CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST
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Policy Analysis Report

To:	Supervisor Myrna Melgar
From:	Budget and Legislative Analyst's Office
Re:	Mitigating the Impact of Increased Residential Construction on Small Businesses
Date:	January 30, 2024

Summary of Requested Action

Your office requested that we conduct an analysis of establishing a business interruption fund to support small businesses affected by residential construction along commercial corridors as the City implements a rezoning program and other policy changes outlined in the Housing Element 2022 update. Your office requested that we estimate the funds needed, suggest an appropriate implementation timeline, and present options on how to structure such a program.

For further information about this report, contact Fred Brousseau at the Budget and Legislative Analyst's Office.

Executive Summary

- Between 2023 and 2031, the City and County of San Francisco (the City) is required to add 82,069 new housing units to its existing housing stock pursuant to the Regional Needs Housing Allocation established by the State of California. This goal is codified in the City's Housing Element Update 2022, which has been certified by the State.
- Construction of 82,069 new units would represent a significant increase in construction activity in the City. The number of units added from 2015 through 2021 was 27,992, or an average of 3,999 per year. To comply with the Housing Element 2022 Update, 10,259 units would need to be constructed on average every year between 2023 and 2031, a 157 percent increase over the 2015-2021 actual average.
- Existing zoning will not allow for all planned new housing to be constructed, particularly in "well resourced" neighborhoods, largely in the western half of the City, which are a priority of the plan. To provide greater capacity for new housing in San Francisco, the Planning Department has proposed a Rezoning Program aimed at creating capacity for many of the needed new units through the production of mid-rise (6-8 story) and small multi-family (fewer than 10-unit) projects in these areas and in neighboring, low-

density communities located near transit. In particular, it recommends relaxing density and form restrictions along major transit and commercial corridors.

Potential Adverse Financial Impact of Housing Construction on Local Businesses

- To the extent that the new housing is constructed on commercial corridors, it could impact businesses, particularly if multiple projects occur on the same block at overlapping times and/or for prolonged time periods, or if there are extensive street or lane closures. The City established a Construction Mitigation grant program that assisted local businesses adversely affected by two major transportation projects in the past: the Central Subway project and the Van Ness Avenue Bus Rapid Transit project. This grant program could be reactivated for assisting businesses affected by extensive residential construction that could occur between 2023 and 2031.

Estimated Number of Residential Development Projects, 2023-2031

- To estimate the potential adverse economic impact on businesses due to extensive residential construction, we created two scenarios, both based on the Sites Inventory attachment to the Housing Element Update, which estimates housing capacity block by block under current zoning and proposed changes. We then translated the number of housing units that could be constructed to the number of development projects assuming most projects would be multi-unit developments.
- We further refined the estimated total number of multi-unit projects to just those on commercial blocks (blocks where commercial activity is allowed), which we estimated to be 81 percent of all sites based on the proportion of sites in the City with multi-unit housing allowed under both current zoning and proposed rezoning.
    - *Scenario 1* assumes Citywide housing production of 82,069 units over the eight-year RHNA period, equal to the City's RHNA target. This translates to approximately **188 residential development projects per year** on commercial blocks based on the methods described above.
    - *Scenario 2* assumes Citywide production of 31,991 units over the RHNA period, equal to eight years of Citywide housing production at the average level of production (3,999 units per year) from 2015 through 2021. This translates to approximately **60 residential development projects per year** on commercial blocks based on the methods described above.

Estimated Number of Businesses Affected by Residential Construction

- We estimated the number of local businesses that would be adversely affected by residential construction on their block or street of long duration and/or overlapping in time with other projects. Since development projects could occur at any location between 2023 and 2031 and at different points in time, we assumed that only 25 percent of projects would trigger economic hardship for small businesses because they would be of unusually long duration and/or would occur in physical proximity to one another during overlapping time periods.

City Costs for Grants to Businesses

- Assuming that five businesses would be eligible for $10,000 in an economic relief grants each for every qualifying development project and with the other assumptions described above, we estimate that the City would fund grants valued at $2,349,824 per year for Scenario 1 or a lower $749,613 per year for Scenario 2, as shown in Exhibit A.

Exhibit A: Estimated Direct Costs of Providing $10,000 Grants Per Year to Affected Small Businesses

Description	Scenario 1	Scenario 2
Estimated Projects Per Year on Commercial Blocks	188.0	60.0
Estimated Maximum Direct Costs if Every Project Triggers Grants for 5 Businesses Eligible for $10,000 per Project	$9,399,297	$2,998,453
Estimated % of Projects Triggering Grants Under Targeted Program (1 or more projects simultaneous or sequential on the same block for extended duration)	25%	25%
Estimated Direct Costs Under Targeted Grant Program	$2,349,824	$749,613

- It should be noted that actual direct costs would depend on actual construction activity. The City's Housing Element Update 2022 provides a path for providing the capacity for the City to achieve its RHNA goals, but private market decisions will determine the actual level of construction across those years. The current market is not encouraging in that regard, but market conditions could change over time.

City's Current Construction Mitigation Program

- The City's existing Construction Mitigation Program is administered by the Office of Economic and Workforce Development (OEWD) through partnerships with other City agencies on moderate and major capital transit, streetscape, and infrastructure projects. For the most part, it consists of increased outreach and engagement with small businesses, neighborhood business and cultural groups; marketing campaigns to encourage shopping while improvements are being made; and business support services such as business education, technical assistance and access to small business grants and loans for affected businesses.

- Grants have been issued by the City for only two projects to date to businesses adversely affected by capital construction: the Central Subway project and the Van Ness Avenue Bus Rapid Transit project. This component of the Construction Mitigation Program, known as Directed Business Support, could be enhanced as needed in the event residential construction activity proceeds at such a pace as to create economic hardships on local businesses.

