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 9, 2022 Budget and Finance Committee Meeting

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EXECUTIVE SUMMARY

Legislative Objectives

- **File 21-1305**: The proposed resolution would approve an amendment to the lease and management agreement with the San Francisco Botanical Garden Society to also include the Japanese Tea Garden and the Conservatory of Flowers as part of the leased premises.
- **File 21-1295**: The proposed ordinance would amend the Park Code to waive admission fees for San Francisco residents to the Japanese Tea Garden and the Conservatory of Flowers and reauthorize the Recreation and Park Department to set admission fees for non-resident adults at the Japanese Tea Garden, the Conservatory of Flowers, and the Botanical Garden through flexible pricing. Fees for non-resident veterans would also be waived.

Key Points

- The Botanical Garden Society (SFBGS) is responsible for admissions collections and other services for the Botanical Garden. The Conservatory of Flowers is currently managed by the Parks Alliance, and the Department is typically responsible for managing admissions at the Japanese Tea Garden in addition to garden maintenance. Under the proposed amendment, SFBGS would provide these same services to the Japanese Tea Garden and the Conservatory of Flowers. Non-profit costs are covered by admission revenues.

Fiscal Impact

- The Department estimates savings of $383,484 from joint management of the gardens due to consolidation of admission staffing and resulting in lower admissions costs than historical spending for the three gardens. The proposed spending plan includes an annual deposit of $514,105 to the City's Garden Improvement Fund for maintenance and improvement of the gardens.
- We estimate the annual revenue loss from the elimination of residential admission fees ($271,385) and non-resident veteran admission fees ($300,000) could be offset by an increase of $1.00 in non-resident admission fees. Any net revenue would be assigned to the City's Garden Improvement Fund.

Policy Consideration

- The original lease and management agreement with the Botanical Garden Society approved by the Board of Supervisors was not competitively procured and may be extended through May 2043. Because management of the three gardens has never been competitively procured, we do not know if costs are reasonable or if there are other providers that would bid on a competitive solicitation.

Recommendations

- Approval of Files 21-1305 and 21-1295 are policy matters for the Board of Supervisors.

MANDATE STATEMENT

City Charter Section 9.118(c) states that any lease, modification, amendment, or termination of a lease that had an initial term of ten years or more, including options to extend, or that had anticipated revenues of $1 million or more is subject to Board of Supervisors approval.

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

BACKGROUND

Current Lease and Management Agreement

Under an existing lease and management agreement between the Recreation and Parks Department and the nonprofit organization, San Francisco Botanical Garden Society, the San Francisco Botanical Garden Society is responsible for visitor services, admissions collections, educational programming, marketing, and other services to support operations of the Botanical Garden in Golden Gate Park. The existing agreement was effective beginning in December 2013 and expires December 2023 and includes two options to extend for ten years each.

Proposed Gardens of Golden Gate Park

The Recreation and Parks Commission seeks to bring the Botanical Garden, Japanese Tea Garden, and the Conservatory of Flowers under joint management. The three gardens would be referred to collectively as “the Gardens of Golden Gate Park.”

Currently, all three gardens are separately managed. As mentioned above, the Botanical Garden is managed under a lease and management agreement with the San Francisco Botanical Garden Society. The Conservatory of Flowers is currently managed under a license with the San Francisco Parks Alliance. The license has been in holdover status since it expired in 2012. The Recreation and Parks Department is primarily responsible for managing admissions at the Japanese Tea Garden in addition to garden maintenance.[1] However, the San Francisco Botanical Garden Society has managed admissions collections for the Japanese Tea Garden during the COVID-19 pandemic according to a supplemental agreement to the existing lease and management agreement.

Admission Fees

The Park Code establishes admission fees for the San Francisco Botanical Garden, the Japanese Tea Garden, and the Conservatory of Flowers. There are different rates for children, adults, and seniors. Currently, San Francisco residents do not pay any fees at the Botanical Garden and receive discounts at the Japanese Tea Garden and Conservatory of Flowers.

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[1] According to Recreation and Parks Department staff, the Department receives support from the Friends of the Japanese Tea Garden and a concessionaire operates the historic Tea House and Gift Shop.

In 2019, the Board of Supervisors authorized the Recreation and Park Department to set non-resident adult admission fees for the three gardens through "flexible pricing" (File 19-0629). This allowed the Department to temporarily increase or decrease the fees based on factors such as public demand, facility conditions, and rates at comparable facilities. The Department could only increase prices once per year by up to 50% and was only permitted to increase prices during certain times of the year depending on the facility. The existing law permits price increases for non-resident adults as follows:

- **Botanical Garden**: Increases only on Saturdays and Sundays
- **Conservatory of Flowers**: Increases only on Fridays, Saturdays, and Sundays
- **Japanese Tea Garden**: Increases only March through October

The flexible pricing system was scheduled to sunset on June 30, 2021, but the Board of Supervisors authorized the extension of flexible pricing at the gardens until December 7, 2021 (File 21-0653). The 2019 flexible pricing legislation also allowed the General Manager to adjust non-resident admission fees for Coit Tower, however that authority was never implemented and expired in June 2021.

DETAILS OF PROPOSED LEGISLATION

File 21-1305

The proposed resolution would approve an amendment to the lease and management agreement with the San Francisco Botanical Garden Society to also include the Japanese Tea Garden and the Conservatory of Flowers as part of the leased premises. The term of the agreement with the Botanical Garden Society remains unchanged.

File 21-1295

The proposed ordinance would amend the Park Code to:

- Waive admission fees for San Francisco residents to the Japanese Tea Garden and the Conservatory of Flowers;
- Waive admission fees for non-resident veterans for all three gardens[2]
- Authorize the Recreation and Park Department to waive or discount other admission fees at the Japanese Tea Garden, the Conservatory of Flowers, and the Botanical Garden;
- Re-authorize the Recreation and Park Department to set admission fees for non-resident adults at the three gardens through flexible pricing; and
- Affirm the Planning Department's determination that all associated actions comply with the California Environmental Quality Act.

[2] File 21-1095, approved in December 2021, waived admission fees to certain Recreation & Park facilities, including the Japanese Tea Garden and Conservatory of Flowers, for resident veterans. Under that ordinance, fees for non-resident veterans would be automatically waived if the Controller certifies that sufficient funding has been appropriated for one-year.

Selection of San Francisco Botanical Garden Society

Chapter 23.33 of the Administrative Code requires that leases be competitively bid unless competitive bidding procedures are impractical or impossible. The Department determined that holding a competitive bid for the lease and management of the Conservatory of Flowers and the Japanese Tea Garden would not be practical or feasible given the San Francisco Botanical Garden Society's specialized knowledge and experience pertaining to specialty gardens, its existing agreement for the Botanical Garden, and the assumed benefits from bringing the three gardens under joint management. Therefore, the Department is proposing to amend the existing lease and management agreement to include the two other gardens. The Board of Supervisors authorized the waiver of the requirement under Chapter 23.33 of the Administrative Code that the existing lease and management agreement be competitively bid, given the San Francisco Botanical Garden Society's specialized knowledge and experience in 2013 (File 13-0537). At that time, the Department estimated that the value of the services provided by the lease was $2.1 million annually, which exceeded the fair market value of the annual rent of $384,062, as estimated by an appraiser. The Department has not conducted a new appraisal of the Botanical Garden nor of the Japanese Tea Garden or the Conservatory of Flowers.

Services Provided

Under the existing agreement, the San Francisco Botanical Garden Society is responsible for managing the following aspects of the Botanical Garden operations: visitor services, admissions collection, educational programming, marketing, volunteer program coordination, special events, and community relations. The Department is responsible for garden maintenance and oversight, including strategic and master site planning, plant collections development and documentation, signage, as well as improvements, renovations, and maintenance of the Botanical Garden. As described below in the Fiscal Impact Section, costs for these services are covered by admission fees and the Botanical Garden Society pays the City a base rent of $100 per year.

Under the proposed amendment to the lease and management agreement, the San Francisco Botanical Garden Society would provide the same services that it currently provides at the Botanical Garden to the Japanese Tea Garden and the Conservatory of Flowers. Similarly, the Department would continue to be responsible for garden maintenance, facility maintenance, and oversight at all three gardens.

Admissions Receipts

According to Exhibit E of the proposed amendment to the lease and management agreement, fees paid for admission to the three gardens may only be used for the benefit of the three gardens. The San Francisco Botanical Garden Society (SFBGS) would collect admission fees and remit them in full to the Department. The Department would allocate monies collected monthly in the following order:

a) SFBGS expenses associated with collection of admission fees, such as personnel costs, office supplies, and rent or related fees for equipment;

b) Department expenses associated with maintenance and oversight of the gardens of $4.4 million per fiscal year;
c) SFBGS education and community outreach expenditures of $650,000 per fiscal year;
d) The balance of admission receipts would be paid into the "Gardens of Golden Gate Park Improvement Fund," which would be maintained by the City.[3]

This reflects the allocation model in the existing agreement for the Botanical Garden. According to the Department, admission receipts from the Japanese Tea Garden historically accrued to the Department's general fund and were used for costs associated with managing admissions and maintenance of all of the gardens. According to Department staff, admission receipts from the Conservatory of Flowers have not been paid directly to the Department. According to a November 2021 Budget and Legislative Analyst Report, *Relations between Recreation and Parks Department and San Francisco Parks Alliance*, there is no provision for a minimum guaranteed amount of admissions receipts to be allocated to the Department in the 2003 agreement with the San Francisco Parks Alliance.

