CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: February 26, 2025 Budget and Finance Committee Meeting

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Item 1 **File 25-0142**	**Department:** Mayor's Office of Housing and Community Development (MOHCD)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a loan in an amount not to exceed $50,600,000 from the Mayor's Office of Housing and Community Development (MOHCD) to Tenderloin Neighborhood Development Corporation (TNDC) for the acquisition and rehabilitation of the Normandy Apartments at 1135, 1155, and 1175 Ellis Street.

Key Points

- The Normandy Apartments, located at 1135, 1155, and 1175 Ellis Street, is a three-story, 70,000-square foot building constructed in 1968 with 108 residential units and five small office suites. The 108 units include 78 studios and 30 one-bedroom units. As of November 2024, the residential units were approximately 90 percent occupied. Of the five office suites, two were used for property management offices and storage, one was leased to a commercial tenant, and two were vacant.
- Because the project scored less than 70 points under the Small Sites Program scoring criteria, it was subject to further review by the MOHCD Director. The MOHCD Director approved the project given the relatively low acquisition cost per unit and the location of the site in District 2, which does not have many opportunities for affordable housing sites.
- TNDC acquired the building on January 31, 2025 with a short-term loan from the Housing Accelerator Fund. The proposed loan would take out the HAF acquisition loan and provide $11.9 million to rehabilitate the building. The rehabilitation scope includes extension of fire sprinkler systems into residential units and common spaces, electrical upgrades, asbestos remediation related to fire sprinkler and electrical upgrades, Americans with Disabilities Act (ADA) upgrades to 14 units, and other fire safety improvements and repairs.

Fiscal Impact

- The City will provide up to $50.6 million to TNDC for the project, including Small Sites funding of up to $28,757,872 and Preservation and Seismic Safety (PASS) loans of up to $21,842,128. The PASS loans are funded by two PASS General Obligation Bond series (Series 2019A and Series 2020C). The Small Sites funding is from Community Development Block Grant funding, 2019 General Obligation Bonds, 2024 General Obligation Bonds, the Housing Trust Fund, the Housing Stability Fund, and the Affordable Housing Fund.
- The loan amount of $50.6 million is equal to $468,519 per unit, including PASS funding of $202,242 per unit and Small Sites funding of $226,277 per unit. The Small Sites funding is approximately 38 percent less than the maximum permitted under program guidelines.

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

Small Sites Program

The Small Sites Program (SSP), administered by the Mayor's Office of Housing and Community Development (MOHCD), was created in 2014 to provide loans for acquiring and rehabilitating multi-family rental buildings of five to 25 units. The Program has issued two Notices of Funding Availability (NOFA), one in 2014 and an updated one in 2019. MOHCD issued updated guidelines in September 2022. The new guidelines prioritize sites that have between five and 40 units but allow funding for larger sites. Applications for Small Site funding are scored based on housing affordability (35 possible points), community stabilization (35 possible points) and geographic equity (30 possible points). The proposed project, sponsored by Tenderloin Neighborhood Development Corporation (TNDC), achieved a score of 61 points. Because the project scored less than 70 points, it was subject to further review by the MOHCD Director. According to MOHCD staff, the MOHCD Director approved the project because of the relatively low acquisition cost per unit and the location of the site in District 2, which does not have many opportunities for affordable housing sites.

PASS Loan Financing

In addition to Small Sites Program loans, some Small Sites projects also receive loans through the Preservation and Seismic Safety (PASS) program. The PASS program was authorized by voters in 2016 and provides low-cost financing to fund the acquisition and preservation of affordable housing and seismic retrofits to existing buildings. The program is funded by $260.7 million in general obligation bonds, including $156.0 million for market-rate loans and $104.7 million for below-market rate interest or deferred interest loans. Unlike other MOHCD permanent loans for affordable housing which are structured as soft debt and repaid through residual receipts, PASS program loans are structured as hard debt, which means they must be repaid every month for the duration of the lending period.

Normandy Apartments

The Normandy Apartments, located at 1135, 1155, and 1175 Ellis Street, is a three-story, 70,000-square foot building constructed in 1968 with 108 residential units and five small office suites. The 108 units include 78 studios and 30 one-bedroom units. As of November 2024, the residential units were approximately 90 percent occupied. Of the five office suites, two were used for property management offices and storage, one was leased to a commercial tenant, and two were vacant. TNDC believes that the suites are not easily marketable and may possibly be unpermitted, so only the leased unit was used in the cashflow modeling. The building also includes 120 parking spaces, of which 59 were leased to tenants, 49 were leased to non-residents, and 12 were vacant.

TNDC became aware of the site in August 2024 when the building was listed for sale through the Community Opportunity to Purchase Act (COPA), which requires multifamily residential building owners to notify certain nonprofits and provide them with the right of first refusal when listing their properties for sale. TNDC acquired the building on January 31, 2025 with a short-term loan from the Housing Accelerator Fund. The proposed loan would take out the HAF acquisition loan and fund the rehabilitation of the Normandy Apartments.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would: (1) authorize the MOHCD Director to execute loan documents for the permanent financing of 1135, 1155, and 1175 Ellis Street pursuant to the SSP and PASS programs, for a total loan amount not to exceed $50,600,000; (2) confirm the Planning Department's determination under the California Environmental Quality Act (CEQA); (3) find that the loan is consistent with the General Plan and Planning Code; and (4) authorize the MOHCD Director or their designee to modify the loan documents and take certain actions in furtherance of the resolution.

The documents approved as part of this resolution include (1) Loan Agreement between the City and 1155 Ellis GP LLC (an affiliate of TNDC); (2) Declaration of Restrictions for affordable housing; (3) City Option to Purchase; (4) Promissory Notes; and (5) Deeds of Trust.

Loan Agreement and Repayment

The proposed loan agreement provides for a loan amount not to exceed $50.6 million, including an SSP loan of up to $28,757,872 and a PASS loan of up to $21,842,128. The PASS loan is funded by two PASS General Obligation Bond series (Series 2019A and Series 2020C) and includes six components: (1) two market-rate loans; (2) two below market-rate loans; and (3) two deferred loans. MOHCD combines PASS market-rate loans with PASS affordable loans (below market-rate and deferred) to create a blended interest rate and maximize total bond proceeds available for affordable housing preservation projects. The interest rates and repayment terms for the loans are provided in Exhibit 1 below based on the terms in seven separate promissory notes (two for each type of PASS loan and one for the SSP loan). There are two notes for each type of PASS loan since the funds were made available via two separate bond issuances, 2019A and 2020C. The loans mature 40 years after the recordings of the deeds of trust.

Exhibit 1: PASS and SSP Loan Summary for Normandy Apartments

Loan	Amount	Annual Interest Rate	Interest Type	Repayment
PASS Market Rate (2019A)	$933,904	5.17%	Compound	Monthly Payments
PASS Market Rate (2020C)	12,337,122	3.87%	Compound	Monthly Payments
PASS Below Market Rate (2019A)	546,981	1.39%	Compound	Monthly Payments
PASS Below Market Rate (2020C)	6,806,688	0.96%	Compound	Monthly Payments
PASS Deferred (2019A)	103,243	1.39%	Compound	Repaid at Maturity
PASS Deferred (2020C)	1,114,190	0.96%	Compound	Repaid at Maturity
PASS Subtotal	*$21,842,128*			
SSP Loan	28,757,872	3.00%	Simple	Annual Payments, equal to 2/3 of Residual Receipts
Total	**$50,600,000**			

Source: Master Promissory Notes

Required Rents and Option to Purchase

The Declaration of Restrictions, which covers all loan products, outlines required rents for all units for existing tenants. Rents for units that become vacant will be set so that the combined average rents for all units are as close as possible but no greater than the amount calculated as 30 percent of 80 percent of Area Median Income (AMI). Over 50 percent of units must be occupied by households at or below 80 percent of AMI, and no vacant unit may be filed with a household earning more than 120 percent of AMI. The affordability restrictions would be in place for no less than 99 years.

As of February 2024, TNDC has income certified 57 households out of 91 occupied units according to MOHCD staff. Per the SSP guidelines, because the SSP subsidy is less than $275,000 per unit, TNDC does not have to complete income certification before obtaining an SSP loan but must complete income certification within the first year of operation. However, to receive Community Development Block Grant funding (one of the proposed SSP loan funding sources), TNDC must certify income at least 51 percent of current tenants by April 15, 2025 to demonstrate compliance with income requirements of the CDBG program. According to MOHCD staff, the project is expected to meet CDBG income requirements.