- Though financial assistance could be provided in the form of grants or loans, the past two City Directed Business Support programs offered grants. Businesses have indicated in surveys that is their preference so they do not incur further debt when their business is already having difficulties. Grants have been offered to assist at least some businesses adversely affected by construction projects in three agencies whose construction mitigation programs were reviewed for this report: the City of Oakland, the Los Angeles Metro, and the Santa Clara Valley Transit Authority.

Administrative Costs

- It would take funding in the amounts shown above in Exhibit A for grants of $10,000 each to be awarded to the assumed number of local businesses adversely affected by potential residential construction between 2023 and 2031. In addition, administrative costs would be incurred to process grant applications and make awards. Based on limited information available on administrative costs incurred by OEWD, the City of Oakland, and Los Angeles Metro for their grant-based construction mitigation programs, we estimate that administrative costs for a targeted grant program could range from 13.5 percent to 21 percent of grant amounts awarded. Using these rates, Scenario 1 administrative costs would be between $317,226 and $493,464 per year at 21 percent and between $101,197 and $157,419 at 13.5 percent.

Program Design Considerations

- Our review of the City's current and past program design and those of three other jurisdictions (City of Oakland, Los Angeles Metro, and Santa Clara Valley Transportation Authority) showed that the following should be considered regarding enhancement of the City's existing Directed Business Support component of the Construction Mitigation Program to incorporate the impacts of residential construction. We also provide our comments about each issue.

Exhibit B: Program Design Considerations for Residential Development Construction Mitigation Program

Program Consideration	Comments
Loans vs. Grants	Grants are preferred by businesses and easier to administer.
Grant Size	Can vary. Up to $10,000 per business has been provided in the past by the City and in the City of Oakland for some of its grants.
Construction Proximity and Duration Requirements	Prior City programs set 6 month duration for impeding visual or physical access or construction lasting 12 months within one block.
Definition of Eligible Businesses	Annual revenue threshold could be set. If small businesses are targeted, consider defining by 25 – 100 or fewer employees.
Proof of Lost Revenue	Consider the goal of minimizing burden on applicants by accepting a wide range of documentation that shows financial loss such as tax returns, sales tax data, business receipts, and others.
Direct Program Administration vs. Contracted Administration	Consider continued use of contractors for processing grant applicants and distributing funds, as City has done in the past. Other jurisdictions reviewed have also used this approach. This will allow for flexibility in adjusting for variability in level of construction activity and provide knowledgeable staff trained in business operations to review and assess documentation.

Financial Benefits of New Housing Construction

- An increase in available units will bring tens of thousands of new households – and potential customers – to the City's transit and commercial corridors. Average household spending in the San Francisco Metropolitan Statistical Area was $101,880 in 2021-2022, according to the U.S. Bureau of Labor Statistics Consumer Expenditure Survey. Although 41 percent of this spending went to housing, significant amounts also went toward categories such as food provided by local small businesses. Housing construction and real estate transactions would also benefit local small businesses.

- By multiplying average per-household spending by the number of units estimated to be built, we have estimated increased spending associated with new residential construction along commercial corridors. In Exhibit C, we estimate increased overall spending of $223.1 million to $699.4 million per year by San Francisco households due to new housing creation along commercial blocks during the 2023-2031 RHNA period.

Exhibit C: Estimated Spending Associated with Additional Housing Created on Commercial Blocks

	Scenario 1	Scenario 2
	Citywide Production Reaches RHNA Target	**Production Remains at 2015-2021 Levels**
Estimated Annual Units Along Commercial Blocks	6,864.8	2,189.9
Average Annual Household Consumption, San Francisco Area	$101,880	$101,880
Estimated Annual Consumption Associated with New Units	$699,385,432	$223,109,723
Impact Over 2023-2031 RHNA Period	$5,595,083,457	$1,784,877,780

Policy Options

The Board of Supervisors should:

1. Request that OEWD consider expanding eligibility for grant-based Directed Business Support to include residential construction mitigation grants for businesses affected by residential construction projects meeting certain criteria, such as projects that result in the closure of a sidewalk or lane of traffic beyond a minimum time period, or projects that overlap with one or more other projects on the same city block beyond a minimum time period. Building permit activity could be tracked to identify concentrations of residential housing construction that would trigger activation of the grant program.

2. Request that OEWD and the Planning Department report to the Board of Supervisors on possible goals, design options, administrative costs, and feasibility of a residential construction mitigation program providing support to small businesses located inside buildings being redeveloped.

3. Consider funding sources for this grant program including the General Fund and request that OEWD and the City Attorney's Office report to the Board of Supervisors on the feasibility of soliciting private sector partnership in establishing a grant program for small businesses affected by residential construction along transit and commercial corridors.

Project Staff: Fred Brousseau, Adam Sege

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Rezoning Program and Implications for Commercial Corridors

To address a statewide shortage of housing across income levels, the State of California assigns each region of the state an eight-year target for housing production. From these targets, regional government bodies such as the Association of Bay Area Governments then assign a Regional Housing Needs Allocation, or housing capacity goals, to individual cities. For the 2023-2031 period, the RHNA allocation for San Francisco totals 82,069 units, broken down by income category. Exhibit 1 below shows the distribution of the RHNA allocation by income group.

Exhibit 1: San Francisco's Regional Housing Needs Assessment Allocation, by Income Group, 2023-2031

Income Group	RHNA Allocation in Units
Extremely Low and Very Low Income	20,867
Low Income	12,014
Moderate Income	13,717
Above Moderate Income	35,471
Total Units	82,069

Source: San Francisco Housing Element, 2022 Update

Under Section 65585 of the California Government Code, known as the Housing Element Law, cities must submit plans to the California Department of Housing and Community Development showing how they will create sufficient capacity for private and public housing development to meet RHNA allocations. Cities that do not receive HCD approval for these plans by the statutory deadlines face fines, interruptions in state funding, and other penalties. San Francisco's submittal, the Housing Element 2022 Update, received HCD certification in January- 2023.

