

**BOARD OF SUPERVISORS  
BUDGET ANALYST**

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May 12, 2014

**TO:** Members of the Board of Supervisors



**FROM:** Budget and Legislative Analyst's Office

**SUBJECT:** May 13, 2014 Board of Supervisors Meeting  
Item 27, File 14-0392: Hearing – Nonprofit Rent Stabilization Program Release of Reserves

Attached is the Budget and Legislative Analyst's Office's report on the requested release of \$4,515,000 in General Fund Reserves for Nonprofit Rent Stabilization in FY 2013-14.

**Item 27**  
**File 14-0392**  
*(Continued from April 29, 2014)*

**Department:**  
**Mayor's Office of Housing and Community Development**

## EXECUTIVE SUMMARY

### Legislative Objectives

- Hearing to consider the release of General Fund Reserve monies placed on reserve by Ordinance No. 33-14 (File 14-0088) in the amount of \$4,515,000 for Nonprofit Rent Stabilization in FY 2013-14.

### Key Points

- On April 13, 2014, the Board of Supervisors approved a supplemental appropriation of \$4,515,000 of General Fund Reserve monies and placed those funds on Board of Supervisors' Reserve, pending the completion of a report by the Nonprofit Displacement Work Group's report, to provide more specific details on how the funds would be allocated. The Nonprofit Displacement Work Group's report has now been completed.
- The Nonprofit Displacement Work Group report identifies 30 possible options for addressing nonprofit organizations potential displacement, which are divided into the following five groups: (1) providing direct financial assistance to nonprofit organizations; (2) identifying available space for nonprofit location; (3) developing public/private partnerships to leverage funding and additional resources; (4) creating planning/zoning/developer/incentive agreements; and (5) providing technical assistance to increase nonprofit real estate transaction capacity. Each of the 30 options is further subdivided into recommendations, priority level and likely time frame for completion.
- According to the Mayor's Office of Housing and Community Development (MOHCD), MOHCD and the Arts Commission would work to immediately select one or two intermediary organizations to disburse the \$2,515,000 in City funds for nonprofit organizations and \$2,000,000 in City funds specifically for arts nonprofit organizations. MOHCD expects selection of the fiscal intermediary by June 2014.
- According to Mr. Brian Cheu, Director of Community Development at the Mayor's Office of Housing and Community Development, the Nonprofit Displacement Work Group developed selection criteria for the intermediary organizations and eligibility criteria for nonprofits to receive rent stabilization disbursements, which will be presented to the May 13, 2014 Board of Supervisors meeting. However, because MOHCD and the Arts Commission do not have specific funding recommendations to nonprofit organizations at this time, the Budget and Legislative considers release of the requested \$4,515,000 to be a policy decision for the Board of Supervisors.

### Recommendations

- Because MOHCD and the Arts Commission do not have specific funding recommendations for the nonprofit organizations at this time, the Budget and Legislative considers release of the requested \$4,515,000 to be a policy decision for the Board of Supervisors.
- If the Board of Supervisors approves this release, MOHCD and the Arts Commission should be requested to report back to the Board of Supervisors identifying the specific nonprofit organizations, the amount of funds received by each and the uses of these City funds within six months.

## MANDATE STATEMENT

In accordance with Section 3.3 of the City's Administrative Code, the Board of Supervisors or the Budget and Finance Committee may place requested expenditures on reserve which are then subject to release by the Board of Supervisors or the Budget and Finance Committee.

## BACKGROUND

### ***Budget and Legislative Analyst 2013 Report on the Impact of Increasing Rents in San Francisco on Local Nonprofits***

On October 8, 2013, the Budget and Legislative Analyst issued a report to Supervisor Kim on the impact of increasing rents in San Francisco on local nonprofits. This report identified that as of July 2013, there were 6,005 nonprofit organizations in San Francisco; nonprofit organizations had 1,425 separate contracts with the City and County of San Francisco. In addition, the Budget and Legislative Analyst found that commercial vacancy rates decreased Citywide, reflecting the reduction in available commercial space in the City. At the same time, average City commercial rental rates increased between 2011 and 2013 from \$39.67 per square foot per year to \$52.69 per square foot per year, a 32.8% increase. The Budget and Legislative Analyst concluded that the financial burden of renting in San Francisco may require nonprofit organizations to devote a greater proportion of resources to renting, taking away from resources that could otherwise go to providing services to San Francisco residents.