The Purchase Option Agreement grants the City the option to purchase the property if the owner fails to comply with the affordability restrictions, if the Declaration of Restrictions is terminated, or if the owner receives another offer to purchase the property after the City's loan is repaid. The exercise period of the agreement is 99 years after the recording of the Declaration of Restrictions.

Rehabilitation Scope

The proposed loan funds $11.9 million of rehabilitation work (including soft costs) that will be undertaken by TNDC and overseen by MOHCD. MOHCD is funding the construction work upfront, rather than partnering with the Housing Accelerator Fund, to reduce interim financing costs. The resulting savings are partially offset by City procurement and labor requirements that follow with City funding, including prevailing wage and local business enterprise requirements.

The rehabilitation scope includes extension of fire sprinkler systems into residential units and common spaces, electrical panel and wiring upgrades, demolition and hazardous materials remediation for asbestos related to fire sprinkler and electrical upgrades, fire and life safety emergency signage, removal of wood burning fireplaces, potential upgrades and repairs to the plumbing and sewer system, waterproofing and exterior repairs, and modifying 14 units for Americans with Disabilities Act (ADA) compliance, as well as common area modifications as needed. According to the MOHCD loan evaluation memo to the Citywide Affordable Housing Loan Committee, the rehabilitation scope was based on a Physical Needs Assessment.

Under the proposed loan agreement, construction must begin by September 30, 2025 and be completed by December 31, 2026. The project must achieve 100 percent occupancy by June 30, 2027.

FISCAL IMPACT

The proposed loan would provide up to $50,600,000 to TNDC for the acquisition and rehabilitation of the Normandy Apartments. The sources and uses of funding are shown in Exhibit 2 below.

Exhibit 2: Sources and Uses of Proposed Loan

Sources	Amount
SSP Loan	$28,757,872
PASS Market-Rate Loans	13,271,026
PASS Below Market-Rate Loans	7,353,669
PASS Deferred Loans	1,217,433
Total Sources	**$50,600,000**

Uses	Amount
Acquisition	$35,800,000
Construction *(incl 18% contingency)*	9,850,099
Soft Costs *(incl 14% contingency)*	2,161,576
Reserves	1,603,325
Developer Fee	1,185,000
Total Uses	**$50,600,000**

Source: Proposed Loan Agreement

The acquisition cost of $35.8 million is supported by an appraisal conducted by Mateo Advisors in October 2024. Construction costs include an 18 percent hard cost contingency which includes the standard 15 percent per SSP program guidelines plus an additional three percent as a result of the planned asbestos remediation. Reserves total $1.6 million and include $610,201 in operating reserves, $236,000 in replacement reserves, and $757,125 in vacancy reserves.[1] Total costs include $1,185,000 in developer costs and $2,161,576 in soft costs, including $635,200 in relocation costs.[2]

Small Sites Loan Sources

The proposed Small Sites Program loan is funded by:

- $12,274,000 from Community Development Block Grant funding
- $5,356,000 from 2019 General Obligation Bond funds
- $4,025,829 from 2024 General Obligation Bond funds
- $2,999,782 from the Housing Trust Fund
- $2,102,261 from the Housing Stability Fund
- $2,000,000 from the Affordable Housing Fund

City Subsidy

SSP program guidelines establish the maximum City subsidy per unit for acquisition, rehabilitation, and permanent financing based on the unit type, ranging from $275,000 for each single room occupancy unit up to $550,000 per ADU studio unit. However, the MOHCD Director can approve funding above the maximum guidelines if the project meets minimum scoring requirements.

The not to exceed City loan of $50.6 million is equal to $468,519 per unit, including PASS funding of $202,242 per unit and SSP funding of $226,277 per unit. Based on the unit mix of the building, the SSP funding ($226,277 per unit) is approximately 38 percent less than the maximum permitted under program guidelines ($364,000 per unit).[3]

Because PASS funding is a hard debt product, there are no comparable guidelines for PASS funding, but PASS loans are constrained and sized based on a minimum debt service coverage ratio of 1.15, a maximum loan-to-value ratio of 90 percent, and a maximum loan-to-cost ratio of 80 percent.

Operating Revenues and Expenses

According to the 20-year cash flow analysis for the project, the project's revenues are sufficient to cover operating expenses, reserves, and management fees. Project revenues consist of tenant rents, parking income, and commercial rents. The operating budget assumes annual rental

[1] Operating reserves support unanticipated operating costs for at least 20 years. Replacement reserves support the project's capital needs over time. Vacancy reserves cover vacancy rates exceeding the five percent anticipated average. SSP guidelines require an operating reserve equal to 25 percent of the first-year operating budget and a replacement reserve equal to the greater of $2,000 per unit or the amount needed to fund capital costs for the next 10 years (based on an approved Capital Needs Assessment).

[2] MOHCD anticipates that exiting tenants would have to be relocated for approximately 40 days to allow for construction.

[3] Maximum subsidy is calculated as $350,000 for each of the 78 studio units and $400,000 for each of the one-bedroom units.

income loss of 10 percent for residential units (for the first three years), 25 percent for parking, and 20 percent for commercial space. Starting in Year 4, the rental income loss declines to five percent. As mentioned above, approximately 10 percent of the residential units and parking spaces were vacant as of November 2024, and only one of five commercial spaces was occupied by a commercial tenant. According to MOHCD, the residential vacancy assumption of five percent (starting in Year 4) is consistent with other Big Site projects and TNDC's other non-SRO projects.

PASS loans must be repaid according to the terms discussed above. A portion of net income after operating expenses (residual receipts) will be used to repay the SSP loan.

RECOMMENDATION

Approve the proposed resolution.

Item 2 **File 25-0075**	**Department:** Public Utilities Commission

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution authorizes the SFPUC General Manager to execute the first amendment to SFPUC's contract with CDM Smith, increasing the contract amount by $9.6 million, from $15 million to $24.6 million, extending the contract term by four years, for a total of 10 years, from February 2020 through February 2030, and expanding the scope of work.

Key Points

- Algae-related taste and odor issues in the Sunol Valley reservoirs and treatment plant have prompted SFPUC to install ozonation technology at the facilities, which breaks down organic compounds and improves water treatment reliability. Construction started in September 2024 and is expected to finish by February 2029, with closeout in February 2030.
- Under an existing contract, CDM Smith provides planning and design services for the Sunol Valley Water Treatment Plant Ozonation Project and may also provide "optional" engineering support during construction. The proposed amended scope now covers construction support, additional improvements at the Sunol Valley Water Treatment Plant (including a utility/fire water pump station), and expanded operations and maintenance services such as operator training and treatability testing.

Fiscal Impact

- The proposed contract amendment increases the contract value by $9.6 million to provide engineering support during construction under the expanded scope and project timeline.
- The SFPUC FY 2025–2034 Capital Plan includes $252.1 million for this project, and the SFPUC Commission has approved increasing the project budget to $326.3 million as part of the 2025 mid-cycle budget approval process due to cost increases and scope expansion. Project costs are funded by Water customer revenues and Water revenue bonds.

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

Sunol Valley Water Treatment Plant Ozonation Project

The San Francisco Public Utilities Commission (SFPUC) owns and operates the Sunol Valley Water Treatment Plant, which serves approximately 2.7 million customers in San Francisco, Alameda, Santa Clara, and San Mateo counties. One-third of the water supply is allocated to San Francisco, while the remaining two-thirds go to customers outside the city.

As noted in the January 2020 report on this contract, algae levels in the reservoirs have caused taste and odor issues in treated water. The SFPUC evaluated multiple treatment methods and selected ozonation for its ability to break down organic compounds and enhance treatment reliability.

SFPUC's Sunol Valley Water Treatment Plant Ozonation Project is an ongoing project within the Water Enterprise to install ozonation infrastructure at the Sunol Valley Water Treatment Plant. The project was originally estimated to cost $165.1 million. In the approved FY 2025–2034 Ten-Year Capital Improvement Program, the budget increased to $252.1 million. The SFPUC Commission has approved increasing the project budget to $326.3 million as part of the 2025 mid-cycle budget approval process (subject to Board of Supervisors' approval) to address higher-than-anticipated costs and expanded scope. The SFPUC awarded a $234.8 million construction contract to J.F. Shea Construction, Inc. for the project. According to SFPUC staff, the construction bids were approximately 28 percent higher than the final engineer's estimate by SFPUC engineers because of a limited pool of qualified contractors, price volatility for specialized supplies and equipment, and the complexities of retrofitting an active water treatment facility.

Project Status

The SFPUC reports that planning and design activities are complete, and construction began in September 2024. The current construction is expected to be complete by February 2029. Project closeout is expected to be completed by February 2030.