As part of the Housing Element 2022 Update, the City conducted an inventory analysis seeking to identify housing production capacity under existing zoning. This analysis estimated Citywide capacity for the eight-year RHNA period of 58,097 units, leaving a deficit of 23,972 units below the RHNA allocation of 82,069 units. The City's estimated deficit was increased to 36,282 units to account for a slightly higher target of 94,379 units, which represents a 15% buffer above the RHNA allocation, as recommended by the California Department of Housing and Community Development.[1]

[1] *Housing Element Site Inventory Guidebook Government Code Section 65583.2*, California Department of Housing and Community Development.

The addition of 94,379 new housing units in San Francisco over an eight-year period (including the 15% buffer) would represent a significant increase in construction activity. The number of units added from 2015 through 2021 was 27,992, or an average of 3,999 per year.[2] For the City to comply with its Housing Element 2022 Update, including the 15% buffer, 11,797 units would need to be constructed on average every year between 2023 and 2031, an increase of 195% over the 2015-2021 average. Without the buffer, it would still require 10,259 new units on average every year, or a 157 percent increase over the most recent RHNA period.

The Planning Department has determined that there is capacity in the City to construct only 58,097 units during the eight-year RHNA period given existing land uses and current zoning laws, or 36,282 fewer than the target (including the buffer) of 94,379. To address this deficit, the Housing Element 2022 Update includes a proposed Rezoning Program, in which density and form limitations would be relaxed in specific areas. To comply with state requirements aimed at addressing longstanding housing inequities, the Rezoning Program focuses on "Well-resourced neighborhoods" in the western half of the city. Of the 36,282 units needed to meet the capacity deficit, including the 15% buffer above the RHNA allocation, the proposed Rezoning Program aims to create capacity for many of these units through the production of mid-rise (6-8 story) and small multi-family (fewer than 10-unit) projects in these areas and in neighboring, low-density communities located near transit. In particular, it recommends relaxing density and form restrictions along major transit and commercial corridors in these areas.

The Rezoning Program outlined in the Housing Element 2022 Update includes three potential options for achieving these results, described as Maps A, B, and C in Appendix B of the Housing Element 2022 Update. Under state requirements, the City has three years from the January 2023 adoption of the Housing Element Update 2022 to finalize the Rezoning Program. However, Planning Department staff are actively conducting community engagement and analytical efforts and intend to present a refined proposal to the Planning Commission and then the Board of Supervisors in the first half of 2024.

The Rezoning Program lists 22 transit and commercial corridors as examples of the corridors on which it proposes relaxing height limits and other zoning restrictions. Exhibit 2 below shows these streets. The Housing Element Update notes that the streets listed are not a comprehensive inventory of such corridors. The blocks on these corridors with commercial activity allowed under current or proposed rezoning regulations are where businesses could potentially be disrupted by prolonged new residential construction during the RHNA period between 2023 and 2031. Additional streets would likely also be affected since the 22 corridors shown in Exhibit 2

[2] 2022 totals were not reported in the Housing Element 2022 Update.

are examples only in the Housing Element 2022 update. The potential impacts on such businesses are detailed below.

Exhibit 2: 22 Select Transit Corridors, Commercial Corridors, and Major Arterials on which Density and Height Restrictions Would Likely be Relaxed under Rezoning

Transit Corridors	California Geary Fulton Irving Judah Taraval 19th Avenue West Portal Market Church Ocean Van Ness Divisadero
Major Arterials of Citywide Prominence	Lombard Junipero Serra Sloat Brotherhood Way
Commercial Corridors	Chestnut Union Clement Noriega Haight

Source: Housing Element Update 2022, Sites Inventory and Rezoning Program, page 26

Existing Construction Mitigation Program

Nearby construction projects can affect local businesses in several ways, including through temporary disruptions in foot traffic and parking, and noise and visual impacts. In 2017, the City created a Construction Mitigation Program, intended to limit the negative impacts of transit, streetscape and infrastructure construction projects on neighboring properties and commercial corridors. The program began as a pilot between the Office of Economic and Workforce Development, the San Francisco Municipal Transportation Agency, the San Francisco Department of Public Works and the San Francisco Public Utilities Commission.

The City's now-ongoing Construction Mitigation Program administered by OEWD, mostly partners on moderate and major capital transit, streetscape and infrastructure projects. For the most part, it consists of increased outreach and engagement with small businesses, neighborhood business and cultural groups; marketing campaigns to encourage shopping while improvements are being made; and business support services such as business education, technical assistance and access to small business grants and loans for affected businesses. The interagency partnership on each project is captured through agreements between OEWD and the City agencies most involved in executing construction projects: the MTA, Public Works, and the SF Public Utilities Commission. There is currently no City program providing support specifically to small businesses affected by residential construction projects. The Construction Mitigation Program includes four tiers of support available to properties located near major MTA, Public Works and SFPUC construction sites, corresponding to the four impact categories shown below in Exhibit 3.

While many of the core services of the Construction Mitigation Program are focused on construction mitigation tools and methods, public relations, outreach strategies, marketing, technical assistance and education for small businesses affected by moderate and low impact construction projects, the program was enhanced during the Central Subway project with a Directed Business Support Program, or direct financial support, for businesses adversely affected by major-impact projects that lasted beyond the initial advertised construction duration. Funds were disbursed for rent, wages, utilities, marketing, and business improvements.

Directed Business Support is not provided for all projects covered by the City's Construction Mitigation Program but can be activated and funded as needed for specific approved projects that have been significantly delayed. After the Central Subway Project, the only other project that provided Directed Business Support grants was the Van Ness Avenue Bus Rapid Transit project, due to significant project delays.