### ***Nonprofit Displacement Work Group***

On November 5, 2013, the Board of Supervisors approved a resolution (File 13-1072; Resolution 395-13) urging the Director of the Mayor's Office of Housing and Community Development to convene a work group to develop a series of recommendations on how the City can address the issue of nonprofit displacement. In accordance with this resolution, this work group would include staff from the Mayor's Office of Housing and Community Development, Mayor's Office of Public Policy and Finance, Arts Commission, Office of Economic and Workforce Development, the Human Services Agency, the Department of Public Health, Department of Children, Youth and their Families, Real Estate Division and the Planning Department as well as a broad representation of nonprofit organizations, neighborhood advocates and impacted clients. As specified in the resolution, this work group would convene within 30 days and present a report to the Board of Supervisors within 120 days from its first meeting that includes a series of recommendations and action items.

Mr. Brian Cheu, Director of Community Development at the Mayor's Office of Housing and Community Development, advises that a Nonprofit Displacement Work Group was created and convened its first meeting on December 13, 2013. According to Mr. Cheu, the Nonprofit Displacement Work Group met monthly and will present a report to the Board of Supervisors on April 29, 2014. Mr. Cheu notes that in addition to the resolution's specified representatives,

the Nonprofit Displacement Work Group included representatives from two Board of Supervisors offices<sup>1</sup>, the Office of the City Administrator, the Controller's Office and specified nonprofit and other interested organizations<sup>2</sup>.

***\$4,515,000 General Fund Supplemental Appropriation for Nonprofit Rental Program***

On April 3, 2014, the Board of Supervisors approved a \$4,515,000 General Fund Reserve supplemental appropriation (Ordinance #033-14) for a Nonprofit Rent Stabilization Program, as summarized in Table 1 below.

**Table 1: Proposed Source and Uses of \$4,515,000 General Fund Reserve**

<b>Source of Funds</b>	
General Fund Reserve	\$4,515,000
<b>Use of Funds</b>	
Nonprofit Rent Stabilization Program	
Mayor's Office of Housing and Community Development	\$2,515,000
Arts Commission	<u>2,000,000</u>
Total	\$4,515,000

Although there is an identified need to address the issue of escalating commercial rents impacting nonprofit organizations in San Francisco, the Budget and Legislative Analyst recommended placing all of the \$4,515,000 on reserve and considered approval of the proposed appropriation to be a policy matter for the Board of Supervisors because (a) the amount of funding needed for a new Nonprofit Rent Stabilization Program had not yet been determined, (b) whether this Program would require only this one-time appropriation or require ongoing appropriations was not known, (c) the specific uses of the subject \$4,515,000 had not yet been decided, and (d) specified criteria for equitable allocation of the proposed funding had not been determined.

The Board of Supervisors placed the entire \$4,515,000 on Board of Supervisors Reserve pending the release of the Nonprofit Displacement Work Group's report, to provide more specific details on how such funds would be allocated.

## **DETAILS OF PROPOSED REQUEST**

The proposed request from the Mayor's Office of Housing and Community Development (MOHCD) is for the release of the entire \$4,515,000 currently on reserve, including

<sup>1</sup> Representatives from President Chiu and Supervisor Kim's offices.

<sup>2</sup> Such nonprofit and interested organizations include Catholic Charities, Central City Hospitality House, Council of Community Housing Organizations, In-Home Supportive Services Consortium, Larkin Street Youth Services, Legal Assistance for the Elderly, Lutheran Social Services, Northern California Community Loan Fund, Positive Resource Center, San Francisco Foundation, Tenderloin Neighborhood Development Corp., Vietnamese Youth Development Center, Yerba Buena Center for the Arts, and YMCA of San Francisco.

- \$2,515,000 for MOHCD for nonprofit rent displacement stabilization services for all general nonprofit organizations; and
- \$2,000,000 for the Arts Commission to be used for nonprofit rent displacement stabilization services for nonprofit arts organizations.

***Nonprofit Displacement Work Group Report***

As noted above, the release of the \$4,515,000 reserve for the Nonprofit Rent Stabilization Program was subject to the release of a report by the Nonprofit Displacement Workgroup, to provide more specific details on how such funds would be allocated.