Previous Contract Actions

On November 12, 2019, the SFPUC Commission awarded a six-year contract (March 2020 – March 2026) to CDM Smith, Inc. (CDM Smith) in a not-to-exceed amount of $15 million, with an option to extend for three additional years. The agreement, covering planning and design services for the Ozonation Project, was approved by the Board of Supervisors on January 14, 2020 (File 19-1212).

On January 14, 2025, the SFPUC Commission approved Amendment No. 1 to this contract, which increases the contract amount, extends the term by four years, and expands the scope to provide comprehensive engineering support during construction.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution authorizes the SFPUC General Manager to execute Amendment No. 1 to Contract No. PRO.0120 with CDM Smith, increasing the contract amount by $9.6 million, from $15 million to $24.6 million, extending the contract term by four years, for a total of 10 years, from February 2020 through February 2030, and expands the scope of work.

Scope of Work

Under the original agreement, CDM Smith was responsible for planning and design services for the Ozonation Project, with possible engineering support during construction. Amendment No. 1 now includes engineering support, including during construction, for both the Ozonation Project and a portion of the Sunol Valley Water Treatment Plant Short-Term Improvements Project, which involves design and engineering support for a larger utility/fire water pump station.

Amendment No. 1 also adds tasks to support operations and maintenance, including the development of standard operating procedures, operator training, preventative maintenance plans, asset tagging, and additional water treatability testing.

Updated Contract Term

The original six-year contract term (plus three optional one-year extensions) has been extended to 10 years (without any options to extend) to align with changes to the project schedule. The project's planning and design phase increased from two to four years to accommodate added surveys, water treatability testing, raw water blending capabilities, utility water/fire protection system upgrades, wash water recovery system upgrades, a peer review panel, and reconfigurations to the ozone contact structure (a tank for facilitating the transfer of ozone gas into the target liquid). The construction and closeout phase were also extended from 2.5 years to 4.5 years to address the expanded project scope and higher volume of engineering support.

Updated Contract Costs

The proposed $9.6 million increase in the contract value addresses the extended engineering support through construction and closeout, the addition of the Short-Term Improvements Project to this contract, and new operations and maintenance services. Of this amount, $7.7 million covers continued support for the Ozonation Project during the longer schedule. An additional $700,000 supports the Short-Term Improvements Project, including the new utility/fire water pump station, which was found to be necessary because the existing system was undersized. Another $1.2 million covers ongoing operations and maintenance activities, including standard operating procedures, operator training, preventative maintenance planning, and water treatability testing.

California Environmental Quality Act (CEQA) Compliance

On July 13, 2023, the San Francisco Planning Department issued an Addendum to the Final Environmental Impact Report for the ozonation facility, polymer feed facility, and repairs and improvements to existing treatment facilities at the plant. Although no new regulatory obligations were imposed, the project required a Bald and Golden Eagle Protection Act Permit from the U.S. Fish and Wildlife Service, which resulted in an additional $20,000–$30,000 to redesign power poles for aviary safety and $116,000 for an eagle mitigation bank contribution.

Local Business Enterprise (LBE) Program

The RFP required an eight percent minimum LBE participation. CDM Smith committed 10.9 percent and has thus far exceeded that target (about 11 percent). LBE subconsultants are detailed in Exhibit 1.

Exhibit 1: LBE Subconsultants

Sub-consultant	Scope of Work	Participation To-Date		Projected Participation	
AGS Inc.	Environmental, paving, grading and drainage design	$356,326	2.93%	$618,485	2.51%
Exaro Technologies	Utility identification and Location	78,849	0.65	78,849	0.32
Geotechnical Consultants	Geotechnical and seismicity services	594,269	4.89	962,342	3.91
Joe Hill	Facilities integration, constructability, and operability			572,971	2.33
Lee Inc.	Land surveying	110,167	0.91	124,619	0.51
Steven & Associates	Architecture and landscape architecture	196,949	1.62	319,621	1.30
VACC	Acoustic engineering and noise analysis	3,784	0.03	3,784	0.02
Total		**$1,340,343**	**11.04%**	**$2,680,671**	**10.90%**

Source: SFPUC

Social Impact Partnership (SIP) Program

Under the SIP, CDM Smith was originally required to contribute $150,060 in financial support, in-kind services, and volunteer hours. With this amendment, that total rises to $307,500. According to SFPUC, CDM Smith has contributed approximately $150,000 to date.[1]

[1] Beneficiaries include Engineer's Alliance for the Arts Student Impact Project, Sunol Glen Unified School District STEM program, Save the Bay Shoreline Habitat restoration, and a Cal State East Bay Engineering Scholarship fund.

Performance

CDM Smith's performance is measured by the quality and timeliness of its construction-phase deliverables, including design change notices, submittal reviews, and responses to Requests for Information. To date, the SFPUC reports that CDM Smith has met all required turnaround times and quality benchmarks.

FISCAL IMPACT

The proposed Amendment No. 1 increases the contract amount by $9.6 million, resulting in a total not-to-exceed amount of $24.6 million for the extended contract term through February 2030. Of this $24.6 million, $22.5 million will fund direct labor costs for planning, design, and construction support, including services from LBE subconsultants. The remaining $2.1 million covers project management, markups, and other direct costs. Exhibit 2 provides a breakdown of the amended budget.

Exhibit 2: Updated Contract Budget

Task / Description	Original Contract Amount	Proposed Amendment	Proposed Contract Amount
Project Management	$1,500,000		$1,500,000
Planning/Design	7,700,000		11,100,000
Technology Transfer	100,000		100,000
Calaveras Substation Planning & Design	2,600,000		
Engineering Support During Construction	1,800,000	7,700,000	9,500,000
Property Acquisition	800,000		
Other Direct Costs	300,000		300,000
Markup	200,000		200,000
Engineering Support During Construction For Related Project		700,000	700,000
Engineering Support During Construction for Operations and Maintenance		1,200,000	1,200,000
Total	**$15,000,000**	**$9,600,000**	**$24,600,000**

Source: PUC

Total Project Costs

As noted above, the SFPUC FY 2025–2034 Capital Plan includes $252.1 million for this project, and the SFPUC Commission has approved increasing the project budget to $326.3 million as part of the 2025 mid-cycle budget approval process due to cost increases and scope expansions. Engineering services such as this contract represent about 10 percent of the $234.8 million construction contract, which the SFPUC states is at the lower end of the typical 10–28 percent range for large water infrastructure projects exceeding $100 million. The breakdown of the total project cost is shown in Exhibit 3.

Exhibit 3: Sunol Valley Water Treatment Plant Ozonation Project, Total Project Cost

Activity	Approved Budget	Forecasted Budget
Project Management	$11,887,167	$11,187,167
Planning	3,933,577	3,933,577
Design (includes bid and award)	10,571,531	10,752,023
Environmental Review and Compliance	217,700	217,700
Construction Management	25,383,424	40,650,428
Construction	182,102,776	236,174,220
Construction Contingency	18,040,278	23,478,200
Total	**$252,136,453**	**$326,393,315**

Source: SFPUC

Funding Sources

The amendment is funded through the Water Enterprise 10-Year Capital Improvement Program, specifically the Sunol Valley Water Treatment Plant Ozone Project and the Sunol Valley Water Treatment Plant Short-Term Improvements Project. These costs are included in the SFPUC's Regional Water System Improvement Program, which is funded by Water customer revenues and Water revenue bonds.

RECOMMENDATION

Approve the proposed resolution.

Item 4 **File 25-0145**	**Department:** Municipal Transportation Agency

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution authorizes SFMTA to execute an agreement with New Flyer of America, Inc. for the purchase of seven battery-electric buses (four 40-foot and three 60-foot) along with spare parts, tools, and training, for a not-to-exceed amount of $13,424,512, using Washington State's cooperative purchasing agreement.

Key Points

- SFMTA must phase out diesel-hybrid buses by 2040 to comply with state regulations. After a multi-year pilot of battery-electric buses, SFMTA determined New Flyer offered the best performance on steep grades and heavy loads in San Francisco.
- The proposed seven new buses will replace existing buses. Retired hybrid buses will be sold at auction, recouping an estimated $5,000 per vehicle.
- Electric bus charging facility upgrades at Woods Yard and Islais Creek are scheduled for completion by 2026. The contract with New Flyer includes training for operators and mechanics, plus "Train-the-Trainer" sessions to build in-house expertise on electric buses.

Fiscal Impact

- The $13.4 million New Flyer contract is part of a $30.4 million multi-manufacturer procurement (12 total battery-electric buses), with $28.8 million already secured and $1.6 million needed.
- Funding sources include federal grants (FTA and EPA), regional bridge toll revenues, and local fees.