Exhibit 3: Project Categories, Construction Mitigation Program

Low-Impact	• Primary work is in an intersection • Minimal construction impacts anticipated • Less than 12-months construction duration
Low-Impact with Schedule Delay	• Primary work is in an intersection • Minimal construction impacts anticipated • Project delay results in a 12-month construction duration
Moderate-Impact	• Work along a corridor • Located in an Invest in Neighborhoods (IIN) corridor[3] •On commercial corridor • Identified construction impacts • Construction 12-month duration or more
Major-Impact	• Work along a corridor/multiple street corridors • Located in an IIN or commercial corridor • Identified major construction impacts & disruption • Construction 24-month duration or more

Source: *Performance Audit of the Office of Economic and Workforce Development's Planning for Large-Scale Projects to Address Economic Impacts on Surrounding Businesses (2019),* San Francisco Budget and Legislative Analyst

Program Design Considerations

In researching potential case studies, we did not identify any cities with business interruption funds intended to address the impacts of residential construction projects. To assess possible program design considerations, we therefore analyzed the structure of OEWD's Directed Business Support program and three other business interruption programs in other jurisdictions, all designed to reduce the impact of construction related to major transit projects. Exhibit 4 below lists these case study jurisdictions and program.

[3] Invest in Neighborhoods (IIN) is a City program administered by the Office of Economic and Workforce Development that provides a suite of services to certain commercial corridors, with the goal of improving economic outcomes, quality of life and community partnerships.

Exhibit 4: Select Business Interruption Funds for Major Transit Projects

Agency	Program	Construction Project(s)	Years Operational
San Francisco OEWD	Directed Business Support	Central Subway, Van Ness Bus Rapid Transit (BRT)	2018-Present
Los Angeles Metro	Business Interruption Fund	Ongoing program for multiple transportation projects*	2014-Present
City of Oakland	Business Assistance Fund	International Boulevard Bus Rapid Transit (BRT)	2016-2021
Santa Clara Valley Transportation Authority	Direct Financial Assistance	BART Silicon Valley Phase II Extension Project (pending)	2023-TBD

Sources: Oct. 11, 2023 email from OEWD's Small Business Construction Mitigation Program Manager; *Metro Business Interruption Fund Fact Sheet*, Los Angeles Metro; Oct. 4, 2023 email from City of Oakland Economic & Workforce Development Department Urban Economic Analyst; *VTA Lays Out Business Resource Program for BART Extension*, Valley Transportation Authority.
*Note: The Los Angeles Metro's Business Interruption Fund is an ongoing program and has been implemented to date in relation to the following projects: Crenshaw/LAX Transit Project, Regional Connector, Purple Line Extension, and the East San Fernando Valley Light Rail Transit Project.

In analyzing the programs listed in Exhibit 4, we identified several key decisions for consideration in designing a program to address impacts from residential construction:

- Loans Versus Grants
- Grant Size
- Construction Proximity and Duration Requirements
- Definition of Eligible Businesses
- Proof of Lost Revenue
- Direct Administration Versus Contracted Administration

Below, we provide an overview of key considerations for each decision.

Loans Versus Grants

Loans and grants represent two possible approaches to funding structure. In reviewing several entities' business interruption funds addressing transportation construction impacts, grant funding appears to be the common practice. From the perspective of small businesses, loan funding – even low-interest or no-interest loans – may be infeasible or undesired, since it means taking on additional debt. Loan funding may also require greater administrative burdens and servicing costs for the City, than grant funding. In addition, several small business loan-programs already exist in San Francisco that eligible businesses may be able to access during times of disruption from residential construction. It is unclear whether a new loan program dedicated to residential construction impacts would generate sufficient interest among small businesses – or sufficient impact in supporting them – to justify implementation costs.

Grant Size

Grant size in the four case study programs ranged from a maximum of $10,000 in San Francisco for one-time grants to affected businesses during the Central Subway and Van Ness Bus Rapid Transit (BRT) construction projects to a maximum of $100,000, on a reimbursement basis, for the City of Oakland's International Boulevard BRT program, as shown in Exhibit 5 below.

Exhibit 5: Maximum Grant Amounts, Select Business Assistance Programs

Agency	Program	Structure	Size
San Francisco OEWD	Directed Business Support	Grants	Varies by project, funding up to $10,000 per business for Central Subway & Van Ness BRT
Los Angeles Metro	Business Interruption Fund	Grants	Up to $50,000 per business year
City of Oakland	Business Assistance Fund	Grants	Up to $100,000 per business[4]
Valley Transportation Authority	Direct Financial Assistance	Grants	Up to $10,000 per year per business year

Sources: *Construction Mitigation Program Update*, City and County of San Francisco, Transportation Authority Board Presentation, April 23, 2019; Oct. 11, 2023 email from OEWD's Small Business Construction Mitigation Program Manager; *Business Interruption Fund*, Los Angeles Metro; *Business Assistance Fund Eligibility Criteria and Disbursement Guidelines*, City of Oakland; *VTA Lays Out Business Resource Program for BART Extension*, Valley Transportation Authority.

When determining grant size, consideration should be given to available funding, as well as other program characteristics such as whether proof of lost revenue is required and the context of proximity and duration requirements, which are described below.

[4] Businesses were eligible for up to $100,000 grants, on a reimbursement basis, for specific investments such as building renovations. After the onset of the Covid-19 pandemic, the City of Oakland approved separate grants of up to $10,000 to cover operating costs of eligible businesses. Source: City of Oakland Legislative File 20-0349.

Construction Proximity and Duration Requirements

Agencies have a range of eligibility requirements that include both proximity to construction and duration of construction, as shown in Exhibit 6 below.