Admission Fee Changes (File 21-1295)

The proposed ordinance would waive admission fees for residents and re-authorize and standardize flexible pricing for adult non-residents. The proposed ordinance would allow the Department to increase prices for non-resident adults only by up to 50% of the Park Code set fee upon 30 days' notice to the public rather than just once per year and does not constrain price increases to certain months or days unlike the existing law. The Department could also decrease fees at any time. In addition, the proposed ordinance would also remove the sunset date for flexible pricing, allowing the Recreation and Park Department to continue using flexible pricing at the three gardens indefinitely. Fee changes must be due to changes in demand at particular days and times, adverse weather, facility conditions, operating costs, or tickets covering multiple gardens.

Flexible Pricing Use at the Gardens

The Recreation and Parks Department provided an update on flexible pricing at the three gardens to the Board of Supervisors in May 2021. The regular non-resident adult admission fee was $9 at all three gardens until FY 2020-21 when it was increased to $10 at the Japanese Tea Garden and the Conservatory of Flowers and in FY 2021-22 when it increased to $10 at the Botanical Garden due to allowable CPI increases. According to that report, flexible pricing for non-resident adults was applied as follows:

- Botanical Garden: Applied on the weekends starting in November 2019 with a $3 increase.
- Conservatory of Flowers: Applied on the weekends starting in October 2019 with a $2 increase.

[3] According to the proposed amendment, expenditures from the Gardens of Golden Gate Park Improvement Fund may only be used for expenses associated with maintenance, renovation, and improvement of the gardens, unless the Recreation and Park Commission and the San Francisco Botanical Garden Society otherwise agree in writing.

- Japanese Tea Garden: Applied starting in March 2020 through September 2020 with a $2 increase. In October 2020, the price was adjusted back to $10, and the $2 increase was restored starting in March 2021.

Other City Departments Use of Flexible Pricing

At the request of a Supervisor, we completed a short survey of City entities that charge for use of City property.

Our survey found that the Recreation and Parks Department uses a flexible pricing structure for golf fees, which allows the General Manager to adjust resident and tournament rates based on demand, prices at other golf courses, and course conditions.[4] The Academy of Sciences uses dynamic admissions pricing, which varies by day and time. However, the Fine Arts Museums, which include the De Young and Legion of Honor Museums, does not use dynamic pricing for admissions, though the museums charge higher fees for special exhibits.

Additionally, we found that the San Francisco Municipal Transportation Agency (SFMTA) uses dynamic pricing (referred to as transportation demand management) for garage and parking meter fees, both of which are generally based on demand. According to SFMTA staff, since the implementation of dynamic pricing in 2011, garage fees have generally increased and parking meter fees have fluctuated between $0.50 and $10 per hour based on demand for curb space. Garage and parking meter fees are adjusted by SFMTA staff.

Performance of Botanical Garden Society

The existing lease and management agreement does not have performance metrics. Data provided by the Recreation and Parks Department show that admissions increased from 240,000 in FY 2011-12 to 424,000 in FY 2018-19 (the last full year before COVID-19), an increase of 76.7%.

FISCAL IMPACT

The Recreation and Parks Department developed the Gardens of Golden Gate Park budget based on actual spending from FY 2018-19 due to the impact of COVID-19 on subsequent years. Exhibit 1 below summarizes the sources and uses of the proposed amended lease and management agreement.

[4] Park Code Section 12.12(d), which relates to municipal golf courses, states that the General Manager may discount resident rates by 50% and increase them by 25%; tournament rates may be increased by 50%.

Exhibit 1: Sources and Uses of Proposed Gardens of Golden Gate Park

Sources	**Botanical Garden**	**Conservatory of Flowers**	**Japanese Tea Garden**	**Total**
Admissions Receipts	$1,393,527	$1,047,127	$4,280,000	$6,720,654
Total Sources	**$1,393,527**	**$1,047,127**	**$4,280,000**	**$6,720,654**
Uses				
SFBGS Admissions Cost	536,998	323,202	306,203	1,166,403
Rec & Park Operating Expenses	287,573	250,000	3,865,000	4,402,573
SFBGS Education and Community Engagement Expenses	287,573	250,000	100,000	637,573
Garden Improvement Fund	281,383	223,925	8,797	514,105
Total Uses	**$1,393,527**	**$1,047,127**	**$4,280,000**	**$6,720,654**

Source: Recreation and Parks Department

Note: Admission receipts are based on FY 2018-19 fees. At that time, flexible pricing was not in use for adult non-residents, and adult residents paid discounted fees at the Conservatory of Flowers and the Japanese Tea Garden and no admission fee at the Botanical Garden.

As shown above, the proposed budget includes $4.4 million in operating expenses for the Recreation and Parks Department for maintenance and oversight of the three gardens. According to Department staff, the estimates are based on three years of spending and include costs associated with 27.15 FTE positions (including 14.25 FTE Gardeners, 4.0 Nursery Specialists, 2.25 Custodians, and other maintenance positions), deferred maintenance, and materials and supplies. City costs are expected to increase from $3.9 million in FY 2018-19 to $4.4 million in the first year of the proposed agreement due to increases in City salary and benefits costs and costs associated with maintenance of the Conservatory of Flowers, which was previously paid for by the San Francisco Parks' Alliance out of admissions revenue. Attachment 1 compares the proposed budget to FY 2018-19 actual expenses for the three gardens.

The Department estimates savings of $383,484 from joint management of the gardens compared to FY 2018-19 expenses, due to consolidation of admission staffing and resulting in lower admissions costs than historical spending for the three gardens. The proposed budget assumes annual admission levels are the same as FY 2018-19 levels.

The savings would support an increase of $150,000 in education and community engagement programming for the San Francisco Botanical Garden Society to cover the additional facilities as well as increases in the Recreation and Parks Department budget described above. The proposed amended lease and management agreement would result in an estimated annual deposit of $514,105 to the Gardens of Golden Gate Park Improvement Fund. This reflects an increase from prior year deposits to the Garden Improvement Fund because admission receipts from the Conservatory of Flowers and the Japanese Tea Garden were not previously deposited to a dedicated improvement fund.

Admission Fee Changes (File 21-1295)

As noted above, under the proposed ordinance, fees for resident admissions are waived at the Conservatory of Flowers and the Japanese Tea Garden to align with current practices at the Botanical Garden, and the Department could raise fees for non-residents by a maximum of $5, up to $15 at all three gardens. Exhibit 2 below shows the number of visitors and total admissions revenue for the three gardens for FY 2018-19. Admissions were lower in subsequent years due to the impacts of COVID-19. In FY 2018-19 non-resident adult admission fee collections across the three gardens accounted for approximately three-quarters of total admissions revenue.

Exhibit 2: Total Visitors and Admissions Revenue, FY 2018-19

Facility	Resident	Non-Resident Adult	Non-Resident Other [a]	Other Free [b]	Total Visitors
Botanical Garden	211,719	107,056	54,339	63,618	436,732
Conservatory of Flowers	20,338	74,383	49,064	25,042	168,827
Japanese Tea Garden	29,400	380,145	100,364	246,270	756,179
Total Visitors	**261,457**	**561,584**	**203,767**	**334,930**	**1,361,738**
Admissions Revenue	**$271,385**	**$5,054,301**	**$1,221,695**	**$0**	**$6,547,381**
Percent of Total Revenue	4.1%	77.2%	18.7%	0.0%	100.0%

Source: Recreation and Parks Department

[a] Non-Resident other includes discounted admissions for children and senior non-residents.

[b] Other Free includes free admissions for low-income residents and non-residents, free admissions hours at the gardens, and other free admissions.

Note: FY 2018-19 revenues for the Botanical Garden was $1.2 million, $1.0 million for the Conservatory of Flowers, and $4.3 million for the Japanese Tea Garden.

Recreation and Parks Department staff estimate that waiving resident fees at the Conservatory of Flowers and the Japanese Tea Garden would result in $271,385 in annual lost revenue based on admission fee collections for residents in FY 2018-19, as shown above. In December 2021, the Board of Supervisors approved an ordinance waiving fees for resident veterans and, once the Controller certifies sufficient funding is available, for non-resident veterans. The proposed fee ordinance, which allows for flexible pricing for non-resident garden admissions, waives for admissions fees non-resident veterans. Based on a Department of Defense data, approximately 6% of the statewide population are veterans or actively serving in the armed forces. Therefore, waiving non-resident veteran admissions fees may cost approximately $300,000 (6% of $5 million non-resident adult admission fees).

We estimate the annual revenue loss from the elimination of residential admission fees ($271,385) and non-resident veteran admission fees ($300,000) could be offset by an increase of

$1.00 in non-resident admission fees.[5] Under the proposed lease and management agreement, any surplus revenue would be assigned to the City's Gardens of Golden Gate Park Improvement Fund for expenses associated with maintenance, renovation, and improvement of the gardens.