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 21.16(b) allows City departments to utilize the competitive procurement process of any other public agency or non-profit made up of multiple public agencies to make purchases of commodities or services for the use of the City under the terms established in that agency's competitive procurement process and as agreed upon by the City and the procuring agency, upon making a determination that (i) the other agency's procurement process was competitive or the result of a sole-source award, and (ii) the use of the other agency's procurement would be in the City's best interests.

BACKGROUND

SFMTA's Bus Fleet

SFMTA currently operates approximately 850 buses in total. Approximately 90% of these are from New Flyer. Bus replacements are typically scheduled every 12 years to maintain fleet reliability. SFMTA plans to replace 80–100 buses per year, depending on funding and vehicle age. SFMTA intends to diversify and increase competition on its bus suppliers by ensuring it procures buses from multiple manufacturers.

SFMTA Zero-Emission Bus Transition

SFMTA is transitioning to a fully zero-emission bus fleet to comply with the California Air Resources Board's Innovative Clean Transit regulation, which requires all public transit agencies to phase out diesel-hybrid vehicles and shift to battery-electric or other zero-emission alternatives by 2040.

In November 2023, the SFMTA Board of Directors adopted an updated Zero-Emission Vehicle Policy to align with the Innovative Clean Transit regulation, allowing for the procurement of all zero-emission technologies. In October 2024, because the City did not have the required charging infrastructure, the Board of Supervisors approved the procurement of 94 40-ft Hybrid New Flyer buses (File 24-0933). This purchase supported the phased replacement of 112 hybrid buses reaching the end of their useful life. SFMTA received a federal grant to install charging infrastructure for 18 Battery Electric Buses. SFMTA is procuring the remaining 18 buses as battery-electric vehicles from New Flyer, Gillig, and Solaris, which will supply 7, 5, and 6 buses respectively.[1]

[1] In our October 2024 report on SFMTA's New Flyer purchase (File 24-0933), we noted that Gillig was the top scoring proposer in the Washington State procurement results, which were also used for that bus purchase, but SFMTA

Pilot Program and Rationale for Multiple Manufacturers

From 2021 to 2024, the SFMTA conducted a pilot program to test battery-electric buses from four manufacturers—New Flyer, Nova, BYD, and Proterra. This program allowed the SFMTA to evaluate the bus building ability of each manufacturer to ensure they can produce safe, reliable and high-performing buses. The pilot program compared bus performance, maintenance and reliability, customer experience, and costs. New Flyer's vehicles had the highest performance under San Francisco's terrain, steep grades, and high passenger loads. Nova, BYD, and Proterra were deemed not viable because of performance, financial, or Buy America compliance issues. The scores are shown in Exhibit 1.

Exhibit 1: SFMTA Battery-Electric Buses Pilot Program (out of 517 total possible points)

Evaluation Category	New Flyer	BYD	Proterra	Nova
Procurement/Customer Experience	153	78	74	114
Acceptance	18	6	18	21
Performance	99	71	63	64
Operability	27	15	9	21
Maintainability/Reliability	82	67	65	59
Financial	18	24	15	6
Total Score	**397**	**261**	**244**	**285**

Source: SFMTA

Procurement Process

Similar to the procurement of the previous 94 hybrid buses, the SFMTA is leveraging Washington State's cooperative purchasing agreement. Washington State issued a competitive solicitation in 2021 for low-floor battery-electric transit buses, allowing public agencies to purchase vehicles under pre-negotiated terms. SFMTA reviewed these pre-negotiated rates against an independent cost estimate by internal staff and consultants and verified the provided rates are reasonable.

SFMTA has determined that New Flyer and Gillig are the only viable U.S.-based manufacturers for Battery-Electric Bus procurement based on performance and Buy America requirements that are standard for federal grants. Although Gillig did not participate in the pilot program, it is the second-largest U.S. bus manufacturer, and SFMTA believes it will be a reliable partner. SFMTA will decide whether to partner fully with Gillig or Solaris, or both, based on further review of performance and services.

contracted with New Flyer, the second top scoring proposer, because Gillig was unwilling to work with SFMTA due to the City's contract requirements. SFMTA now reports that is Gillig is willing to sell the City five buses as a "pilot" contract. Solaris was not part of the electric bus pilot but is now an electric bus vendor because SFMTA because the other electric bus pilot vendors, BYD, Proterra, and Nova, are not viable vendors, according to SFMTA.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize SFMTA to execute an agreement with New Flyer of America, Inc. to purchase four 40-foot and three 60-foot battery-electric buses and related spare parts, tools, and training for a contract amount not to exceed $13,424,512, and to use Washington State's cooperative purchasing agreement for the procurement.

Production and Delivery Timeline

The first 40-foot and 60-foot battery-electric buses will enter production in Q2 2026. The remaining vehicles will start production in Q3 2026, with all buses scheduled for delivery by Q4 2026. The agreement ensures quality control through pre-delivery inspections and post-delivery compliance audits to verify all contract specifications are met. The contract also includes a liquidated damages provision to ensure on-time deliveries.

If engineering modifications are required following prototype testing, deliveries could be delayed. However, because of New Flyer's prior experience with SFMTA's operating conditions, major design changes are not anticipated.

The City may slow down or stop bus orders if project funds are not available.

Charging Infrastructure Readiness

Infrastructure upgrades at MTA charging facilities at Woods Yard and Islais Creek are scheduled for completion by 2026 to support new BEB operations. SFMTA is coordinating with SFPUC to address long-term grid capacity and backup power concerns.

Training and Operational Readiness

SFMTA will receive manufacturer training for operators and maintenance staff, including hands-on instruction and training from component manufacturers for HVAC and batteries. The agreement also provides "Train-the-Trainer" courses to develop in-house training capability.

Buy America

Because federal funding will be used to fund this contract, the contract requires Buy America compliance. Pre-delivery and post-delivery audits will confirm domestic content thresholds and final assembly requirements under Federal Transit Administration regulations.

Bus Disposal Plan

Retired hybrid buses will be sold at auction after salvage and removal of reusable parts. Prior estimates indicate an expected $5,000 return for each retired hybrid bus.

FISCAL IMPACT

The proposed contract has a not to exceed value of $13,424,512. The breakdown of total costs associated with this contract is shown below in Exhibit 2.

Exhibit 2: Total New Flyer Contract Costs

Item	Quantity	Total Cost
40-ft Battery Electric Buses	4	$5,871,216
60-ft Battery Electric Buses	3	$6,778,295
Spare Parts Allowance		$250,000
Training		$250,000
Special Tools		$100,000
Regulatory and System Modifications		$175,000
Contract Not-To-Exceed		**$13,424,512**

Source: SFMTA

Total New Flyer and Gillig Project Costs and Funding Sources

The procurement of eighteen battery-electric buses from New Flyer, Gillig, and Solaris is part of SFMTA's larger fleet transition to a fully zero-emission bus system. Under this project, SFMTA is securing 12 battery-electric buses—7 from New Flyer and 5 from Gillig—for a total cost of $30.4 million. At present, $28.8 million is secured, and $1.6 million is needed. SFMTA intends to secure these funds before executing the Gillig contract. Exhibit 3 details the sources of the entire electric bus procurement, including contract costs and internal SFMTA costs. Another project will purchase six battery-electric buses from Solaris, a Polish-based manufacturer, with a total cost to be determined at a later date, with local funds to avoid federal Buy America requirements. These items will not require Board of Supervisors approval if each contract is below $10 million.

Exhibit 3: Total New Flyer and Gillig Project Funding Sources

Project Funding Source	Amount
Transportation Sustainability Fee FY22	390,000
Low Carbon Fuel Standard FY22	120,000
MTC RM3 Bridge Tolls FY24	11,100,000
FTA Grant (Transit Capital Priorities) FY25*	15,100,000
EPA Grant*	1,400,000
Community Facilities District Fund	700,000
Funding Need	1,600,000
Total Funding for this Project	**30,410,000**

Source: SFMTA

*The FTA and EPA Grants are both reimbursements based.

Projected Cost Savings

Battery-electric buses cost about 30% more upfront than hybrid vehicles. SFMTA reports fuel savings over their lifespan to offset these costs, however definitive data is not yet available.

RECOMMENDATION

Approve the proposed resolution.

Item 5 **File 25-0073**	**Department:** Homelessness and Supportive Housing

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the third amendment to the grant agreement between Brilliant Corners and the Department of Homelessness and Supportive Housing (HSH) to administer the Flexible Housing Subsidy Pool (FHSP) program, extending the grant term by 12 months to June 30, 2026. The proposed third amendment also increases the agreement amount by $19,381,087 for a new total not-to-exceed $59,542,690 to serve 500 clients annually.