Exhibit 6: Proximity and Duration Requirements, Select Business Assistance Programs

Agency	Program	Proximity	Duration
San Francisco OEWD	Directed Business Support (component of Construction Mitigation Program)	• Construction within one-block ($5,000 grant) • Construction impeding visual or physical access ($10,000 grant)	• Construction within one block for 12 months ($5,000 grant) • Construction impeding visual or physical access for 6 months ($10,000 grant)
Los Angeles Metro	Business Interruption Fund	Must be adjacent to a rail corridor or construction staging area	• One project requires full-street closure for 6 months • For other projects, no minimum duration specified
City of Oakland	Business Assistance Fund	Within one block of BRT route	No minimum duration specified
Valley Transportation Authority	Direct Financial Assistance	Adjacent to above-ground construction and staging	Affected for at least two weeks consecutively

Sources: *Construction Mitigation Program Update*, City and County of San Francisco, Transportation Authority Board Presentation, April 23, 2019; Oct. 11, 2023 email from OEWD's Small Business Construction Mitigation Program Manager; Performance Audit of the Office of Economic and Workforce Development's Planning for Large-Scale Projects to Address Economic Impacts on Surrounding Businesses (2019), San Francisco Budget and Legislative Analyst; *Business Interruption Fund*, Los Angeles Metro; *Business Assistance Fund Eligibility Criteria and Disbursement Guidelines*, City of Oakland; *VTA Lays Out Business Resource Program for BART Extension*, Valley Transportation Authority; Valley Transportation Authority staff presentation to Valley Transportation Authority Board of Directors, June 16, 2023.

Residential construction differs from public transportation construction. For most of the duration of a residential construction project, sidewalk and parking disruption is typically limited to the area directly in front of the building under construction for smaller scale residential developments. For larger scale residential or mixed-use projects, extended disruptions may occur, further impacting neighboring properties, sidewalks, transit and parking lanes, according to Public Works staff. Utility installation may require temporary closures of one or more additional traffic lanes, but these closures may be as brief as one week and are generally shorter than those expected for construction of a public transit line.

Even if a construction project does not impede sidewalk or street access to adjacent businesses, the noise and visual effects of a construction site may be disruptive to certain neighboring establishments, particularly those such as restaurants or bars with outdoor seating. Noise and visual effects may last the duration of a construction project, which can be expected to range from 16 to 30 months for a mid-rise or high-rise residential construction project. Exhibit 7 below shows estimated construction timelines, as provided to Planning Department staff by an external consultant, Century Urban.

Exhibit 7: Estimated Construction Timelines, Residential Projects

Category	Size	Units	Months
Midrise	Small	10-20	16
Midrise	Medium	75	18
Midrise	Large	125	21
Highrise	Small	100	22
Highrise	Medium	250	26
Highrise	Large	500	30

Source: Century Urban advisory to San Francisco Planning Department, Aug. 9, 2023.

The information above suggests that significant business impacts of a residential construction site along commercial corridors may be limited to businesses on the same block as the construction site, particularly those such as restaurants and bars. However, the impacts will be greater and may adversely affect businesses to the extent that the construction of multiple residential projects take place simultaneously or overlap along a single block or are within close proximity to each other, resulting in a more prolonged duration of negative impacts.

Definition of Eligible Businesses

Whether through employee headcount, sales revenue or another metric, program eligibility criteria can restrict program funds to small businesses, which have fewer resources than larger enterprises to weather the disruption from nearby construction. Exhibit 8 below shows the definition of eligible small businesses applied to financial assistance programs and projects across the case study programs.

Exhibit 8: Small Business Definitions, Select Business Assistance Programs

Agency	Program/Projects	Small Business Definition
San Francisco OEWD	Directed Business Support for Central Subway and Van Ness BRT (both now complete)	100 or fewer employees
Los Angeles Metro	Business Interruption Fund, ongoing for multiple projects	25 or fewer full-time employees
Oakland	Business Assistance Fund, for International Blvd. BRT	Annual revenues under $3 million
Valley Transit Authority	Direct Financial Assistance for BART Silicon Valley extension	35 or fewer employees

Source: *Construction Mitigation Program Update*, City and County of San Francisco, Transportation Authority Board Presentation, April 23, 2019; Oct. 11, 2023 email from OEWD's Small Business Construction Mitigation Program Manager; *Business Interruption Fund*, Los Angeles Metro; *Business Assistance Fund Eligibility Criteria and Disbursement Guidelines*, City of Oakland; *VTA Lays Out Business Resource Program for BART Extension*, Valley Transportation Authority.

In addition to restricting program participation to small businesses, eligibility restrictions can promote the responsible use of public funds and prevent the distribution of funding to businesses unlikely to survive even absent the relevant construction project. Additional criteria for the programs include city licensing, financial solvency, and other requirements.

Proof of Lost Revenue

As part of a 2019 performance audit of the Office of Economic and Workforce Development's planning for large-scale projects, our office recommended that OEWD require small businesses affected by major transportation projects to provide proof of lost revenue when applying for grant funding through the City's Construction Mitigation Program. As noted in the audit, doing so would align the City's practices with the business assistance funds for transit projects in Los Angeles and Oakland, and it would promote responsible stewardship of program funding. Although applicants for grants were not required by the City to provide proof of lost revenue for either the Central Subway or Van Ness Avenue BRT projects, they provided documentation of economic hardship in the form of tax returns, financial statements, and financial data such as sales tax data or point-of-sale (POS) data.

Should the City require proof of revenue loss in a program dedicated to the adverse impacts of residential construction, efforts should be made to minimize the burden required of applicants.

The Los Angeles Metro's program provides one template for how to do so: While Metro requires businesses to provide financial records showing lost revenue to qualify for funding, analysis of these records is completed by staff at the grant administrator contracted by the agency. These staff accept a wide range of financial records from applicant small businesses – including physical receipts – from which they calculate revenue losses. An advantage of this approach is that the applications are reviewed by firms familiar with business operations and documents and the sponsoring agency does not have to train its staff in such reviews, since that is not a regular function performed by agency staff.