POLICY CONSIDERATION

Agreement Amendment

The proposed lease and management agreement amendment (File 21-1305) allows the Botanical Garden Society, which operates the Botanical Garden, to operate the Japanese Tea Garden, typically operated by City staff, and the Conservatory of Flowers, currently operated by the San Francisco Parks Alliance. According to Recreation and Parks Department staff, the Botanical Garden Society temporarily took over admission operations at the Japanese Tea Garden during the pandemic and City staff have been re-assigned to recreation centers.

Net revenues from the Conservatory of Flowers, which previously went to the San Francisco Parks Alliance, together with revenues from the Japanese Tea Garden and Botanical Garden, will all be provided to the Recreation and Parks Department account to cover Department staffing costs and facility maintenance costs. Overall, City costs are expected to increase from $3.9 million in FY 2018-19 to $4.4 million in the first year of the proposed agreement due to increases in City salary and benefits costs and costs associated with maintenance of the Conservatory of Flowers, which was previously paid for by the San Francisco Parks' Alliance out of admissions revenue. Beyond that, the proposed agreement does not expand the scope of City services related to the gardens.

The original lease and management agreement with the Botanical Garden Society approved by the Board of Supervisors was not competitively procured and may be extended through May 2043. Aside from expanding operations to include the Japanese Tea Garden and Conservatory of Flowers, the proposed lease and management agreement amendment is generally consistent with the original agreement approved by the Board of Supervisors. Lease and management of each of the three gardens has never been competitively procured. The Botanical Garden Society has been operating the Botanical Garden since 1955. The Japanese Tea Garden has been operated by the City, and the Conservatory of Flowers has been operated by the San Francisco Parks' Alliance since it reopened in 2003. The Department believes that the Botanical Garden Society is uniquely suited to operate garden admissions, given the organization's $20 million endowment and fundraising capacity that may be used to fund garden improvements, strong community ties, and network of volunteers.

Because management of the three gardens has never been competitively procured, we do not know if costs are reasonable or if there are other providers that would bid on a competitive

[5] In FY 2018-19, the three gardens had 561,584 visitors. Therefore, a $1.00 increase in admissions fees with the same number of visitors would provide $561,584, or roughly equivalent to the combined $571,385 revenue loss from the elimination of residential admission fees ($271,385) and non-resident veteran admission fees ($300,000).

solicitation. We therefore consider approval of the proposed resolution (File 21-1305) to be a policy matter for the Board of Supervisors.

Fee Ordinance

As noted above, the proposed ordinance (File 21-1295) would eliminate residential admission fees for the Conservatory of Flowers and the Japanese Tea Garden and continue to allow dynamic pricing for non-resident adult admission fees. It would also waive non-resident admission fees for veterans. As noted above, the annual revenue loss from the elimination of residential admission fees and non-resident veterans could be offset by an increase of $1.00 in non-resident admission fees. If the proposed ordinance modifying the garden admission fees is not approved, the admission fees for the gardens are expected to cover the operating expenses of both the Botanical Garden Society and the City for all three gardens. If the non-resident fees are increased beyond that point, all additional net revenue would accrue to an improvement fund dedicated to garden improvements.

We consider approval of the proposed ordinance (File 21-1295) to be a policy matter for the Board of Supervisors.

RECOMMENDATIONS

1. Approval of File 21-1305 is a policy matter for the Board of Supervisors.
2. Approval of File 21-1295 is a policy matter for the Board of Supervisors.

Attachment 1

Exhibit 3: Proposed Gardens of Golden Gate Park Budget Compared to FY 2018-19 Actuals (All Gardens)

Sources	FY 2018-19 Actuals	Proposed Budget	Difference	Percent Difference
Admissions Receipts	$6,568,309	$6,720,654	$152,345	2.3%
Total Sources	**$6,568,309**	**$6,720,654**	**$152,345**	**2.3%**
Uses				
SFBGS Admissions Cost	1,549,857	1,166,403	(383,454)	-24.7%
Rec & Park Operating Expenses	3,914,343	4,402,573	488,230	12.5%
Botanical Garden	*287,573*	*287,573*	*0*	*0.0%*
Conservatory of Flowers	*0*	*250,000*	*250,000*	
Japanese Tea Garden	*3,626,770*	*3,865,000*	*238,230*	*6.6%*
SFBGS Education and Community Engagement Expenses	487,573	637,573	150,000	30.8%
Garden Improvement Fund	209,409	514,105	304,696	145.5%
Total Uses	**$6,161,182**	**$6,720,654**	**$559,472**	**9.1%**

Source: Recreation and Parks Department

Note: FY 2018-19 actuals do not include Rec & Park operating costs for the Conservatory of Flowers. Garden Improvement Fund amounts for FY 2018-19 are less than the difference between sources and SFBGS and City uses because, under the existing license agreement with the San Francisco Parks Alliance, net revenues from the Conservatory of Flowers are provided to the City.

Items 3, 4, 5, & 6 **Files 22-0004 – 22-0007** *(Continued from 2/2 meeting)*	**Department:** Municipal Transportation Agency (MTA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolutions would retroactively approve parking garage contract amendments between San Francisco Municipal Transportation Authority (SFMTA) and the following vendors: (i) IMCO Parking, LLC, increasing the amount by $3,519,692, for a total amount not to exceed $46,478,944 (File 22-0004); (ii) Imperial Parking (U.S.), LLC, increasing the amount by $5,204,448, for a total not to exceed $65,588,907 (File 22-0005); (iii) IMCO Parking, LLC, increasing the amount by $3,423,007, for a total not to exceed $45,684,255 (File 22-0006); and (iv) LAZ Parking California, LLC, increasing the amount by $6,632,821, for a total not to exceed $92,377,245. Each contract would be extended by one year, for total contract terms of 11 years.

Key Points

- SFMTA manages 20 parking garages and lots, divided into three groups. After conducting a Request for Proposals (RFP), SFMTA awarded parking operation and management contracts to Pacific Park Management (later acquired by Imperial Parking) for the Group A garages, IMCO Parking for the Group B garages, and LAZ Parking for the Group C garages. SFMTA has a separate contract with IMCO Parking for the 5th and Mission Garage.
- SFMTA had planned to issue an RFP for new parking operator contracts in the summer of 2021. Due to the COVID-19 pandemic and its impact on the parking industry, SFMTA is now requesting to extend the existing contracts by one year until new vendors are selected.
- Based on spending data provided by SFMTA, each contract's spending exceeded the $10 million threshold for Board of Supervisors approval between FY 2013-14 and FY 2014-15. At the recommendation of the Budget & Legislative Analyst, at the February 2, 2022 Budget & Finance Committee meeting, the Committee requested the Director of Transportation to review all SFMTA contracts to identify any contracts that require retroactive Board of Supervisors approval, provide a written report on the review to the Board of Supervisors within 60 days of approval of the resolutions, and include the report within the legislative files.

Fiscal Impact

- Actual and projected expenditures for the four contracts total approximately $250 million. Actual and projected revenues total approximately $690 million. After deducting expenditures, the actual and projected net revenues total approximately $440 million.

Recommendation

- Approve the proposed resolutions.

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 San Francisco Municipal Transportation Agency (SFMTA) manages 16 City-owned parking garages and lots and four parking garages owned by the Parking Authority.[1] The SFMTA has divided these 20 garages and lots into three groups, as follows:[2]

Group A includes the Civic Center Garage, Sutter Stockton Garage, Lombard Street Garage, Performing Arts Garage, Pierce Street Garage, Mission Bartlett Garage, 16th and Hoff Streets Garage, and 7th and Harrison Parking Lot.

Group B includes the St. Mary's Square Garage, Portsmouth Square Garage, Golden Gateway Garage, and Kezar Stadium Parking Lot.

Group C includes the Union Square Garage, Moscone Center Garage, Ellis-O'Farrell Garage, Polk Bush Garage, North Beach Garage, Vallejo Street Garage, and San Francisco General Hospital Garage.

In April 2010, SFMTA issued a Request for Proposals (RFP) for the operation and management of the Groups A, B, C garages. SFMTA received five proposals, and a four-member panel reviewed the proposals and scored them, as shown in Exhibit 1 below.[3]

Exhibit 1: Proposals and Scores from RFP

Proposer	Written Score	Interview Score	Total Score (out of 200)
IMCO Parking, LLC (JV)[4]	93.26	92.99	186.24
Imperial Parking	86.50	86.25	172.75
LAZ Parking	83.50	84.00	167.50
Pacific Park Management	86.00	79.75	165.75
Central Parking, SF (JV)	66.25	78.75	145.00

Source: SFMTA

[1] California law establishes parking authorities for every city and county to finance, construct, and manage parking facilities. While the Parking Authority is a separate legal entity from SFMTA, SFMTA acts as the Parking Authority and the SFMTA Board serves concurrently as the Parking Authority Commission.

[2] According to Senior Manager Malone, the groups were originally intended to have a roughly equal number of total parking spaces and revenues. As new garages were added, SFMTA grouped them with other nearby garages to promote operational efficiency, as well as to attempt to balance the three groups.

[3] The panel consisted of a Public Works Director of Street and Environmental Services, a Recreation and Park Department Director of Finance and Administration, an SFMTA Director of Off-Street Parking, and an SFMTA Parking Operations Assistant.

[4] IMCO Parking, LLC received a 7.5 percent bonus score because its joint venture partner, Convenient Parking, is a certified Local Business Enterprise (LBE) with 40 percent participation.