Key Points

- Brilliant Corners provides housing location, housing coordination, subsidy administration, and landlord liaison services to support what is known as "scattered site" permanent supportive housing placements for up to 500 adults in rental units on the private market.
- According to HSH program monitoring, Brilliant Corners did not meet the desired outcome for the average length of time that participants spend homeless, taking an average of 134.6 days in FY 2022-23 and 140 days in FY 2023-24, when the goal is 75 days to place clients.

Fiscal Impact

- Brilliant Corners underspent its grant budget by between $2.2 and $7.1 million in each of the past three fiscal years. The Department reports that the significant underspending experienced in FY 2021-22 through FY 2023-24 was due to vacancies in key Brilliant Corners positions, including Housing Coordinators, as well as support services vacancies at four partner organizations, which slowed down the pace of referrals, housing placements, and subsidy utilization.
- Due to staffing vacancies, the number of individuals who are actively housed has lagged behind the 500 clients cited in the grant agreement for FY 2022-23 and FY 2023-24, although it increased by 25 percent over this two-year period from 312 to 391. To date in FY 2024-25, it has reached 422.

Policy Consideration

- The Board of Supervisors may want to consider requesting HSH divert a portion of the proposed grant funding to a different provider that may be better positioned to fully spend the budgeted amount to serve the full 500 clients annually. Alternatively, the Board of Supervisors and HSH should consider whether the size of the grant agreement for this Program is realistic when a new contract is developed in 2026.

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

The Flexible Housing Subsidy Pool (FHSP) Program, launched in 2018, provides ongoing rental subsidies to eligible participants for units in the private rental market. The Department of Homelessness and Supportive Housing (HSH) funds non-profit organizations, such as Brilliant Corners, to administer housing location, housing coordination, landlord liaison and subsidy administration services for the FHSP Program. The goal of this Program is to reduce the length of time that participants spend homeless and to ensure that these individuals retain housing once established.

In 2021, HSH entered into an original grant agreement with Brilliant Corners to administer the Program in an amount not to exceed $9.9 million for the term February 15, 2021 through June 30, 2022. The original agreement did not require Board of Supervisors' approval because the grant amount was less than $10 million. In June 2022, the Board approved the first amendment to the grant, increasing the value of the contract to $40,161,603 and extending the term through June 2024. In July 2024, HSH executed the second amendment to the grant, extending the term through June 2025. Because there was no change to the contract value, the second amendment did not require Board approval.

Under the existing agreement, Brilliant Corners provides housing location, housing coordination, subsidy administration, and landlord liaison services to support what is known as "scattered site" permanent supportive housing placements for up to 500 adults in available rental units on the private market. Similar to site-based permanent supportive housing, tenants pay rent equal to 30 percent of their income, and the remaining rent is subsidized by the Program. Housing-focused case management services for Program participants are provided by four other non-profit organizations through separate grant agreements with HSH. According to HSH staff, new participants are referred by HSH through the Coordinated Entry System, which is designed to assess, prioritize, and match people experiencing homelessness to housing opportunities. The Coordinated Entry assessment measures chronicity of homelessness, vulnerability, and barriers to housing; clients deemed eligible are referred to appropriate supportive housing programs based on their unique needs.

Selection of Provider

HSH selected Brilliant Corners pursuant to Administrative Code Chapter 21B, which allows selection of homeless service providers without competitive solicitations. According to HSH staff, Brilliant Corners was selected as the grantee due to its experience and track record providing housing locator and stabilization services to families and adults exiting homelessness and administering rental subsidies with private landlords. Brilliant Corners was previously selected to provide these services under competitive procurements. The Department reports that it plans to issue a competitive solicitation in Spring 2025 to re-procure its scattered permanent supportive housing services, with new agreements anticipated by early 2026.

According to Appendix D of the proposed amendment, Brilliant Corners currently has five grants (including the proposed amended grant) with the City and County of San Francisco, totaling $97.4 million. If the proposed amendment is approved, the five grants will total $116.8 million. At the time of the original agreement in April 2021, Brilliant Corners had three City grants, totaling $26.9 million.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the third amendment to the grant agreement between Brilliant Corners and HSH to administer the Flexible Housing Subsidy Pool (FHSP) program, extending the grant term by 12 months from June 30, 2025 to June 30, 2026 for a total term from February 15, 2021 through June 30, 2026. The proposed third amendment also increases the agreement amount by $19,381,087 for a new total not-to-exceed $59,542,690.

The resolution also authorizes HSH to enter into any amendments or modifications to the amendment that do not materially increase the obligations or liabilities, or materially decrease the benefits to the City.

Services Provided

Under the amended agreement, Brilliant Corners would continue serving adults who do not have custody of minor children. The grant requires Brilliant Corners to serve 500 adults annually. Per the grant agreement, services include:

- **Housing Location Services** to identify and secure housing units that meet the needs of the served population.
- **Housing Coordination Services** to match tenants to housing opportunities and eliminate barriers to housing placement (such as outstanding utility debt or poor credit), including lease negotiation and review on behalf of tenants, support to prospective tenants to secure units and to move into housing, payment for items needed during housing search and move-in (such as application fees, security deposit, furniture, and moving costs), income verification and rent calculation upon move-in and annually thereafter, and other services.
- **Subsidy Administration Services** to issue and document timely and accurate subsidy payments to landlords and property management and other types of financial assistance.
- **Landlord Liaison Services** between landlords and tenants to support ongoing housing stability, including monthly home visits for the first three months of a tenant’s tenure in housing and quarterly thereafter and quarterly check-ins with landlords, collaboration with case managers to ensure tenants are able to pay rent on time and resolve any tenancy issues, respond to lease violation or other complaints, and ensuring landlords conduct repairs and fulfil their legal responsibilities.

Performance Monitoring

The agreement specifies seven service objectives and three outcome objectives.[1] In FY 2022-23, Brilliant Corners met six of the seven service objectives and one of the three outcome objectives shown in Exhibit 1. HSH found that Brilliant Corners did not have sufficient staffing to serve clients that year with timely housing coordinator services and did not complete all required site visits and so required Brilliant Corners to take certain actions to improve service delivery and compliance with HSH policies, which were accepted by HSH. As shown below, the average time for clients to obtain housing in FY 2023-24 was 134.6 days, which exceeds the goal of 75 days in the grant agreement. However, Brilliant Corners nearly met the goal of moving at least 90 percent of clients into housing and exceeded the goal of at least 90 percent of clients maintaining housing for at least 12 months.

In FY 2023-24, HSH conducted a desk audit of Brilliant Corners' performance.[2] The review found that Brilliant Corners complied with the grant's service requirements, including site visits, but still did not meet the service objective of getting clients into housing within 75 days. In FY 2023-24 review found that the average time to housing was 140 days, which is higher than the 75-day goal in the grant agreement. The FY 2023-24 desk monitoring review showed progress in other areas, with Brilliant Corners meeting all service objectives and two of three outcome objectives. Specifically, housing placements improved from 85 percent of participants to 95 percent of participants, and the metric for housing maintenance for at least 12 months rose from 97 percent to 99 percent.

The outcome data for FY 2022-23 and FY 2023-24 is shown below in Exhibit 1.

Exhibit 1: Brilliant Corners Outcome Objectives (Goals and Actuals) for FY 2022-23 & 2023-24

	Goal	FY 2022-23	FY 2023-24
1. At least 90 percent of participants enrolled in the program will successfully move into housing	90%	85%	95%
2. The average length of time for clients to obtain housing should be less than 75 days	75 days	134.6 days	140 days
3. At least 90 percent of participants will maintain their housing for a minimum of 12 months, move to other permanent housing, or be provided with more appropriate placements	90%	97%	99%

Source: HSH

[1] The seven service objectives for the FY 2022-23 & FY 2023-24 period were providing 100% of clients with (1) housing location services, (2) housing coordination services, (3) at least one home visit per month for the first three months of housing, (4) timely subsidy payments, (5) landlord liaison services, (6) responding to tenants and landlord within two business days, and (7) administering tenant satisfaction surveys.

[2] A desk audit is a limited scope program evaluation that includes a review of a grantee's service and outcome data, as submitted to HSH, without reviewing the underlying documentation. In Spring 2025, HSH plans to complete a full program evaluation of the grant's performance in FY 2023-24.