Direct Provision Versus Contracted Grant Administration

Another decision entails whether to administer a program directly or contract out some or all management activities. In San Francisco's Construction Mitigation Program for transit projects, OEWD staff managed outreach and the award process during the construction of the Central Subway and Van Ness Avenue Bus Rapid Transit projects, while a contracted vendor (Main Street Launch) distributed checks. In Los Angeles, Metro staff provide direct technical assistance and a contracted vendor (Pacific Coast Regional Small Business Development Center) administers the grant program. By contrast, during construction of bus rapid transit along International Boulevard in Oakland, city staff managed the grant program directly, and a contracted vendor provided technical assistance.

Estimating Residential Construction Activity Along Commercial Blocks

Estimating the Number of Relevant Projects

We based our analysis of construction activity along commercial blocks on the Sites Inventory, an attachment to the Housing Element 2022 Update, which estimates existing housing capacity and additional capacity that rezoning could make possible. Actual production will depend on market conditions and will not necessarily reach this demonstrated capacity depending on market conditions and other factors affecting development projects.[5]

To account for a range of possible levels of housing production, we considered two scenarios. Scenario 1 assumes Citywide housing production of 82,069 units over the eight year RHNA period, set equal to the City's RHNA target. Scenario 2 assumes Citywide production of 31,991 units over the RHNA period, set equal to eight years of Citywide housing production at the average level of production (3,999 units) from 2015 through 2021.[6]

[5] Morris, J.D. and J.K. Dinnen. "S.F. must create 82,000 new homes in 8 years. The city is already behind," San Francisco Chronicle, August 14, 2023, Link.

[6] Average level of production calculated from the Housing Element 2022 Update's *Evaluation of the 2014 Housing Element, using Table 4 (Net Housing Units Added and Units Authorized for Construction, 2015-2021).* Link

We estimate average annual construction along commercial blocks of between 60 projects (Scenario 2) and 188 projects (Scenario 1), as shown in Exhibit 9 below. To calculate this, we first excluded projected Accessory Dwelling Units and units from Development Agreements that have already been or are scheduled to be entitled from total housing production estimates for both scenarios. We then estimated an average project size, using the Sites Inventory, to estimate the number of projects that could be built during the RHNA period, excluding Development Agreements and ADU projects. (See Appendix I.)

We next estimated the number of these projects that would be built along just commercial blocks (blocks that allow commercial activity), using data from the Sites Inventory attached to the Housing Element Update 2022. That data showed that 81 percent of possible construction sites with more than five units, including under both current zoning and proposed rezoning, are on blocks that also allow commercial uses. (See Appendix II). Our final step was to divide by eight to yield an average annual estimate.

In one notable respect, these estimates are upper-bound estimates, as they assume that all units (apart from ADUs) will be built as part of projects with more than five units on all sites where such sized developments are allowed. In reality, some units will be produced through smaller projects, such as duplexes and fourplexes. However, Planning Department staff expect that this number will be far fewer than the number of units produced through projects of more than five units.

Exhibit 9: Estimated Projects Per Year on Commercial Blocks

	Scenario 1	Scenario 2
Units Produced Citywide, 2023-2031	82,069	31,991
Less Development Agreement Units	24,600	9,589
Less ADU Units	2,000	780
Subtotal Units Produced Citywide Excluding DA and ADU Units, 2023-2031	67,779	21,622
Divided by Estimated Average Project Size # (Units)	36.5	36.5
Estimated Projects Excluding DA and ADU Projects, 2023-2031	1,856.1	592.1
Multiplied by Estimated Percentage of Projects Located on Commercial Blocks	81.0%	81.0%
Estimated Projects on Commercial Blocks, 2023-2031	1,503.9	479.8
Estimated Projects Per Year on Commercial Blocks	**187.99**	**59.97**

Source: BLA Analysis of Housing Element Update 2022, Appendix B.4
Note: Estimates assume project construction lasts an average of one year. While many projects may last longer, disruption to neighboring businesses may not last the entire duration of the project. According to Planning Department staff, project "close-in" occurs approximately 70% into the timelines shown in Exhibit 7; after this point, most work occurs inside the buildings being constructed.

Estimating Funding Needed

The disruption to nearby businesses of a specific construction project relates to several factors including the duration of construction, sidewalk, and street disruption, and the length of sidewalk and/or street inaccessibility during disrupted periods. The type of business is also a key variable: For example, a restaurant that relies on a sidewalk seating area or retail businesses that rely on casual pedestrian walk-by traffic would likely be more affected by adjacent construction than a hardware store, dry cleaning establishment, or a restaurant that primarily fulfills take-out.

Due to these uncertainties, it is impossible to precisely estimate the impact to nearby businesses of a single residential construction project. To calculate a range of approximate cost estimates, we first considered a program structure with broad eligibility guidelines, resulting in five businesses receiving a grant for every project along a commercial block. We then adjusted our estimate for a targeted program structure, such as a program in which businesses are only eligible for grants if there are multiple projects under way on their block simultaneously or sequentially such that there is a continuous disruption of a year or more. We provide an estimate for such a program based on 25 percent of all residential development projects on commercial blocks meeting the program criteria, assuming again that five businesses receive grants per eligible project.

Exhibit 10 below shows estimated direct costs of providing grants of $10,000, equal to the maximum grant funding under the City's existing Dedicated Business Support program. Changing the assumed grant size would change these estimates proportionally, as would adjusting the assumptions about the number of affected businesses per project.

Exhibit 10: Estimated Direct Costs of Providing $10,000 Grants Per Year to Affected Small Businesses

Description	Scenario 1	Scenario 2
Estimated Projects Per Year on Commercial Blocks	188.0	60.0
Estimated Maximum Direct Costs if Every Project Triggers Grants for 5 businesses eligible for $10,000 per project	$9,399,297	$2,998,453
Estimated % of Projects Triggering Grants Under Targeted Program (1 or more projects simultaneous or sequential on the same block)	25%	25%
Estimated Direct Costs Under Targeted Grant Program	$2,349,824	$749,613

Source: BLA Analysis of Housing Element Update 2022, Appendix B.4

Note: Estimates assume five businesses per affected block receive grants of $10,000 each.