Imperial Parking is the senior partner of IMCO Parking joint venture, and the RFP stipulated that no entity could be awarded multiple contracts (including as a joint venture partner), so its proposal was disqualified. Therefore, IMCO Parking, LAZ Parking, and Pacific Park Management were deemed the three highest scoring responsive and responsible proposers and were awarded contracts. Under the RFP rules, the highest scoring proposer received first choice of the garage group contracts, the second highest proposer received the second choice, and the third highest scoring proposer was awarded the remaining contract. IMCO Parking selected the Group B contract, LAZ Parking selected the Group C contract, and Pacific Park Management was awarded the Group A contract. In December 2011, the SFMTA Board and Parking Authority approved contracts with the three vendors. Each contract was for an initial term of six years, from February 2012 through January 2018, with two 18-month options to extend through January 2021, and an amount not to exceed $907,920. In 2014, Imperial Parking acquired Pacific Park Management, and the contract for Group A garages was assigned to Imperial Parking.

5th and Mission Garage

In 2011, the City of San Francisco Downtown Parking Corporation, a nonprofit public benefit corporation, issued an RFP for the operation and management of the 5th and Mission garage, which it leased from SFMTA. The Parking Corporation received five proposals, and a five-member panel revied the proposals and scored them, as shown in Exhibit 2 below.[5]

Exhibit 2: Scores and Proposals from 5th and Mission Garage RFP

Proposer	Written Proposal Score	Oral Presentation Score	LBE Bonus Points	Total Score
IMCO Parking, LLC	97.00	53.80	11.31	162.11
Parking Concepts, Inc.	104.40	54.40	0.00	158.80
LAZ Parking	87.00	59.60	0.00	146.60
Pacific Park Management	93.00	51.80	0.00	144.80
AMPCO	91.20	53.00	0.00	144.20

Source: SFMTA

IMCO Parking was deemed the highest scoring responsive and responsible proposer and was awarded a contract. In January 2012, the SFMTA Board approved the contract between the Parking Corporation, and IMCO Parking, for a term of five years, from March 2012 through February 2017, with two 2-year options to extend through February 2021, and an amount not to exceed $587,510. In 2013 the Parking Corporation dissolved.[6] In anticipation of the dissolution,

[5] The panel consisted of an SFMTA Parking Manager, an SFMTA Parking Analyst, a Downtown Parking Corporation Board Member, an Ellis-O'Farrell Parking Corporation Corporate Manager, and a Portsmouth Square Parking Corporation Corporate Manager.

[6] The City established parking corporations to act as fiscal trustees for bond financed parking garages, under the oversight of the Controller's Office. In 2009, the Controller's Office delegated oversight of the parking corporations to SFMTA. In 2012, SFMTA refinanced the outstanding debt for the four garages with remaining debt, taking the debt onto itself. With a reduced role, the parking authorities began to wind down their operations. The San Francisco Downtown Parking Corporation, which leased the 5th and Mission Garage, formally dissolved in 2013.

the Director of Transportation approved the assignment and assumption of the contract from the Parking Corporation to SFMTA in September 2012.

Previous and Proposed Contract Amendments

Each of the contracts have been amended several times to add new garages, exercise the options to extend, extend the contracts an additional year (for a total of 10 years), and increase the not-to-exceed amounts. The Groups A, B, and C contracts each expired on January 31, 2022, and the 5th and Mission contract (now between SFMTA and IMCO Parking) will expire on February 28, 2022.

SFMTA had planned to issue an RFP for new parking operator contracts in the summer of 2021. Due to the COVID-19 pandemic and its impact on the parking industry, SFMTA needed more time to evaluate the operations and management of the parking facilities. SFMTA issued the new RFP in January 2022 and anticipates awarding new contracts by the end of 2022. SFMTA is requesting to extend the existing contracts for one year until the new contracts are in place. In December 2021, the SFMTA Board approved contract amendments extending the four contracts.

Board of Supervisors Approval

When the contracts were initially drafted in 2011, they only referenced the management fee amounts paid by SFMTA to the vendors. The contracts did not specify not-to-exceed amounts that encompassed total contract costs, such as labor, benefits, and maintenance costs, that significantly exceed the management fee amounts.[7] Subsequent contract amendments provided not-to-exceed amounts that only accounted for the management fee. As this amount did not exceed $10 million for any contract, the contracts have not been brought forward to the Board of Supervisors for approval. Based on spending data provided by SFMTA, each contract's spending exceeded the $10 million threshold for Board of Supervisors approval under City Charter Section 9.118(b) between FY 2013-14 and FY 2014-15. In consultation with the Budget and Legislative Analyst, SFMTA has submitted revised legislation with contract not-to-exceed amounts that encompass total actual and projected expenditures for each contract.

In reporting on a resolution approving a Department of Children, Youth, & Their Families grant agreement (File 21-0960), in October 2021 the Budget & Legislative Analyst identified two other grant agreements that required retroactive Board of Supervisors approval because the expenditures exceeded $10 million. Two resolutions (22-0059 & 22-0062) pending at the Budget & Finance Committee would provide retroactive approval of those agreements. In response, the Controller's Office has created dashboards indicating necessary approvals within the City's financial system and the City Attorney's Office has created a checklist for contract approvals, which includes a reminder about Board of Supervisors approval. Both offices are reaching out to legal and financial staff to remind them about Board approval of contracts.

At the recommendation of the Budget & Legislative Analyst, at the February 2, 2022 Budget & Finance Committee meeting, the Committee requested the Director of Transportation to review all SFMTA contracts to identify any contracts that require retroactive Board of

[7] Staff from SFMTA and the City Attorney's Office were unable to locate records explaining why the contract amounts only referenced the management fees. Current staff did not work on the 2011 contracts.

Supervisors approval, provide a written report on the review to the Board of Supervisors within 60 days of approval of the resolutions, and include the report within the legislative file.

DETAILS OF PROPOSED LEGISLATION

The proposed resolutions would approve the following SFMTA garage contract amendments that retroactively correct the contract amounts: (i) the Fourth Amendment with IMCO Parking, LLC for the 5th and Mission Garage, increasing the amount by $3,519,692, for total not to exceed $46,478,944 (File 22-0004); (ii) the Fifth Amendment with Imperial Parking, LLC for the Group A garages, increasing the not-to-exceed amount by $5,204,448, for a total not to exceed $65,588,907 (File 22-0005); the Seventh Amendment with IMCO Parking, LLC for the Group B garages, increasing the not-to-exceed amount by $3,423,007, for a total not to exceed $45,684,255 (File 22-0006); and (iv) the Fifth Amendment with LAZ Parking California, LLC, increasing the not-to-exceed amount by $6,632,821, for a total not to exceed $92,377,245 (File 22-0007). Each contract would be extended by one year, through January 2023 for the Groups A, B, and C contracts, and through February 2023 for the Fifth and Mission Garage contract. Other material terms of the contracts would not change. Approval of the amendments to the Groups A, B, and C contracts is retroactive, as these contracts expired on January 31, 2022. The proposed extensions are beyond the terms contemplated by the original RFP (for garage groups A, B, & C).

Under the contracts, SFMTA pays a flat management fee to each operator, as well as reimbursement for all expenses. SFMTA collects all revenue from the garages. According to Rob Malone, SFMTA Senior Manager of Parking and Curb Management, the contract model has allowed SFMTA to provide improved customer service, as vendors can hire additional staff to meet customer demand. Under the previous lease model, SFMTA received a flat fee from the operators, which incentivized operators to reduce expenses and maximize profits without necessarily providing good service or maintenance. According to Senior Manager Malone, the total staffing before the COVID-19 pandemic between the four contracts was approximately 220 full-time equivalent (FTE) employees. Staffing reached a pandemic low of approximately 75 FTE employees, and current staffing is approximately 85 FTE employees.

According to Senior Manager Malone, SFMTA has not considered operating the garages in-house. A benefit of the contract model is that the operators act as the merchant of record for payment transactions and are responsible with meeting Payment Card Industry compliance standards. The operators have greater experience and capacity in managing collections and security of the revenue stream than SFMTA would be if the garages were operated in-house.

According to Senior Manager Malone, the contracts do not have quantitative performance measures or ratings. However, SFMTA staff assesses the effectiveness of the service on a qualitative basis, such as whether the vendors are effective partners in implementing parking policies and providing parking operation services. SFMTA staff meets with the vendors on a monthly basis to review financials, operations, and policy issues, and discuss any performance issues during those meetings.

FISCAL IMPACT

As noted above, the proposed contract amendments would increase the not-to-exceed amounts of the contracts as follows: (i) increase the not-to-exceed amount of the IMCO Parking contract for the 5th and Mission garage by $3,519,692, for a total not to exceed $46,478,944 (File 22-0004); (ii) increase the not-to-exceed amount of the Imperial Parking contract for the Group A garages by $5,204,448, for a total not to exceed $65,588,907 (File 22-0005); (iii) increase the not-to-exceed amount of the IMCO Parking contract for the Group B garages by $3,423,007, for a total not to exceed $45,684,255 (File 22-0006); and (iv) increase the not-to exceed amount of the LAZ Parking contract for the Group C garages by $6,632,821, for a total not to exceed $92,377,245 (File 22-0007). Also as noted above, these amounts account for all actual and projected contract expenditures, while previous not-to-exceed amounts only accounted for management fees. Actual and projected contract expenditures total approximately $250 million, as shown in Exhibit 3 below.