Housing Placement Timeline

As noted above, Brilliant Corners did not meet the desired outcome for the average length of time that participants spend homeless, taking an average of 134.6 days in FY 2022-23 and 140 days in FY 2023-24, when the grant goal is 75 days. According to the Department, these averages reflect all housing placements since the grant agreement began in FY 2020-21. We requested the average number of days spent homeless for participants by fiscal year for the four-year period of the existing contract (FY 2020-21 through FY 2023-24), finding that Brilliant Corners met the objective of 75 days or less only in FY 2020-21, as shown in Exhibit 2. Brilliant Corners was able to reduce the timeframe for placements by 35 percent from 178 days in FY 2022-23 to 116 days in FY 2023-24.

The Department has noted that the 75-day placement target was established as a "stretch goal" when it was the City's policy priority to use the FHSP subsidies to rehouse people residing in shelter-in-place hotels in order to demobilize these hotels as quickly as possible without returning people to homelessness. According to the Department, achieving this goal would have required that all clients referred to Brilliant Corners for housing were document-ready (including having income verification and identification documentation in place). The City and its referral partners were not able to ensure that all clients referred for housing search were document-ready to enable Brilliant Corners to achieve the 75-day target. However, the Department has had opportunities to revise this goal when it has amended this agreement and has not done so in the prior two amendments or in this proposed amendment. The Department informed us that they plan to revise the goal to 90 days when the portfolio of scattered site permanent supportive housing agreements is re-procured in spring 2025. Even with this pending change to the program's performance measurement, Brilliant Corners has not met the 90-day timeframe for clients to obtain housing.

Exhibit 2: Brilliant Corners Met Outcome Objective for Placement Within 75 Days Only in FY 2020-21

	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
The average length of time for clients to obtain housing	62 days	131 days	178 days	116 days
Number of New Client Housing Placements	118	132	95	104

Source: HSH

In addition to Brilliant Corners staffing vacancies noted above, according to HSH, several factors contribute to housing placement timelines, including market conditions, competition for available units, the number of landlords willing to partner with scattered site housing programs, as well as client-specific challenges such as health-related needs and varying levels of engagement in the housing process. In addition, Brilliant Corners partners with four non-profit organizations—including UCSF Citywide, Felton Institute, Bayview Hunters Point Foundation, and Five Keys—to provide housing-focused case management services. These organizations are responsible for hiring and maintaining case management staff, who complete program intake and assist households in gathering necessary documents before referring them to Brilliant

Corners for housing placement. Staffing vacancies at these organizations, particularly at UCSF Citywide, have contributed to slower referrals and delayed housing placements.

The Department reports that it continues to work with housing location providers to implement solutions that help shorten the time it takes to secure housing, such as payment for a unit hold, landlord incentives, and financial reserves to cover property damage or unpaid rent. According to the Department, reaching the goal of housing placement within 75 or 90 days will require more outreach to referred clients to ensure households follow up with their case manager in the housing search process.

Fiscal and Compliance Monitoring

Fiscal monitoring was most recently conducted in FY 2023-24 with the final status letter finding that Brilliant Corners must revise its bylaws to include a requirement for client representation on its Board of Directors. Brilliant Corners reported that it is in the process of creating a methodology for having a current or former program participant serve on the Board of Directors.

FISCAL IMPACT

The proposed resolution would increase the agreement amount by $19,381,087 to $59,542,690 and extend the grant term by 12 months to June 30, 2026. Actual and projected spending total $57,772,886. The grant includes a ten percent contingency value of $1,769,804, for a total not to exceed amount of $59,542,690. Exhibit 3 below summarizes the expenditures of the proposed amended grant agreement.

Exhibit 3: Brilliant Corners Expenditures for Flexible Housing Subsidy Pool Program

Expenditure Category	Feb.-June 2021	FY 2021-22 Actual	FY 2022-23 Actual	FY 2023-24 Actual	FY 2024-25 Proposed	FY 2025-26 Proposed
Salaries & Benefits		$1,571,375	$2,748,404	$2,518,602	$2,698,140	$2,833,047
Operating Expense	$1,980	382,310	383,840	278,655	350,356	406,184
Indirect Cost (15%)	297	293,053	469,837	419,589	457,274	485,885
Other Expenses (Not Subject to Indirect %)		1,931,523	4,722,304	7,093,045	13,754,266	13,972,920
Underspending		-2,243,615	-7,128,076	-4,781,507		
Total Expenditures	$2,277	$4,178,261	$8,324,384	$10,309,891	$17,260,036	$17,698,036

Source: HSH

This grant is funded by Homelessness Gross Receipts tax revenue.

Underspending

As shown above, Brilliant Corners underspent its grant budget by between $2.2 and $7.1 million in each of the past three fiscal years. The Department reports that the significant underspending experienced in FY 2021-22 through FY 2023-24 was due to vacancies in key Brilliant Corners positions, including Housing Coordinators, as well as vacancies at four partner organizations, which slowed down the pace of referrals, housing placements, and subsidy utilization. In June 2023, Brilliant Corners reported being nearly fully staffed, according to the Department.

The number of individuals who are actively housed has lagged behind the 500 clients cited in the grant agreement for FY 2022-23 and FY 2023-24, although it increased by 25 percent over this two-year period, as shown in Exhibit 4. Overall, the total expenditures for FY 2023-24 of $10,309,891 to serve a total of 391 clients reflect an average cost per client of about $26,400, which is comparable to HSH grants providing similar services.

Exhibit 4: Number of Clients Actively Housed via Flexible Housing Subsidy Pool Program

	Feb.-June 2021	FY 2021-22	FY 2022-23	FY 2023-24
Number of Clients Actively Housed	147	270	312	391
Clients Expected to be Served, Per Grant Agreement	150	250	500	500

Source: HSH

POLICY CONSIDERATION

Our review of the Brilliant Corners flexible housing subsidy pool program shows that the provider has improved performance in FY 2023-24, reducing the number of days to place clients from 178 in FY 2022-23 to 116 in FY 2023-24. However, this timeframe still exceeds the grant objective of 75 days or less. In terms of clients served, the provider has increased the number to 391 in FY 2023-24, up from 312 in FY 2022-23. As of this writing, in FY 2024-25, Brilliant Corners has 422 participants actively housed and additional households are enrolled in the program to begin the process of obtaining housing. However, these totals are still short of the grant agreement with a total of 500 clients. While Brilliant Corners may continue to improve performance in FY 2024-25 to meet the grant agreement objectives, the Board of Supervisors may want to consider requesting HSH divert a portion of the proposed grant funding to a different provider that may be better positioned to fully spend the budgeted amount to serve the full 500 clients annually. Alternatively, the Board of Supervisors and HSH should consider whether the size of the grant agreement is realistic when a new contract is developed as part of the program's planned re-procurement. We note that another HSH housing locator (File 25-0042) has been able to fully meet its grant agreement objectives, including placing clients into housing in 65 days, albeit serving a smaller number of clients.

RECOMMENDATION

Approve the proposed resolution.

Item 6 **File 25-0143**	**Department:** Department of Homelessness and Supportive Housing (HSH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize the Department of Homelessness and Supportive Housing to execute a Standard Agreement with the California Department of Housing and Community Development (HCD) in an amount not to exceed $8,225,095 of Project Homekey grant funds, to retroactively expend those funds for the acquisition of property at 42 Otis Street for permanent supportive housing and to support its operating costs from March 3, 2021 through June 30, 2026, approve and authorize HSH to commit at least $8,710,632 in required matching funds, affirm and adopt the Planning Department's findings under the California Environmental Quality Act (CEQA) and consistency with the General Plan and Planning Code, and authorize HSH to make further immaterial amendments to the agreement and Homekey documents.

Key Points

- In September 2023, the Board of Supervisors approved the purchase of a 24-unit building at 42 Otis Street to use as permanent supportive housing for transitional aged youth (TAY, ages 18 to 24). In July 2024, HCD approved a Homekey grant in the amount of $8,225,095 for the acquisition, relocation, and operating costs for the 42 Otis Street property.
- HSH plans to use the property for 24 units of TAY permanent supportive housing and offices in the first and second floor commercial spaces. The estimated cost to improve the building is approximately $3.4 million. In October 2024, the Board of Supervisors approved a ground lease with Five Keys Schools and Programs (Five Keys) for the site. In addition to the ground lease, HSH will execute three grant agreements with Five Keys following execution of the Standard Agreement with HCD, a property management services grant , a supportive services grant, and a grant to cover construction of tenant improvements.