Limitations

Numerous assumptions limit the precision of these estimates, including our estimates of average project size and the proportion of housing production that occurs on key corridors. We also assumed that every residential project would affect five businesses, at least to the extent that grant funding is warranted, and that every affected business would receive the maximum $10,000 in grant funding. As explained above, we excluded Development Agreements and other large projects. Our estimates should therefore be viewed as initial, not final, attempts to project development activity and costs of a business interruption fund.

Costs to Administer Program

Staff is in place at OEWD to administer business assistance programs stemming from capital and construction projects. Currently, that consists of one full-time equivalent position who partners with the lead construction agency such as the MTA or Department of Public Works, who also provide staff for the function. In addition, third party contractors were employed for the Van Ness BRT project to administer aspects of the grant program. Given the duration and projected level of activity for this program to cover residential construction stemming from a program to address businesses affected by residential construction driven by the City's new Housing Element, some additional resources would be needed to administer the program. Compared to major capital projects, the volume of grant activity for a residential construction mitigation program will be difficult to predict year-to-year as it will depend on decisions made by private housing developers. For that reason, it would be preferable to have a core staff assigned to the program with one or more contract organizations available to process applications and write checks. Besides using such contractors for the Van Ness BRT program, at least two of the three programs in other jurisdictions reviewed for this report have also used a combination of permanent staff and contractors.

The costs of administering construction mitigation programs in other jurisdictions is often mixed with the costs of technical assistance services for businesses in the areas disrupted by the construction activity. Unfortunately, OEWD does not have information available on the administrative costs incurred for just the two previous Directed Business Support grant programs it supported (Central Subway and Van Ness BRT). We have instead prepared estimates based on information from the City's revolving loan fund program for small businesses and the Los Angeles Metro's reported administrative costs for its Business Interruption Fund program. Based on that information, we conclude that administrative costs would range from 13.5 to 21 percent of grant amounts issued. Given the estimates of grant amounts per year provided above, additional administrative costs for construction mitigation grants in San Francisco would thus be as high as $157,419 to $493,464 per year for our low and high scenarios at 21 percent. If administrative costs are closer to the lower estimate, 13.5 percent of grant amounts issued, administrative costs would be $101,197 for the lower Scenario 2 and $317,226 for our higher Scenario 1.

Development Agreements and Large Projects

Of the housing production outlined in the Housing Element 2022 Update, approximately 24,600 units over the eight-year period are projected to be produced through Development Agreements and other large projects. Exhibit 11 below shows a list of entitled and not-yet entitled Development Agreement and other major project sites, along with the number of total units anticipated between 2023 and 2030.

Exhibit 11: Development Agreements and Large Projects Entitled or Anticipated to be Entitled

Project	Total Units
Mission Bay South and North	1,001
Hunters Point Shipyard Phase 1	796
Transbay	1,003
Hope SF: Hunters View	218
Hunters Point Shipyard and Candlestick Phase 2	1,420
Treasure Island	3,436
Parkmerced	2,241
Schlage Lock	1,679
5M	400
HOPE SF: Potrero	252
HOPE SF: Sunnydale	657
Plumbers Union	60
Pier 70	1,059
Mission Rock	678
India Basin	1,575
3000 California	744
Potrero Power Station	1,011
Balboa Reservoir	1,100
UCSF Plan by 2030	631
Subtotal, Entitled Projects	19,961
Freedom West	2,005
Plaza East	755
Potrero Yards	575
Stonestown	1,304
Subtotal, Not Yet Entitled Projects	4,639
Total, Projects Entitled and Not Yet Entitled	**24,600**

Source: Housing Element 2022 Update, Appendix B

Because most of these projects take up entire city blocks, their street and sidewalk disruptions will likely be relatively self-contained. For this reason, we have excluded these units from our estimates of projects affecting small businesses. While there could be some businesses located adjacent to these projects that are eligible for grant support, we do not anticipate that the number of such businesses would be large enough to significantly affect our cost estimates.

Additional Policy Considerations

Program Targeting

As explained above, disruption from the construction of a typical residential building is more limited than that for public transit construction, as sidewalk and street closures are typically limited to the sidewalk and parking lane immediately in front of the construction site. Though traffic lane closures may occur during phases such as utility installation, they are typically brief or phased to limit disruptions. To constrain program costs, department staff and the Board of Supervisors could consider a program model in which grant funding is triggered only when construction projects happen in close proximity, such as when multiple projects start on the same block within one or two years. Such concentrations of construction would more closely mirror the disruption brought by public transportation projects and would likely create more significant disruption to the affected businesses. Tracking of geographic and temporal concentrations of residential development projects could potentially be performed by the Department of Building Inspection based on building permit activity.

Support for Commercial Tenants in Buildings Being Redeveloped

Our estimates above focus on those small businesses located near, but not within, buildings that are being constructed or redeveloped. However, those businesses located inside buildings being redeveloped will also be affected. At minimum for these businesses, redevelopment will mean pausing site operations entirely during the duration of construction and reconstructing their businesses in the new building. For many, it could mean having to relocate permanently or close.

Today, the owners of some of these small businesses own their entire building, meaning that if the building is redeveloped in the coming years, it will be because the business owner decided to sell. Other small business owners, however, are tenants who may have had no say in – and who may receive no compensation for – building redevelopment.

To address the disruption to these businesses, the Board of Supervisors could consider requiring developers to provide previous commercial tenants relocation assistance or right of first refusal to rent commercial space once construction is complete, at least in buildings that plan to have commercial space. The City could also consider providing grants to previous commercial tenants, with the goal of helping such businesses reopen following construction or relocate somewhere new. Given the complexities and costs of addressing the disruption to these enterprises, we recommend that OEWD report to the Board of Supervisors on possible goals, design options and feasibility of a program providing support to small businesses located inside buildings being redeveloped.

