

**CITY AND COUNTY OF SAN FRANCISCO**

**BOARD OF SUPERVISORS**

**BUDGET AND LEGISLATIVE ANALYST**

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May 28, 2021

**TO:** Government Audit and Oversight Committee

**FROM:** Budget and Legislative Analyst



**SUBJECT:** June 3, 2021 Government Audit and Oversight Committee Meeting

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<b>Item 6</b> <b>File 21-0500</b>	<b>Department:</b> Human Services Agency
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution would approve the fourth amendment to the Emergency Agreement between the City and 1231 Market Street Owner, L.P., for the continued use of 459 hotel rooms and associated services by increasing the agreement amount by \$19,192,122, from \$35,608,542 to not to exceed \$54,800,664; and would extend the booking period by an additional 244 nights, for a total term of 691 nights from April 8, 2020 to March 1, 2022</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• Hotel Whitcomb, located at 1231 Market Street, is a 459-room hotel, which is contracted by the City through the Shelter In Place Hotel program to provide housing for individuals at-risk for COVID-19 and who do not have another housing source. The Human Services Agency (HSA) entered into the original agreement with 1231 Market Street Owner in April 2020, which has been amended three times. The Board of Supervisors approved the third amendment in August 2020, extending the agreement term to July 1, 2021 and increasing the not-to-exceed amount to \$35,608,542.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• Under the agreement, the average daily rate for room, meals, and linens is \$172.78.</li> <li>• Actual expenditures under the agreement between April 2020 and April 2021 are \$34.7 million, with the projected expenditures through June 2021 to equal \$35.6 million.</li> <li>• The increase of \$19.2 million equals expenses of \$172.78 per day for 459 rooms for an additional 242 days (July 1, 2021 to March 1, 2022).</li> <li>• An estimated 94 percent of agreement costs are reimbursable by FEMA through September 2021. Costs not reimbursed by FEMA will be paid from Community Development Block Grant and Emergency Solutions Grant funds, Proposition C, and State funds.</li> </ul> <p style="text-align: center;"><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>• Amend the proposed resolution to correctly state that the increase in the agreement amount is \$19,192,122.</li> <li>• Approve the proposed resolution as amended</li> </ul>	

**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 response to the COVID-19 emergency, the City established the COVID-19 Alternative Shelter Program. This Program provides shelter in place sites, congregate setting sites and isolation and quarantine sites to COVID-vulnerable individuals, most of whom are experiencing homelessness. These shelters include hotel rooms, congregate units, and recreational vehicles.

The largest of the Shelter in Place Hotel agreements is for the Hotel Whitcomb located at 1231 Market Street, which has 459 rooms. Under the agreement, the San Francisco Human Services Agency (HSA) controls the entire hotel; no rooms are rented to the general public at this time.

*Historical Changes to the Agreement*

The original emergency services agreement between the City and 1231 Market Street Owner, L.P. was for a 122-night term from April 8, 2020 through August 8, 2020, for \$9,675,372. (See Exhibit 1)

The first two Amendments to the agreement were adopted administratively by HSA under its Emergency Ordinance Authority. On May 15, 2020, HSA adopted the First Amendment to the Agreement which incorporated provisions necessary to be eligible for cost recovery from the Federal Emergency Management Agency (FEMA). (Since no budgetary changes were made in Amendment 1, it was omitted from Exhibit 2, below.)

**Exhibit 1. Historical Terms of Hotel Whitcomb Agreement**

	<b>Original Agreement Total</b>	<b>Amendment 2</b>	<b>Amendment 3</b>	<b>Proposed Amendment 4</b>	<b>Unit Cost</b>
Number of Rooms	459 rooms	459 rooms	459 rooms	459 rooms	
Daily Room Rate	\$99	\$99	\$99	\$99	
Expiration Date	August 7, 2020	August 7, 2020	July 1, 2021	March 1, 2022	
Term length	122 nights	122 nights	449 nights	691 nights	
Room Costs	5,543,802	5,543,802	20,403,009	31,399,731	\$99.00
Food Costs	3,000,000	3,314,627.70	11,040,984	16,991,804	\$53.57
Linen Costs	300,000	300,000	1,104,098	1,699,169	\$5.36
Contingency (15%)	831,570	831,570	3,060,451	4,709,960	\$14.85
<b>Not to Exceed Amount</b>	<b>9,675,372</b>	<b>9,990,000</b>	<b>35,608,542</b>	<b>\$54,800,664</b>	<b>\$172.78</b>

Source: Amendments 1-4 of the Emergency Agreement with 1231 Market Street Owner, LP

On July 6, 2020, the City exercised its option under Section 2.2 of the Agreement to extend the Term (“Booking Period”) on a month-to-month basis commencing August 8, 2020.

On July 27, 2020, HSA administratively adopted the Second Amendment to the Agreement under its Emergency Ordinance Authority to increase the maximum value of the food service program and therefore increase the total not to exceed amount from \$9,675,372 to \$9,990,000.

On August 25, 2020, the Board approved the Third Amendment to the Agreement (File 20-0819) which extended the term of the agreement by 327 days through July 1, 2021, and increased the not to exceed amount from 9,990,000 to \$35,608,542.

