25, FY 2025-26, FY 2026-27, and FY 2027-28, as follows:

- Up to $16.6 million in FY 2024-25
- Up to $16.9 million in FY 2025-26
- Up to the amount of interest earned in FY 2026-27 and in FY 2027-28

If the cash balance in the Babies and Families First Fund is below $100 million.

The proposed FY 2024-25 allowable use of interest to reduce baseline spending ($16.6 million) supersedes the amount for FY 2024-25 approved in the 2023 ordinance ($10 million).

In addition, the proposed ordinance would halt growth in the baseline spending amount by three additional years, through FY 2027-28, unless the City's projected deficit is less than the deficit trigger.

FISCAL IMPACT

Exhibit 1 below shows the proposed change in the early care and education baseline spending and. FY 2023-24 is included as a benchmark.

Exhibit 1: Proposed Changes in Early Care & Education Baseline Spending

ECE Baseline	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Base Amount	93,800,000	93,800,000	97,000,000	103,500,000	106,100,000
Proposed Base Amount	93,800,000	93,800,000	93,800,000	93,800,000	93,800,000
Difference in Base Amount	0	0	(3,200,000)	(9,700,000)	(12,300,000)
Credit from Interest	(15,000,000)	(16,581,000)	(16,856,000)	(16,700,000)	(16,600,000)
Adjusted Base Spending	78,800,000	77,219,000	76,944,000	77,100,000	77,200,000

Source: Proposed Ordinance, Controller's Office

Note: Base spending is the Proposed Base Amount minus the Credit from Interest

In the March 2024 Joint Report, the City projected General Fund deficits that exceed $209 million per year through FY 2027-28, so growth in the early care and education baseline would likely be suspended even without the proposed ordinance. The primary fiscal impact of the proposed ordinance is to reduce early care and education baseline spending by the amount of interest earned on the Babies and Families First fund balance.

Use of General Fund Savings

As noted above, reducing baseline spending requirements results in savings to the General Fund. According to the Mayor's Budget Office, the savings will be used to fund food access programs at the Human Services Agency ($10 million per year) and partially backfill non-profit service provision funded by the Department of Children, Youth, and Families ($11.3 million per year).

Interest Revenue

Estimates for interest earned were provided by the Controller's Office and are included in the proposed budget for FY 2024-25 and FY 2025-26. However, they do not account for an increase in spending planned by the Department of Early Childhood, which is planning to spend $102.8 million of fund balance (in addition to their proposed $175.8 million annual budget funded by this revenue) in FY 2024-25 and increasing amounts of fund balance through FY 2027-28. A decrease in fund balance will reduce the amount of interest earned. To the extent that the department is able to spend down its fund balance, it will reduce the amount of interest revenue available to reduce early care and education baseline spending, which will require a reallocation of the General Fund to early care and education.

RECOMMENDATION

Approval of the proposed ordinance is a policy matter for the Board of Supervisors.