Exhibit 3: Actual and Projected Contract Expenditures

	IMCO Parking (File 22-0004)	**Imperial Parking (File 22-0005)**	**IMCO Parking (File 22-0006)**	**LAZ Parking (File 22-0007)**	**Total**
Management Fees to Date	$662,735	$1,351,858	$1,105,560	$1,458,052	$4,578,205
Other Actual Expenditures	42,296,517	59,032,601	41,155,688	84,286,372	226,771,178
Subtotal, Actual Expenditures	*$42,959,252*	*$60,384,459*	*$42,261,248*	*$85,744,424*	*$231,349,383*
Management Fees, 1-Year Extension	$77,482	$184,466	$137,592	$172,166	$571,706
Other Projected Expenditures	3,442,210	5,019,982	3,285,415	6,460,655	18,208,262
Subtotal, Projected Expenditures	*$3,519,692*	*$5,204,448*	*$3,423,007*	*$6,632,821*	*$18,779,968*
Total Actual and Projected Expenditures	**$46,478,944**	**$65,588,907**	**$45,684,255**	**$92,377,245**	**$250,129,351**

Source: SFMTA

To date, SFMTA has received approximately $620 million in total revenue from the four contracts. SFMTA anticipates approximately $70 million in projected revenues over the one-year extension term, for total actual and projected revenues of approximately $690 million. After deducting expenditures, the total actual and projected net revenues from the four contracts total approximately $440 million, as shown in Exhibit 4 below.

Exhibit 4: Actual and Projected Parking Revenues

	IMCO Parking (File 22-0004)	Imperial Parking (File 22-0005)	IMCO Parking (File 22-0006)	LAZ Parking (File 22-0007)	Total
Actual Revenues to Date	$172,569,679	$159,724,494	$118,271,312	$169,775,014	$620,340,499
Actual Expenditures	(42,959,252)	(60,384,459)	(42,261,248)	(85,744,424)	(231,349,383)
Actual Net Revenues	*$129,610,427*	*$99,340,035*	*$76,010,064*	*$84,030,590*	*$388,991,116*
Projected Revenues	$15,000,000	$21,400,000	$11,850,000	$21,385,000	$69,635,000
Projected Expenditures	(3,519,692)	(5,204,448)	(3,423,007)	(6,632,821)	(18,779,968)
Projected Net Revenues	*$11,480,308*	*$16,195,552*	*$8,426,993*	*$14,752,179*	*$50,855,032*
Total Actual and Projected Revenues	$187,569,679	$181,124,494	$130,121,312	$191,160,014	$689,975,499
Total Actual and Projected Expenditures	(46,478,944)	(65,588,907)	(45,684,255)	(92,377,245)	(250,129,351)
Total Actual and Projected Net Revenues	**$141,090,735**	**$115,535,587**	**$84,437,057**	**$98,782,769**	**$439,846,148**

Source: SFMTA

According to Senior Manager Malone, approximately 75 percent of contract revenues and expenditures are allocated to SFMTA and approximately 25 percent are allocated to the Recreation and Park Department (REC), which owns the Union Square Garage, Portsmouth Square Garage, Civic Center Garage, and half of the St. Mary's Square Garage. Based on these allocations, of the $440 million in actual and projected net revenues, approximately $330 million are allocated to SFMTA and approximately $110 million are allocated to REC.

Operating Revenues & Costs

The management fee of each operator is based on the number of parking spaces in each garage and escalated by five percent in contract years 4 and 7. Under the agreements, the garage operators must comply with SFMTA's Parking Facility Operation and Management Regulations, which require operators to submit annual budgets to SFMTA for approval, as well as daily and monthly reports detailing actual revenues and expenditures. Parking fees are set by SFMTA.

RECOMMENDATION

Approve the proposed resolutions.

Item 7 **File 21-1235**	**Department:** Human Services Agency (HSA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the third amendment to the Emergency Agreement between the City and SF Americania LLC, for the continued use of 143 hotel rooms and associated services by increasing the agreement amount by $6,670,714, from $9,759,450 to not to exceed $16,430,164, and extending the term from November 15, 2021 to October 9, 2022.

Key Points

- Americania Hotel, located at 121 Seventh Street, is a 143-room hotel, which is contracted with the City through the Shelter In Place Hotel program to provide housing for unhoused people at-risk for COVID-19. The Human Services Agency (HSA) entered into the original agreement with SF Americania LLC in March 2020, which has been amended two times. The first two Amendments to the agreement did not require Board of Supervisors approval because they were below $10 million.

Fiscal Impact

- Under the agreement, the average daily rate for rooms and reimbursable expenses (hotel services) is $123.68. Total new spending provided by the proposed amendment is $6,670,714.
- Actual expenses totaled $9,744,232 through the current agreement term, which ended on November 15, 2021, and the hotel incurred additional room costs of $1,047,328 for the remainder of November, as well as December and January, for total actual spending of $10,791,561 as of January 2022.
- The contingency amount for repair costs is increasing from 15% to 25% of the room costs under the proposed Third Amendment, or approximately $22,979 per room. According to Section 8.1.3 of the agreement, the City is responsible for all repair costs associated with restoring the hotel to its previous condition, even if they exceed the contingency amount.
- An estimated 93 percent of agreement costs are reimbursable by FEMA through March 2022 according to HSA staff. Costs not reimbursed by FEMA will be paid from the State's Project Roomkey Allocation (expiring in June 2022) and the Federal Emergency Solutions Grant.

Recommendations

- Amend the proposed resolution to clarify that approval is retroactive.
- Approve the proposed resolution, as amended.

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of $10 million or more, or (3) requires a modification of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

In response to the COVID-19 emergency, the City established the COVID-19 Alternative Shelter Program. This Program provided shelter in place sites, congregate setting sites, and isolation and quarantine sites to COVID-vulnerable individuals, most of whom were experiencing homelessness. These shelters included hotel rooms, congregate units, and recreational vehicles. As discussed below, as of July 1, 2022, the operation of ongoing Alternative Shelter Programs moved back to home departments. The City is in the process of winding down the Shelter in Place Hotel program by September 30, 2022 as the City moves from response to recovery.

One of the Shelter in Place Hotel agreements is for the Americania Hotel located at 121 Seventh Street, which has 143 rooms. Under the agreement, the San Francisco Human Services Agency (HSA) controls the entire hotel; no rooms are rented to the general public at this time.

Historical Changes to the Agreement

The original emergency services agreement between the City and SF Americania LLC was for a 122-night term from March 24, 2020 through July 23, 2020, for a not to exceed amount of $6,696,144. (See Exhibit 1 below) The original agreement gave the City the right to extend the Term (“Booking Period”) on a month-to-month basis after July 23, 2020 through March 23, 2021 upon 30 days prior notice to the Hotel owner.

The first two Amendments to the agreement did not require Board of Supervisors approval because they were below $10 million. On June 11, 2020, HSA adopted the First Amendment to the Agreement which added an additional available room and incorporated provisions necessary to be eligible for cost recovery from the Federal Emergency Management Agency (FEMA).

Exhibit 1. Historical Terms of Americania Hotel Agreement

	Original Agreement Total	Amendment 1	Amendment 2	Proposed Amendment 3	Unit Cost
Number of Rooms	142 rooms	143 rooms	143 rooms	143 rooms	
Monthly Billing Rate	$429,240	$432,210	$432,210	$432,210	
Expiration Date	July 23, 2020	July 23, 2020	Nov 15, 2021	Oct 9, 2022	
Term length	122 nights	122 nights	601 nights	929 nights	
Room Costs	$5,150,880	$5,186,520	$8,486,478	$13,144,131	$98.94
Contingency (% of Room Costs)	$1,545,264 (30%)	$1,509,624 (29%)	$1,272,972 (15%)	$3,286,033 (25%)	$24.74
Not to Exceed Amount	**$6,696,144**	**$6,696,144**	**$9,759,450**	**$16,430,164**	**$123.68**

Source: Amendments 1-3 of the Emergency Agreement with 1231 Market Street Owner, LP

On June 23, 2020, the City exercised its option under Section 2.1 of the Agreement to extend the term on a month-to-month basis commencing July 23, 2020.

On March 22, 2021, HSA administratively adopted the Second Amendment to the Agreement under its Emergency Ordinance Authority to extend the term by 479 nights and increase the total not to exceed amount from $6,696,144 to $9,759,450.

Shelter in Place Hotel Program- Status as of February 2022

At its highest capacity, San Francisco's Shelter in Place Hotel Program, provided 2,288 rooms across 25 sites. According to Department of Homelessness and Supportive Housing (HSH) staff, the program has served over 3,700 guests, including adults, families, and Transitional Aged Youth (ages 18-24). The Program provides non-congregate temporary shelter for people experiencing homelessness who are most vulnerable to COVID-19. The City has begun the process of rehousing guests temporarily sheltered in Shelter in Place hotels and closing the hotels. HSH took over operations of the Shelter in Place Hotel Program in July 2021 after the City's COVID-19 Command Center was closed.