The Nonprofit Displacement Work Group report identifies 30 possible options for addressing nonprofit organizations potential displacement, which are divided into the following five groups:

- 1) Providing direct financial assistance to nonprofit organizations;
- 2) Identifying available space for nonprofit location;
- 3) Developing public/private partnerships to leverage funding and additional resources;
- 4) Creating planning/zoning/developer/incentive agreements; and
- 5) Providing technical assistance to increase nonprofit real estate transaction capacity.

Each of the 30 options is further subdivided into recommendations, priority level and likely time frame for completion. Twelve options are listed as high priority, 11 are medium priority, and seven are low priority. Many of these options have multiple time frames, such that 11 of these options are considered short-term, 20 are considered medium-term options, and 21 are long-term.

***Selection of Intermediaries***

Mr. Cheu advises that based on a Request for Proposal (RFP) process, MOHCD and the Arts Commission would work to immediately select intermediary organizations to disburse the \$2,515,000 in City funds for nonprofit organizations and \$2,000,000 in City funds specifically for arts nonprofit organizations. According to Mr. Cheu, the Nonprofit Displacement Work Group recommends the following selection criteria for intermediaries:

- Must be a 501(c)(3) in good standing.
- Must have a strong track record of working with San Francisco nonprofits (non-arts intermediary).
- Must have a strong track record of working with San Francisco arts and cultural organizations (arts intermediary).
- Must have expertise in technical assistance regarding organizational space needs.
- Must be able to provide assistance, directly or through subcontracts, in areas including
  - Space analysis;
  - Lease negotiation and review;
  - Financing options;
  - Capital campaigns;
  - Back office sharing;

- Co-location; and
- Linkage to brokerage services, building vacancy survey and use analysis and other related areas.
- Ability to oversee distribution of sub-grants for tenant improvements, emergency rental stipends and security deposits.

In addition to the eligibility criteria listed above, intermediaries must fulfill the following requirements of their contract with the City:

- Must provide monthly programmatic updates to MOHCD and the Arts Commission.
- Must provide annual report of assistance offered and status of nonprofits assisted.
- Indirect costs reflective of City cap of 15%.
- Program costs must be commensurate with scope of activities provided.

### ***Selection of nonprofits receiving assistance***

According to Mr. Cheu, the Nonprofit Displacement Work Group recommends the following eligibility criteria for nonprofits applying for funding through the intermediaries:

- Must be a 501(c)(3) in good standing.
- Must have been in San Francisco for at least three years.
- Must show direct risk of displacement.
- Must be financially stable (but for displacement).
- Must have a record of effective programming.

Priority will be to agencies with leases expiring within the next 18 months. The program will be made available to nonprofits Citywide and not be limited to specific neighborhoods or geographies. Nonprofit agencies having contracts with the City as well as nonprofit agencies not having contracts with the City will both be eligible for these funds. Funds provided through the Nonprofit Rent Stabilization Program cannot be used to supplant general operating deficits, and funding can only be sought once during a three-year period.

### ***Timeline for next steps***

To implement this effort, the Nonprofit Displacement Work Group report identifies the following overall timeline:

- April 2014 – presentation of report and release of funds.
- May 2014 – release of RFP from MOHCD and Arts Commission for the procurement of intermediary organizations to disburse direct financial assistance.
- June 2014 – selection of intermediaries and launch of technical assistance program; launch of sub-grant program for tenant improvements, emergency rental stipends and security deposits.
- July 2015 – annual evaluation report on results of assistance programs and update on nonprofit displacement.

Although the Nonprofit Displacement Work Group has identified selection criteria for the intermediaries allocating funds to nonprofits, and eligibility criteria for nonprofits to receive the funds, the criteria do not specify:

- Maximum awards to individual nonprofit organizations;
- Amounts to be awarded for specific rental displacement needs; or
- Whether funding options are one-time or ongoing.

In addition, because MOHCD and the Arts Commission do not have specific funding recommendations for the nonprofit organizations at this time, the Budget and Legislative considers release of the requested \$4,515,000 to be a policy decision for the Board of Supervisors.

## RECOMMENDATIONS

1. Because MOHCD and the Arts Commission do not have specific funding recommendations for the nonprofit organizations at this time, the Budget and Legislative considers release of the requested \$4,515,000 to be a policy decision for the Board of Supervisors.
2. If the Board of Supervisors approves this release, MOHCD and the Arts Commission should be requested to report back to the Board of Supervisors identifying the specific nonprofit organizations, the amount of funds received by each and the uses of these City funds within six months.