*Alternative Shelter Program- Status as of May 2021*

According to HSA, as of May 2021, the City provides 3,520 active units via the Alternative Shelter Program, with most units in private hotels.

**Exhibit 2. Alternative Shelter Program, May 2021**

<b>Category</b>	<b>Units</b>
Hotel Rooms <sup>a</sup>	2,684
Congregate Units	893
Recreational Vehicles	120
<b>Total units</b>	<b>3,697</b>

Source: HSA

<sup>a</sup> Includes 2,507 Shelter in Place Hotel rooms and 177 Isolation & Quarantine and front-line worker hotel rooms

Each hotel in the program has a small number of rooms set aside as buffer rooms to allow for relocation of guests in instances where their rooms have to be vacated for safety reasons (e.g. plumbing or other emergency repairs needed, deep cleaning or pest abatement needs). Most hotels have three buffer rooms, though hotels that are significantly larger than average have more. Additionally, at any given time there are rooms offline for cleaning and repair as guests exit, although HSA notes that the COVID-19 Command Center (CCC) makes significant efforts to reduce the number of rooms offline for cleaning or repair.

As of May 2021, 2,204 of the 2,507 Shelter in Place Hotel rooms were available for occupancy (88 percent), and 1,997 were occupied (88 percent), shown in Exhibit 3.

**Exhibit 3. Utilization of Available Hotel Rooms May 2021**

	<b>COVID 19 positive</b>	<b>COVID 19 negative <sup>a</sup></b>	<b>Front-line workers</b>	<b>Total</b>
Occupied rooms	20	1,977	0	1,997
Unoccupied Rooms	107	81	19	207
<b>Total Rooms <sup>b</sup></b>				<b>2,204</b>

Source: HSA

<sup>a</sup> Includes at-risk population

<sup>b</sup> Does not include rooms permanently offline for use by staff or for storage, or those temporarily offline for cleaning, repairs, or decontamination.

*Rehousing post pandemic*

As the community recovers from the COVID-19 pandemic, the City has begun the process of rehousing guests temporarily sheltered in Shelter in Place hotels. Accordingly, the number of guests is expected to decrease at Hotel Whitcomb through early 2022.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would approve the fourth amendment to the Emergency Agreement between the City and 1231 Market Street Owner, L.P., for the continued use of 459 hotel rooms and associated services by increasing the agreement amount by \$19,192,122, from \$35,608,542 to not to exceed \$54,800,664; and would extend the booking period by an additional 244 nights, for a total term of 691 nights from April 8, 2020 to March 1, 2022.

The Amendment also adds language stating that although the property is not currently being operated as a Tourist Hotel, Hotel Whitcomb intends to resume operations as a Tourist Hotel upon expiration or other earlier termination of the Agreement.

Furthermore, the agreement adds a clause (8.1.1.c) enabling the hotel owner to terminate this Agreement with at least 90 days' written notice to the City if at any time during the Booking Period, the property (or a majority of the ownership interest therein) is transferred to another entity not currently affiliated with Hotel. According to HSA, this event is "very unlikely to happen, even if a majority stake in the company was sold". But if the clause were exercised, HSA would move Hotel Whitcomb's place in the demobilization schedule forward and push other hotels back. This would involve adjusting the sequence of housing referrals but would be manageable with 90 days' notice. In the event all guests are not referred to housing within 90 days, some guests may need to transfer to another hotel that is later in the demobilization schedule, or to a congregate shelter.

**FISCAL IMPACT**

Hotel Whitcomb is on track to spend the entirety of its budget for the current agreement term ending on July 1, 2021. The Hotel invoices the City every month.

**Exhibit 4. Hotel Whitcomb Budget vs Actuals, April 8, 2020 - April 30, 2021**

	Total Budgeted	Actual Expenses
Room	\$20,403,009	\$20,403,009
Linen	1,104,098	1050000
Food	11,040,984	10,915,115
Contingency (15%) <sup>a</sup>	3,060,451	2,355,240
<b>Total</b>	<b>35,608,542</b>	<b>\$34,723,364</b>

Source: HSA

<sup>a</sup> The original agreement provides for Hotel Whitcomb to invoice the City each month for the flat room rate of \$99 and for additional reimbursable services, up to 15 percent of the flat room rate.

*Funding Sources*

The Fourth Amendment to the Agreement would be funded by the General Fund. HSA anticipates that similar to FY 2020-21, around 94 percent of the \$54.8 million not to exceed threshold established in the Fourth Amendment will be reimbursed by FEMA. The remaining costs that are not eligible for FEMA reimbursement—due to client ineligibility or costs incurred after the September 2021 expiration of FEMA funding—will be funded by a combination of revenues that the City is carrying forward into FY 2021-22. Among these revenues are the Community Development Block Grant Program (Federal), Shelter in Place Homeless Housing, Assistance, and Prevention Program (State), 2018 Proposition C (County), and the Emergency Solutions Grant (Federal).

**RECOMMENDATIONS**

1. Amend the proposed resolution to correctly state that the increase in the agreement amount is \$19,192,122.
2. Approve the proposed resolution as amended.