Fiscal Impact

- The total cost to purchase the building, provide relocation assistance to existing tenants, and perform building improvements is approximately $17.9 million. Of this amount, approximately $6.8 million, or 38 percent, would be funded by the Homekey grant, and approximately $11.1 million, or 62 percent, would be funded by Proposition C funds.
- The annual cost to operate the building would be approximately $1.5 million. Operating costs over the initial four years and seven months of the Five Keys grant agreements would be funded approximately 15 percent by the Homekey grant, 39 percent by U.S. Department of Housing and Urban Development (HUD) funding, and 46 percent by Proposition C funds.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Administrative Code Section 10.170-1 states that accepting federal, state, or third-party grant funds in the amount of $100,000 or more, including any City matching funds required by the grant, is subject to Board of Supervisors approval.

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 2022, the Department of Homelessness and Supportive Housing (HSH) issued a Request for Information (RFI) and identified a property at 42 Otis Street for use as permanent supportive housing for transitional aged youth (TAY, ages 18 to 24). The five-story property consisted of 24 studio units, five commercial units, and courtyard and roof terrace open space. In July 2023, the Board of Supervisors authorized HSH to apply for Homekey grant funds in an amount not to exceed $9,049,600 to support the acquisition and operations of the 42 Otis Street property (File 23-0741).[1] In September 2023, the Board of Supervisors approved the purchase of the 42 Otis Street property for an amount of $14,200,000, plus $40,000 in closing costs, and approximately $1,250,000 in relocation assistance for the existing residential and commercial tenants, for a total cost of approximately $15.5 million (File 23-0928). At that time, HSH anticipated that the purchase would be funded by approximately $7.7 million in Homekey funds and $7.8 million in Proposition C funds.[2]

In July 2024, the California Department of Housing and Community Development (HCD) approved a Homekey grant in the amount of $8,225,095 for the acquisition, relocation, and operating costs for the 42 Otis Street property. HCD finalized a Standard Agreement with HCD in January 2025, and HSH is now requesting retroactive approval of the expenditure of Homekey funds for costs that have already been incurred.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would:

1. Authorize HSH to execute a Standard Agreement with HCD in a total amount not to exceed $8,225,095 of Project Homekey grant funds;

[1] Homekey is a state grant program that provides funding for housing for people who are homeless or at risk of homelessness. The program funds the development of hotels, motels, multifamily apartments, and other properties into permanent or interim housing.

[2] Proposition C, approved by San Francisco voters In November 2018, is a gross receipts tax to fund homeless housing and services.

2. Retroactively accept and expend the funds for the acquisition of property at 42 Otis Street for permanent supportive housing and to support its operations for costs incurred from March 3, 2021 through June 30, 2026;
3. Approve and authorize HSH to commit approximately $8,710,632 in required matching funds for acquisition of the property and a minimum of 10 years of operating subsidy;
4. Affirm the Planning Department's determination under the California Environmental Quality Act (CEQA);
5. Adopt the Planning Department's findings of consistency with the General Plan and Planning Code; and
6. Authorize HSH to enter into further immaterial amendments to the Standard Agreement and Homekey documents.

HSH plans to use the property for 24 units of TAY permanent supportive housing and offices in the first and second floor commercial spaces.

Building Improvements

The building was constructed in 2021 and at the time of acquisition, no tenant improvements were proposed for the property. According to Dylan Schneider, HSH Manager of Legislative Affairs, HSH assessed the need for improvements after acquisition with the service provider and MOHCD and determined the scope and budget for improvements. The current estimated cost to improve the building is approximately $3.4 million. The work will be carried out by Five Keys under a separate grant agreement with HSH and with technical assistance from MOHCD.

The scope of work includes $3.0 million for converting the ground floor commercial space into offices, community areas, and a laundry room, converting two units into Americans with Disabilities Act (ADA) accessible units, and compliance with building code requirements, and approximately $400,000 for security cameras, set-up of front desk and offices, installation of a rooftop guardrail, purchase of furniture, fixtures, and equipment (FF&E), and preparing units for leasing. HSH anticipates that tenants will begin to move in starting in July 2025.

Ground Lease and Service Agreements

In October 2024, the Board of Supervisors approved a ground lease with Five Keys Schools and Programs (Five Keys) to operate and provide supportive services on the site (File 24-0882). Under the ground lease, the City maintains ownership of the land but transfers ownership of the building to Five Keys for the duration of the lease term. The ground lease has a total rent of $1 with an initial term of five years and 10 five-year automatic extensions of the lease, for a maximum term of 55 years. According to HSH staff, HSH is transitioning to a ground lease model for its permanent supportive housing sites because the short-term lease model is administratively burdensome for the City to serve as owner and landlord of residential property overseeing day-to-day operations, rather than HSH's defined role to fund and monitor performance at housing sites.

In addition to the ground lease, HSH will execute two grant agreements with Five Keys following execution of the Standard Agreement with HCD: a property management services grant for an amount not to exceed $7,436,155, and a supportive services grant for an amount not to exceed $1,958,099. Each agreement has an initial term of four years and seven months from November 2024 through June 2029. The grant agreements fund approximately 10.8 full-time equivalent (FTE) employees.

Grant Agreement

The proposed resolution approves a grant agreement between HSH and HCD. The agreement requires HSH to operate 42 Otis as permanent supportive housing for 55 years. At least 25 percent of the units must be set-aside for youth, though HSH plans to operate the entire site as TAY supportive housing.

The grant award has two components: (1) a capital award, to fund acquisition and relocation costs and (2) an operating award, to offset the cost of operations. The expenditure deadline for spending down the capital grant is March 23, 2025 (which may be extended by the State to October 23, 2025). The expenditure deadline for the operating grant is June 30, 2026, by which time the site must be 95 percent occupied.

FISCAL IMPACT

The proposed resolution would authorize HSH to accept up to $8,225,095 in Homekey grant funds and commit at least $8,710,632 in required matching funds for the acquisition and 10 years of operating subsidies for the 42 Otis Street property.

Capital Costs

The total cost to purchase the building, provide relocation assistance to existing tenants, and perform building improvements is approximately $17.9 million. Of this amount, approximately $6.8 million, or 38 percent, would be funded by the Homekey grant, and approximately $11.1 million, or 62 percent, would be funded by Proposition C funds. The sources and uses of funds are shown in Exhibit 1 below.

Exhibit 1: Sources and Uses of Funds for Capital Costs

Sources	Amount
Homekey Grant*	$6,823,769*
Proposition C Funds	11,069,000
Total Sources	**$17,892,769**

Uses	Amount
Building Purchase (Including Closing Costs)	$14,240,000
Relocation Assistance	248,769
Building Improvements	3,404,000
Total Uses	**$17,892,769**

Source: HSH

* The Homekey Grant capital award includes $6,575,000 for acquisition and $567,325 for relocation, for a total of up to $7,142,325. However, estimated relocation costs ($248,769) are $318,556 lower than the Homekey amount

for relocation. According to HSH staff, savings on relocation assistance may not be used to offset additional acquisition costs. Therefore, the estimated available Homekey grant funding for capital costs is $6,823,769.

The total capital cost amounts to approximately $745,532 per unit.

Operating Costs

As noted above, HSH will execute two grant agreements with Five Keys for property management and support services at the building for a total amount not to exceed $9,394,254 over the initial four-year and seven-month terms. Excluding $703,921 in capital costs included in the property management agreement which are accounted for above, and $1,565,09 in contingencies, the total operating costs are approximately $7,124,624. Of this amount, approximately $1,082,770 (15 percent) would be funded by the Homekey grant, $2,755,888 (39 percent) would be funded by U.S. Department of Housing and Urban Development (HUD) funding,[3] and $3,285,966 (46 percent) would be funded by Proposition C funds. The sources and uses of funds are shown in Exhibit 2 below.

Exhibit 2: Sources and Uses of Funds for Operating Costs, November 2024 – June 2029

Sources	Amount
Homekey Grant	$1,082,770
HUD Funding	2,755,888
Proposition C Funds	3,285,966
Total Sources	**$7,124,624**

Uses	Amount
Property Management Agreement	$5,492,875
Supportive Services Agreement	1,631,749
Total Uses	**$7,124,624**

Source: Five Keys grant agreements. Amounts exclude capital costs (included in Exhibit 1 above) and contingencies.

In Year 1 of the Five Keys grant agreements, the period of November 2024 through June 2025, the total estimated operating cost (excluding capital costs) is approximately $1,083,193. Because tenants are unlikely to move in until July 2025, there may be some cost savings for this period. The annual operating costs beginning in the first full year of services (grant Year 2, FY 2025-26) are approximately $1.5 million, or approximately $61,639 per unit.

RECOMMENDATION

Approve the proposed resolution.

[3] In the event that HUD funding is not received, HSH would backfill that amount using Proposition C funds.