HSH is responsible for matching individuals with long-term placements and will continue through September 2022 when HSH expects the last hotels to close. As of February 1, 2022, HSH has rehoused 1,057 Shelter in Place hotel guests out of 2,596 total exited hotel guests[1] and closed nine out of 25 hotels. The remaining 14 hotels are still open. As of February 2, 2022, there were 1,163 active Shelter in Place Hotel guests, occupying 1,079 units (including units that may be occupied by more than one guest). The hotels stopped accepting new guests in June 2021. The hotel closing schedule is shown in Exhibit 2 below.

[1] According to HSH staff, many of the guests who left the program did so voluntarily. Others moved to another institutional setting (e.g. hospital or other residential non-psychiatric medical facility) or transferred to other shelter programs (e.g. Navigation Centers or Transitional Housing) based on their needs. An unspecified number were discharged from the program due to unsafe behavior.

Exhibit 2. Shelter in Place (SIP) Hotel Closure Schedule, As of January 27, 2022

Site Status	Number of Sites
Closed SIP Sites	9
Active SIP Sites	14
Sites Closing in 2022 Q1	4
Sites Closing in 2022 Q2	5
Sites Closing in 2022 Q3	5

Source: HSH

According to HSH staff, HSH notifies service providers at least three months in advance of starting the closure of that site so that HSH and the provider can ensure 90-day notification to guests prior to site closure and to allow HSH to assist guests with rehousing. Given the planned hotel closure schedule through September 2022, there may be additional Shelter in Place Hotel contracts that will require Board of Supervisors approval to extend.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would retroactively approve the third amendment to the Emergency Agreement between the City and SF Americania LLC, for the continued use of 143 hotel rooms and associated services by increasing the agreement amount by $6,670,714, from $9,759,450 to not to exceed $16,430,164; and would extend the booking period by an additional 328 nights, for a total term of 929 nights from March 24, 2020 to October 9, 2022.

FISCAL IMPACT

Actual expenses totaled $9,744,232 through the current agreement term, which ended on November 15, 2021, and the hotel incurred additional room costs of $1,047,328 for the remainder of November, as well as December and January, for total actual spending of $10,791,561 as of January 2022. Americania Hotel budgeted and actual expenditures for the current agreement term are shown in Exhibit 3 below

Exhibit 3. Americania Hotel Budget vs Actuals, March 24, 2020 – January 31, 2022

	Total Budgeted	Actual Expenses thru Nov 15, 2021
Room	$8,486,478	$8,486,478
Contingency [a]	1,272,972	1,257,754
Total	**$9,759,450**	**$9,744,232**
Expenses incurred after agreement term (Nov 15, 2021 - January 31, 2022)		
Room Costs		$1,047,328
Total Actual Expenses to Date		**$10,791,561**

Source: HSA

[a] The Second Amendment to the Agreement provides for Americania Hotel to invoice the City each month for the flat rate of $432,210 and for additional reimbursable services, up to 15 percent of the flat room rate.

Reimbursable Expenses

The contract not to exceed amount includes a contingency for reimbursable expenses above the monthly room rate. According to HSA staff, the contingency amount is for use at the City's discretion and is primarily intended for repair costs at contract close-out. Under the Original Agreement, the City is required to return the property to the Hotel "in as good order and condition and repair as when received, except for reasonable, ordinary use and wear thereof."

Section 8.1.3 of the Original Agreement included a contingency amount calculated as 30% of the room costs. The contingency was reduced to 15% of the room costs in the Second Amendment, but would increase to 25% under the proposed Third Amendment, or approximately $22,979 per room. According to HSA staff, the change in contingency calculation reflects the change in use of the property over the term of the agreement from Shelter in Place to Isolation and Quarantine and back to Shelter in Place. According to Robert Walsh, HSA Director of Facilities, Shelter in Place rooms typically require additional repair costs compared to Isolation and Quarantine rooms because Shelter in Place guests stay longer compared to Isolation and Quarantine guests. The change in contingency calculation from 15% to 25% of room costs results in an additional $9,192 contingency amount per room (from $13,788 to $22,979). Restoration of rooms is completed by hotel contractors. According to Section 8.1.3 of the agreement, the City is responsible for all repair costs, even if they exceed the contingency amount. According to HSA, the City is not expecting to exceed the contingency amount to restore the hotel.

Funding Sources

The Third Amendment to the Agreement would be initially funded by the General Fund. HSA staff anticipate that around 93 percent of costs from the beginning of the agreement through March 31, 2022, will be reimbursed by FEMA. The remaining costs that are not eligible for FEMA reimbursement—due to client ineligibility or costs incurred after the April 2022 expiration of FEMA funding—will be funded by other state and federal sources, including the State's Project Roomkey Allocation (expiring in June 2022) and the Federal Emergency Solutions Grant.

RECOMMENDATIONS

1. Amend the proposed resolution to clarify that approval is retroactive.
2. Approve the resolution, as amended.

Item 8 **File 21-1236**	**Department:** Human Services Agency (HSA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the fifth amendment to the emergency agreement between the City and 1231 Market Street Owner, L.P., for the continued use of 459 hotel rooms and associated services by increasing the agreement amount by $24,456,776, from $54,800,664 to not to exceed $79,257,440 and would extend term from March 1, 2022 to December 1, 2022.

Key Points

- Hotel Whitcomb, located at 1231 Market Street, is a 459-room hotel, which is contracted by the City through the Shelter In Place Hotel program to provide unhoused people at-risk for COVID-19 and who do not have another housing source. The Human Services Agency (HSA) entered into the original agreement with 1231 Market Street Owner in April 2020, which has been amended four times. The Board of Supervisors approved the fourth amendment in June 2021, extending the agreement term to March 1, 2022 and increasing the not-to-exceed amount to $54,800,664.

Fiscal Impact

- Under the agreement, the average daily rate for room, meals, and linens is $178.57.
- Projected expenditures under the agreement between April 2020 and March 2022 are projected to equal $52.5 million, or $2.3 million less than the $54.8 million current agreement amount. HSA expects to use the unspent contingency amount of $2.3 million from the current term agreement to address repair costs at contract close-out. According to Section 8.1.3 of the agreement, the City is responsible for all repair costs associated with restoring the hotel to its previous condition, even if they exceed the contingency amount.
- An estimated 93 percent of agreement costs are reimbursable by FEMA through March 2022 according to HSA staff. Costs not reimbursed by FEMA will be paid from the State's Project Roomkey Allocation (expiring in June 2022) and the Federal Emergency Solutions Grant.
- The budgeted amount for food in the proposed Fifth Amendment contains a calculation error due to a change in food costs. The total food cost should be $26,055,135, not $26,340,396.

Recommendations

- Amend the proposed resolution to reduce the not to exceed amount from $79,257,440 to $78,972,179 to account for an error in the proposed budget for food costs.
- Approve the resolution as amended.

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of $10 million or more, or (3) requires a modification of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

In response to the COVID-19 emergency, the City established the COVID-19 Alternative Shelter Program. This Program provided shelter in place sites, congregate setting sites, and isolation and quarantine sites to COVID-vulnerable individuals, most of whom were experiencing homelessness. These shelters included hotel rooms, congregate units, and recreational vehicles. As discussed below, as of July 1, 2022, the operation of ongoing Alternative Shelter Programs moved back to home departments. The City is in the process of winding down the Shelter in Place Hotel program by September 30, 2022 as the City moves from response to recovery.

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

Historical Changes to the Agreement

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

The original agreement and first two amendments to the agreement did not require Board of Supervisors approval because total spending was below $10 million. On May 15, 2020, HSA adopted the First Amendment to the Agreement which incorporated provisions necessary to be eligible for cost recovery from the Federal Emergency Management Agency (FEMA). (Since no budgetary changes were made in Amendment 1, it was omitted from Exhibit 2, below.)

Exhibit 1. Historical Terms of Hotel Whitcomb Agreement

	Original Agreement Total	Amendment 2	Amendment 3	Amendment 4	Proposed Amendment 5	Unit Cost
Number of Rooms	459 rooms	459 rooms	459 rooms	459 rooms	459 rooms	
Daily Room Rate	$99	$99	$99	$99	$99	
Expiration Date	Aug 7, 2020	Aug 7, 2020	July 1, 2021	Mar 1, 2022	Dec 1, 2022	
Term length	122 nights	122 nights	449 nights	691 nights	966 nights	
Room Costs	5,543,802	5,543,802	20,403,009	31,399,731	43,941,447	$99.00
Food Costs	3,000,000	3,314,628	11,040,984	16,991,804	26,340,396 [a]	$59.34
Linen Costs	300,000	300,000	1,104,098	1,699,169	2,384,380	$5.37
Contingency (15%)	831,570	831,570	3,060,451	4,709,960	6,591,217	$14.85
Not to Exceed Amount	**$9,675,372**	**$9,990,000**	**$35,608,542**	**$54,800,664**	**$79,257,440 [a]**	**$178.57**

Source: Amendments 1-5 of the Emergency Agreement with 1231 Market Street Owner, LP

[a] The budgeted amount for food in the proposed Fifth Amendment contains a calculation error. The amount should be $26,055,135. As discussed below we recommend reducing the not-to-exceed amount to $78,972,179 to account for this error.