External Funding Sources

To offset the cost to taxpayers, the City could consider seeking external partners such as merchant associations and major San Francisco employers, who all stand to benefit from investments in the City's small business community. There is local precedent for partnership along these lines: During construction of the International Boulevard Bus Rapid Transit project in Oakland, JPMorgan Chase's PRO Neighborhoods Initiative provided funding for the construction mitigation program implemented by the nonprofit organization Main Street Launch. Although this funding supported technical assistance, not the grant funding portion of the construction mitigation program, it reflects potential private sector interest in supporting businesses along key corridors. While the feasibility of establishing such partnerships is not clear, and care would need to be taken to ensure compliance with the Behested Payments Ordinance, private sector resources could significantly increase the resources available to such a program and/or offset the cost to taxpayers. We therefore recommend that the Board of Supervisors request OEWD and the City Attorney's Office report back on the feasibility of soliciting private sector partnership in establishing a grant program for small businesses affected by residential construction along transit and commercial corridors.

Benefits to Small Businesses of Rezoning

Although they do not erase the temporary disruption brought by residential construction projects, it is worth noting the long-term economic benefits, including to small businesses, of creating additional housing. Ultimately, an increase in available units will bring tens of thousands of new households – and potential customers – to the City's transit and commercial corridors. As shown in Exhibit 12 below, average household spending in the San Francisco Metropolitan Statistical Area was $101,880 in 2021-2022, according to the U.S. Bureau of Labor Statistics Consumer Expenditure Survey. Although 41 percent of this spending went to housing, significant amounts also went toward categories such as food that are provided by small businesses. Housing construction and real estate transactions would also benefit local small businesses.

Exhibit 12: Average Household Spending in the San Francisco Area, 2021-2022

Item	Annual Spending
Housing	$41,367
Food	13,137
Transportation	12,991
Personal insurance and pensions	12,556
Healthcare	6,222
Entertainment	3,590
Other	12,019
Total	$101,880

Source: U.S. Bureau of Labor Statistics Consumer Expenditure Survey Data (San Francisco Metropolitan Statistical Area), 2021-2022.

By multiplying average per-household spending by the number of units estimated to be built, we can estimate increased spending associated with new residential construction along commercial corridors. In Exhibit 13 below, we estimate increased overall spending of $223.1 million to $699.4 million per year by San Francisco households due to new housing creation along commercial blocks during the 2023-2031 RHNA period.[7] For the entire RHNA period, the total economic impact of new households on commercial blocks would range from $1.8 billion for Scenario 2 to $5.6 billion for Scenario 1.

[7] To estimate unit totals along transit and commercial corridors, we started from the capacity in the Housing Element 2022 Update's Sites Inventory. After excluding units created through Development Agreements and other major projects and Accessory Dwelling Units (ADUs), we used a proportion to estimate the number of remaining units that would be built as part of projects of 10 or more units, using this as a proxy for the number of remaining units that would be built along transit and commercial corridors. Appendix II shows these calculations.

Exhibit 13: Estimated Spending Associated with Additional Housing Created Along Commercial Blocks

	Scenario 1	Scenario 2
	Citywide Production Reaches RHNA Target	Production Remains at 2015-2021 Levels
Estimated Annual Units Along Commercial Blocks	6,864.8	2,189.9
Average Annual Household Consumption, San Francisco Area	$101,880	$101,880
Estimated Annual Consumption Associated with New Units	$699,385,432	$223,109,723
Impact Over 2023-2031 RHNA Period	$5,595,083,457	$1,784,877,780

Source: U.S. Bureau of Labor Statistics Consumer Expenditure Survey Data (San Francisco Metropolitan Statistical Area), BLA Analysis of Housing Element Update 2022, Appendix B.4

Policy Options

The Board of Supervisors should:

1. Request that OEWD consider expanding eligibility for grant-based Directed Business Support to include residential construction mitigation grants for businesses affected by residential construction projects meeting certain criteria, such as projects that result in the closure of a sidewalk or lane of traffic beyond a minimum time period, or projects that overlap with one or more other projects on the same city block beyond a minimum time period. Building permit activity could be tracked to identify concentrations of residential housing construction that would trigger activation of the grant program.

2. Request that OEWD and the Planning Department report to the Board of Supervisors on possible goals, design options, administrative costs, and feasibility of a residential construction mitigation program providing support to small businesses located inside buildings being redeveloped.

3. Consider funding sources for this grant program including the General Fund and request that OEWD and the City Attorney's Office report to the Board of Supervisors on the

feasibility of soliciting private sector partnership in establishing a grant program for small businesses affected by residential construction along transit and commercial corridors.

Appendix I: Estimating Average Project Size

Action	Amount/Result
Total Unit Capacity, Table A Sites with Total Capacity > 5 units	20,789.5
Total Unit Capacity, Sites on Table B (Map 3) with Total Capacity > 5 units	57,540.8
Total Unit Capacity, Table A and B (Map 3), with Total Capacity > 5 units	78,330.3
Divide by Count of Table A and Table B (Map 3) Sites with Total Capacity > 5 Units	2,145.0
Average Capacity, Sites with Total capacity> 5 units, Table A and Table B (Map 3)	**36.5**

Source: BLA Analysis of Housing Element Update 2022, Appendix B.4

Appendix II: Estimating Percentage of Projects on Commercial Blocks

Action	Amount/Result
Count of Sites on Table A with Capacity > 5 Units, Excluding Sites with RH, RM, or P Zoning	413
Count of Sites on Table B (Map 3) with Capacity > 5 Units, Excluding Sites with RH, RM, or P zoning	1325
Count of All Sites with Total Capacity > 5 Units, Table A and Table B (Map 3), Excluding Sites With RH, RM, or P Zoning	1738
Divide by Count of All Sites with Total Capacity >5 Units, Table A and Table B (Map 3)	2145
Estimated Percentage of Projects Along Commercial Blocks	**81.0%**

Source: BLA Analysis of Housing Element Update 2022, Appendix B.4