Item 8 **File 25-0029**	**Department:** Public Health

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed hearing would authorize the release of reserve funds for a $791,433 grant DPH received from the California Department of Rehabilitation. The grant has a three-year term from July 1, 2025, through June 30, 2028, and requires a local match of $2,456,625.

Key Points

- Since 1997, DPH has received recurring federal pass-through grants to support employment services for adults with severe mental illness. This renewal ensures that clients within the DPH Behavioral Health Services system of care can continue to receive vocational assessment, job preparation, placement, and retention services.
- Although DPH's Behavioral Health Services division helps refer clients and provide clinical support, four nonprofit providers contract directly with the California Department of Rehabilitation to deliver employment support services. DPH's provides the non-federal matching funds that enable the state to draw down federal funds.

Fiscal Impact

- DPH will receive $791,433 over three years (about $263,811 annually). The $2,456,625 local match (about $818,875 per year) is funded with a mix of General Fund and Mental Health Services Act allocations. The total annual cost of the program is $4,108,295.
- The grant partially reimburses salary costs for two existing DPH Behavioral Health Services positions, requiring no changes to the Annual Salary Ordinance.

Policy Consideration

- The program that has not consistently achieved annual performance targets. However, required City matching funds cover only 21.3 percent of program costs (excluding DPH costs), and the program leverages state and federal funds that have historically remained flat but continue to serve people with severe mental health diagnosis in need of vocational training services. According to DPH, these results are generally consistent with the performance of other providers statewide.

Recommendation

- Approve the requested release of reserved funds.

MANDATE STATEMENT

City Administrative Code Section 3.3(j) states that the Budget and Finance Committee of the Board of Supervisors has jurisdiction over the City's budget and may reserve proposed expenditures to be released at a later date subject to Board of Supervisors approval. The practice of the Board of Supervisors is for the Budget and Finance Committee to approve release of funds placed on reserve by the Committee, without further Board of Supervisors approval.

BACKGROUND

State Vocational Rehabilitation Services Program

Since 1997, the San Francisco Department of Public Health (DPH) has received a recurring grant from the United States Department of Education (USDOE), passed through the California Department of Rehabilitation (CDOR), for participation in the State Vocational Rehabilitation Services Program to provide vocational rehabilitation services for adults with severe mental illness.

DPH has received funding under this arrangement for several grant cycles. The most recent grant agreement covers July 1, 2022, through June 30, 2025, providing DPH with partial reimbursement for vocational services it provides to clients receiving behavioral health services (File 22-0823). DPH needs to renew this funding to continue receiving fiscal support for vocational rehabilitation services. Under the agreement, the CDOR contracts directly with nonprofit organizations to deliver employment services. DPH's Behavioral Health Services division collaborates with CDOR for administrative support.

Prior Board Action

In January 2025, the Board of Supervisors approved a resolution that approved the Department of Public Health to accept and expend $791,433 in grant revenues from the California Department of Rehabilitation (File 25-0028). The grant agreement requires the City to provide matching funds exceeding $200,000 per year and, as a result, the grant has "fiscal impact," as defined in Administrative Code Section 2.6-1, and therefore required a hearing before a fiscal committee of the Board of Supervisors. Because that did not happen, the resolution placed the revenues on Budget & Finance Committee reserve.

DETAILS OF PROPOSED LEGISLATION

The proposed hearing would authorize the release of reserve funds for a $791,433 grant DPH received from the California Department of Rehabilitation. The grant has a three-year term from July 1, 2025, through June 30, 2028, and requires a local match of $2,456,625. This renewal allows DPH to continue providing vocational services—through CDOR's contracted nonprofit providers—to adults with severe mental illness who are eligible for both BHS and CDOR services.

Services

The California Department of Rehabilitation selected four consultants to provide vocational services: (1) Richmond Area Multi-Services, Inc., (2) UCSF Citywide Case Management Forensic Program, (3) Caminar Jobs Plus, and (4) Occupational Therapy Training Program Groups-San Francisco. Participants receive vocational assessment, job preparation, placement, and retention services coordinated with their mental health treatment plans. DPH behavioral health staff refer clients, assist with clinical support, and collaborate on monitoring progress and outcomes.

The four organizations contract directly with California Department of Rehabilitation, so no Request for Proposals is conducted by the DPH. DPH's role is limited to referring its clients to the program and providing the non-federal matching funds that enable CDOR to draw on the grant.

Performance Goals

Under the new agreement, CDOR plans to serve up to 717 unduplicated clients each year in collaboration with BHS, which includes enrolling 309 new applicants, developing 249 Individual Plans for Employment, and achieving 182 successful closures (job placements or similar completions). In addition, BHS is expected to provide case management to 100 unduplicated participants each year.

Performance

CDOR has fallen short of its annual targets for unduplicated clients, job placements (received employment), and successful closures (maintained employment for 3 months) from FY 2022–23 through FY 2024–25 (as of Q2). According to DPH, performance is in line with the average performance throughout the state but did not provide data to verify that claim in time for our reporting deadline. A summary of performance results for this grant between 2022 and 2025 is shown below in Exhibit 1.

Exhibit 1: CDOR Outcomes FY 2022-23 – FY 2024-25

	2022-2023			**2023-2024**			**2024-2025 (as of December 31)**		
Metrics	**Goal**	**Outcome**	**Percent**	**Goal**	**Outcome**	**Percent**	**Goal**	**Outcome**	**Percent**
Unduplicated Clients	617	476	**77%**	617	523	**85%**	617	256*	**42%***
Job Placements	255	154	**60%**	255	170	**67%**	255	101	**40%**
Successful Closures	187	101	**54%**	187	109	**58%**	187	59	**32%**

Source: DPH

*One of the four program providers did not report data due to technical difficulties. CDOR can see that this program has served 89 clients between July 1, 2024, and January 31, 2025. However, CDOR is unable to separate January's data from the total.

CDOR and BHS conduct quarterly provider meetings to track contract outcome goals. In months without a quarterly meeting, BHS holds to review progress. If providers do not meet outcome targets, CDOR and BHS develop performance improvement plans and can modify contracts or renewal terms, such as limiting renewal to one year, to encourage meeting goals.

FISCAL IMPACT

Under the proposed release of reserve funds, the Department would accept a total grant award of $791,433, or approximately $263,811 per year, as shown in Exhibit 2. The required local match is $2,456,625, or approximately $818,875 per year, equal to 21.3 percent of Department of Rehabilitation annual direct funding of $3,844,484, as shown in Exhibit 3 below.

Program Overview

DPH staff time will support intake, care coordination, and administrative oversight. Because the CDOR holds direct contracts with the nonprofit providers, no contractual services are budgeted under this grant. The breakdown of the total program budget is detailed below in Exhibit 3.

Exhibit 3: State Vocational Rehabilitation Services Program Budget FY 2025-26 – FY 2027-28

Program	FY 2025-26	FY 2026-27	FY 2027-28	Total
Department of Rehabilitation				
Rehabilitation Team Unit	$634,668	$634,668	$634,668	$1,904,004
Case Services	520,234	520,234	520,234	1,560,702
Vocational Rehabilitation Services provided by five contract providers	2,689,582	2,689,582	2,689,582	8,068,746
Subtotal, Direct DOR Funds	**$3,844,484**	**$3,844,484**	**$3,844,484**	**$11,533,452**
0.59 FTE Health Program Coordinator III	112,153	112,153	112,153	336,459
1.0 FTE Health Worker III	137,214	137,214	137,214	411,642
Indirect Costs (5.79% of Personnel)	14,444	14,444	14,444	43,332
Subtotal, State Grant to DPH	**263,811**	**263,811**	**263,811**	**791,433**
Total Department of Rehabilitation Funds	**$4,108,295**	**$4,108,295**	**$4,108,295**	**$12,324,885**

Source: DPH

Note: The local match of $818,875 is included in Direct DOR Funds and funded through 59% General Fund and 41% MHSA Community Services and Supports.

Positions Funded

The grant partially reimburses two existing Behavioral Health Services positions—a 0.59 FTE Health Program Coordinator III and a 1.0 FTE Health Worker III—and does not create any new positions; therefore, no Annual Salary Ordinance amendment is required.

POLICY CONSIDERATION

The program's outcomes have fallen short of annual targets for unduplicated clients, job placements, and successful closures. However, required City matching funds cover only 21.3 percent of program costs (excluding DPH costs), and the program leverages state and federal funds that have historically remained flat but continue to serve people with severe mental health diagnosis in need of vocational training services. According to DPH, these results are generally consistent with the performance of other providers statewide.

RECOMMENDATION

Approve the proposed release of reserves.