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

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

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

On June 15, 2021, the Board approved the Fourth Amendment to the Agreement (File 21-0500) which extended the term of the agreement by 244 days through March 1, 2022, and increased the not to exceed amount from $35,608,542 to $54,800,664

Shelter in Place Hotel Program- Status as of February 2022

At its highest capacity, San Francisco's Shelter in Place Hotel Program, provided 2,288 rooms across 25 sites. According to Department of Homelessness and Supportive Housing (HSH) staff, the program has served over 3,700 guests, including adults, families, and Transitional Aged Youth (ages 18-24). The Program provides non-congregate temporary shelter for people experiencing homelessness who are most vulnerable to COVID-19. The City has begun the process of rehousing guests temporarily sheltered in Shelter in Place hotels and closing the hotels. HSH took over operations of the Shelter in Place Hotel Program in July 2021 after the City's COVID-19 Command Center was closed.

HSH is responsible for matching individuals with long-term placements and will continue through September 2022 when HSH expects the last hotels to close. As of February 1, 2022, HSH has rehoused 1,057 Shelter in Place hotel guests out of 2,596 total exited hotel guests[1] and closed nine out of 25 hotels. The remaining 14 hotels are still open. As of February 2, 2022, there were 1,163 active Shelter in Place Hotel guests, occupying 1,079 units (including units that may be occupied by more than one guest). The hotels stopped accepting new guests in June 2021. The hotel closing schedule is shown in Exhibit 2 below.

Exhibit 2. Shelter in Place (SIP) Hotel Closure Schedule, As of January 27, 2022

Site Status	Number of Sites
Closed SIP Sites	9
Active SIP Sites	14
Sites Closing in 2022 Q1	4
Sites Closing in 2022 Q2	5
Sites Closing in 2022 Q3	5

Source: HSH

According to HSH staff, HSH notifies service providers at least three months in advance of starting the closure of that site so that HSH and the provider can ensure 90-day notification to guests prior to site closure and to allow HSH to assist guests with rehousing. Given the planned hotel closure schedule through September 2022, there may be additional Shelter in Place Hotel contracts that will require Board of Supervisors approval to extend.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the fifth amendment to the Emergency Agreement between the City and 1231 Market Street Owner, L.P., for the continued use of 459 hotel rooms and associated services by increasing the agreement not to exceed amount by $24,456,776, from $54,800,664 to $79,257,440; and would extend the booking period by an additional 275 nights, for a total term of 966 nights from April 8, 2020 to December 1, 2022. According to the Department, the agreement term is being extended through December 2022 even though the Alternative Shelter program is currently scheduled to end in September 2022 in case of a surge of COVID-19 cases.

FISCAL IMPACT

Hotel Whitcomb is on track to spend the majority of its budget for the current agreement term ending on March 1, 2022 with some contingency remaining as of January 2022. The Hotel invoices the City every month. Hotel Whitcomb budgeted and actual expenditures for the current agreement term are shown in Exhibit 3 below.

[1] According to HSH staff, many of the guests who left the program did so voluntarily. Others moved to another institutional setting (e.g. hospital or other residential non-psychiatric medical facility) or transferred to other shelter programs (e.g. Navigation Centers or Transitional Housing) based on their needs. An unspecified number were discharged from the program due to unsafe behavior.

Exhibit 3. Hotel Whitcomb Budget & Actual Spending

	Total Budgeted	Actual Expenses Projected	Remaining Budget Projected
Room	$31,399,731	$31,399,731	$0
Food	16,991,804	16,991,804	0
Linen	1,699,169	1,699,169	0
Contingency (15%)[a]	4,709,960	2,396,347	2,313,613
Total	**$54,800,664**	**$52,487,052**	**$2,313,612**

Source: HAS

[a] The original agreement provides for Hotel Whitcomb to invoice the City each month for the flat room rate of $99 and for additional reimbursable services (such as cleaning common areas), up to 15 percent of the flat room rate.

The contract not to exceed amount includes a contingency for reimbursable expenses above the monthly room rate. As shown above, the Department is projecting to spend $52,487,051 through March 2022, leaving $2,313,612 of the contingency amount unspent. According to HSA staff, the contingency amount is for use at the City's discretion and is primarily intended for repair costs at contract close-out. According to Section 8.1.3 of the agreement, the City is responsible for all repair costs associated with restoring the hotel to its previous condition, even if they exceed the contingency amount. According to HSA, the City is not expecting to exceed the contingency amount to restore the hotel.

Fifth Amendment Budget

The budgeted amount for food in the proposed Fifth Amendment contains a calculation error. The amount should be $26,055,135, not $26,340,396 as shown in Exhibit 1.[2] Therefore we recommend that the Board of Supervisors amend the proposed resolution to reduce the not-to-exceed amount from $79,257,440 to $78,972,179 to account for the food calculation error ($285,261).

Funding Sources

The Fifth Amendment to the Agreement would be initially funded by the General Fund. HSA staff anticipate that around 93 percent of the $79.3 million not to exceed threshold established in the Fifth Amendment will be reimbursed by FEMA. The remaining costs that are not eligible for FEMA reimbursement—due to client ineligibility or costs incurred after the April 2022 expiration of FEMA funding—will be funded by other state and federal sources, including the State's Project Roomkey Allocation (expiring in June 2022) and the Federal Emergency Solutions Grant.

RECOMMENDATIONS

1. Amend the proposed resolution to reduce the not to exceed amount from $79,257,440 to $78,972,179.
2. Approve the proposed resolution as amended.

[2] Based on a rate of $65 per room per night from April 8, 2020 through the night of March 31, 2021 and a rate of $55 per room per night from April 1, 2021 onwards, as stipulated in the Fourth Amendment to the Agreement.

Item 9 **File 22-0010**	**Department:** Airport

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve Modification No. 2 to the General Airport Security Services contract between San Francisco International Airport (Airport) and Covenant Aviation Security, LLC (Covenant), exercising the second two-year option to extend the contract through June 2024, and increasing the not-to-exceed amount by $7,900,324, for a total not to exceed amount of $19,685,578.

Key Points

- After conducting a Request for Proposals (RFP) in 2018, the Airport awarded a General Airport Security Services contract to Covenant, for a term of approximately one year and nine months from October 2018 through June 2020, for an amount not to exceed $5,500,000, and two 2-year options to extend. In July 2020, the Board of Supervisors approved Modification No. 1 to the contract, exercising the first two-year option to extend through June 2022, and increasing the not-to-exceed amount to $11,785,254. In December 2021, the Airport Commission approved Modification No. 2 to the contract, which would exercise the second two-year option to extend the contract through June 2024.
- Under the contract, Covenant provides required Airport screening services on vendors bringing items into the secured area of the Airport, on visitors at the entryway of the Airport Commission offices, to guard exit lanes when TSA staff is not present, and to perform badge checks on individuals using secure bypass doors throughout the Airport. The proposed Modification No. 2 specifies minimum staffing levels and hours of operations at various locations throughout the Airport.

Fiscal Impact

- The proposed Modification No. 2 would increase the not-to-exceed amount of the contract by $7,900,324, for a total not to exceed $19,685,578.
- The Airport projects total expenditures of approximately $11,511,053 through June 2022, which is approximately $274,201 less than the current not-to-exceed amount of $11,785,254. According to the Airport, staffing is expected to ramp up due a new screening checkpoint that will be opened in Terminal 1 and expanded hours for the Sky Terrace.

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 Federal Transportation Security Administration (TSA) requires that all commercial service airports have a TSA-approved Airport Security Program to provide trained security guard and inspection service throughout airport terminals and exits. In this program, airports are required to conduct inspections of all deliveries, merchandise, consumables, and employees accessing the Sterile Area, which is situated past the screening checkpoints.

In 2018, the San Francisco International Airport (Airport) issued a Request for Proposals (RFP) to award a contract for General Airport Security Services.[1] The Airport received three proposals and a four-member evaluation panel scored them, as shown in Exhibit 1 below.[2]

Exhibit 1: Proposals and Scores from RFP

Proposer	Written Proposal Score (out of 450)	Oral Presentation Score (out of 150)	Total Score (out of 600)
Covenant Aviation Security, LLC	380.3	133.0	513.3
Allied Universal	359.0	98.0	457.0
Securitas AB	314.7	112.0	426.7

Source: Airport

Covenant Aviation Security (Covenant) was deemed the highest scoring responsive and responsible proposer and was awarded a contract. In September 2018, the Airport Commission approved a contract with Covenant for a term of approximately one year and nine months, from October 5, 2018 through June 30, 2020, for an amount not to exceed $5,500,000, and two 2-year options to extend.[3] In July 2020, the Board of Supervisors approved Modification No. 1 to the contract, exercising the first two-year option to extend through June 2022, and increasing the not-to-exceed amount by $6,285,254, for a total not to exceed of $11,785,254. In December 2021, the Airport Commission approved Modification No. 2 to the contract, which is the subject of the proposed resolution.

[1] The Airport had previously issued an RFP in 2016 and awarded a contract to HSS Inc. However, Airport staff determined that HSS had defaulted on its contractual obligations by failing to provide sufficient staffing. In April 2018, the Airport Commission declared an emergency, terminating the HSS contract and awarding an emergency contract to Covenant Aviation Security, the second highest scoring proposer from the RFP. In September 2018, the Board of Supervisors retroactively approved the emergency contract (File 18-0494).

[2] The evaluation panel consisted of a United Airlines Customer Service Manager, an Oakland International Airport Aviation Security Manager, an Airport Aviation Security and Regulation Compliance Manager, and an Airport Safety and Security Services Communications Manager.

[3] The contract did not require Board of Supervisors approval because it did not exceed 10 years or $10 million.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Modification No. 2 to the contract between the Airport and Covenant, exercising the second two-year option to extend the contract through June 2024, and increasing the not-to-exceed amount by $7,900,324, for a total not to exceed $19,685,578.

Under the contract, Covenant provides required Airport screening services on vendors bringing items into the secured area of the Airport, on visitors at the entryway of the Airport Commission offices, to guard exit lanes when TSA staff is not present, and to perform badge checks on individuals using secure bypass doors throughout the Airport. The proposed Modification No. 2 specifies minimum staffing levels and hours of operations at various locations throughout the Airport.

According to Keaboka Molwane, Acting Manager of Aviation Security and Regulatory Compliance, there are no specific benchmarks or performance measures required for Covenant to satisfy contract obligations. However, Covenant is required to submit written logs of daily post activities as well as require guard staff to check in with the Security Operation Center when on post in order to verify that they are present – which is confirmed via CCTV. Additionally, performance is monitored though random audits. These audits include tests of their screening methods such as placing a test object in a delivery to ensure they are properly inspecting all goods, as well confirming that staff at posts are alert and properly monitoring traffic and/or verifying ID badges to ensure that no unauthorized individuals access the sterile areas. Supervisors and the Aviation Security Manager meet and coordinate regularly with Covenant management staff to ensure they have adequate FTE to meet staffing needs. Acting Manager Molwane reports that Covenant has submitted daily written logs and performed satisfactorily in audits/testing.

FISCAL IMPACT

The proposed Modification No. 2 would increase the not-to-exceed amount of the Covenant contract by $7,900,324, for a total not to exceed $19,685,578. Projected expenditures for the two-year extension term are shown in Exhibit 2 below.

Exhibit 2: Projected Expenditures for Contract Extension Term

	Year 1 (FY 2022-23)	Year 2 (FY 2023-24)	Total
Guard Hourly Rate	$21.75	$21.75	$21.75
Guard Hours	96,634	96,899	193,532
Guard Wages	$2,101,900	$2,107,659	$4,209,559
Supervisor Hourly Rate	$25.16	$25.16	$25.16
Supervisor Hours	11,680	11,712	23,392
Supervisor Wages	$293,920	$294,725	$588,646
Wages Subtotal	*$2,395,820*	*$2,402,384*	*$4,798,204*
Management Fee ($47,097/month)[4]	$565,164	$565,164	$1,130,328
Medical ($34,000/month)	408,000	408,000	816,000
Phone ($800/month)	9,600	9,600	19,200
Other Direct Costs[5]	450,000	480,000	930,000
Non-Wage Subtotal	*$1,432,764*	*$1,462,764*	*$2,895,528*
Contingency	74,292	132,299	206,591
Total	**$3,902,877**	**$3,997,447**	**$7,900,323**

Source: Airport. Totals may not add due to rounding.

According to Acting Manager Molwane, the contingency increases by $58,007, or approximately 78 percent, in the second year of the contract extension because the Airport anticipates an increase in inspections and posts as the Airport recovers from the COVID-19 pandemic. Covenant had provided approximately 55 full-time equivalent (FTE) employees before the pandemic and currently provides approximately 35 FTE employees, as well as two managers.

According to Acting Manager Molwane, actual contract expenditures to date total approximately $10,075,421. The Airport projects total expenditures of approximately $11,511,053 through June 2022, which is approximately $274,201 less than the current not-to-exceed amount of $11,785,254. According to the Airport, staffing is expected to ramp up due a new screening checkpoint that will be opened in Terminal 1 and expanded hours for the Sky Terrace.

The contract is funded by Airport operating revenues.

RECOMMENDATION

Approve the proposed resolution.

[4] The management fee includes profit, overhead, and non-reimbursable costs. Non-reimbursable costs include recruitment, background checks, photo ID badges, food and beverages, payroll services, uniform and dry-cleaning costs, timekeeping equipment, telephones, intranet, postage, express delivery, and business cards.

[5] Other direct costs include equipment, materials, and supplies, which require Airport approval in advance.

Item 11 **File 21-1129**	**Department:** Public Health

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the second amendment to a Department of Public Health agreement with the Bayview Hunters Point Foundation (the Foundation), which is set to expire on March 31, 2022. The proposed amendment would extend the contract through June 30, 2023 and increase the total not-to-exceed amount by $3,689,230 for a total not-to-exceed amount of $13,489,343.

Key Points

- The proposed contract provides behavioral health services for adults and children at a clinic at 5815 Third Street, a counseling program at Balboa High School, a therapist to provide behavioral health services for the Dimensions LGBT Outpatient Clinic, and counseling at the Jelani Family Program.
- Service components were awarded on both a competitive and sole-source basis. The school, adult outpatient, and child outpatient were included in the contract following competitive solicitations. The Department added the Jelani program after the original operator ceased operations. The staff at Dimensions LGBT Outpatient Clinic, a City clinic, was also added on a sole source basis for service continuity.
- The proposed amendment would be the second and final extension of the 2018 agreement, and the Department plans to open a new competitive bidding process for applicants interested in providing services following the end of the contract.

Fiscal Impact

- The proposed resolution would increase the total not-to-exceed amount by $3,689,230 for a total not-to-exceed amount of $13,489,343.
- Funding for the proposed expenses includes federal grants and Medi-Cal reimbursements (45.2% of expenditures), State realignment and Mental Health Service Act funding (21.4% of expenditures), and General Fund (33.4% of expenditures).

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 to such contract is subject to Board of Supervisors approval.

BACKGROUND

The Bayview Hunters Point Foundation

The Bayview Hunters Point Foundation (the Foundation) provides mental health services, substance abuse treatment, preventative programs for youth, and other social services for residents of the Bayview and Hunters Point neighborhoods.

Original Agreement and First Amendment

In 2018, the City entered into a grant agreement with the Foundation to provide a range of mental health and other social services through June 2021. The agreement was for a total not-to-exceed amount of $9,757,806, and the City retained two one-year options to extend the contract.

In 2021, the City and the Foundation amended the contract, extending it nine months through March 31, 2022 and raising the total not-to-exceed amount to $9,800,113. The Department of Public Health (DPH) preferred to extend the contract for nine months instead of a year so that if it subsequently sought a second extension, it could complete the approval process well before the end of FY 2021-22, reducing the chance of cashflow or service interruptions, according to Department staff.

Because neither the initial agreement nor the 2021 amendment carried a not-to-exceed amount over $10 million, neither required Board approval.

Procurement

The 2018 agreement covered services the Foundation had applied to provide through three competitive bidding processes:

- **School-based wellness promotion services**: The review panel for this 2016 Request for Qualifications scored the Foundation 90.67 out of 100 after reviewing its qualifications to provide preventative and early-intervention programming at high schools. The Foundation placed fifth among seven applicants; all seven applicants were selected.[1]

[1] The review panel included the Department's Director of School Based Mental Health Services, Behavioral Health Services; the San Francisco Unified School District's Mentor Wellness Coordinator; the San Francisco Department of Children, Youth and Their Families' Senior Program Specialist; First 5 San Benito's Executive Director; the San Francisco Unified School District's Executive Director, Program Quality and Enhancement; and the Department's Community Wellness Coordinator, Hope SF Health and Wellness Centers, Community Behavioral Health Services.

- **Outpatient mental health services for children and youth**: The review panel for this 2017 Request for Proposals scored the Foundation 175.17 out of 230 after reviewing its proposal to provide therapy and other outpatient services. The Foundation placed 13th among 18 applicants; the top 15 applicants were selected.[2]
- **Outpatient mental health services for adults**: The review panel for this 2017 Request for Proposals scored the Foundation 187.60 out of 220 after reviewing the Foundation's proposal to provide therapy and other outpatient services. The Foundation placed ninth among 14 applicants; all 14 applicants were selected.[3]

The agreement also covered two additional services provided by the Foundation, awarded by the Department on a sole source basis:[4]

- **The Jelani Family Program,** a transitional housing program for people in recovery from substance use addiction. The Department transferred the program to the Foundation to avoid an interruption in services when Jelani Inc., which had previously operated it, closed its operations. These services will be included in an upcoming solicitation.
- **The Dimensions Clinic**, a program that serves trans, non-binary and queer-identifying youth as part of DPH Castro Mission Health Center, under DPH's Primary Care, Community Health Programs for Youth (CHPY). The services are funded by work orders from the Department of Children, Youth and Their Families.

Services Provided

The proposed contract provides behavioral health services for adults and children at a clinic at 5815 Third Street, a counseling program at Balboa High School, a therapist to provide behavioral health services for the Dimensions LGBT Outpatient Clinic, and counseling at the Jelani Family Program. The staffing provided for each program is not changing in the proposed amendment.

Performance Measurement

For FY 2020-21, the Department completed three performance monitoring reports for services provided under the contract. According to these reports:

- The **outpatient program for children** met 90 percent of performance objectives and exceeded contracted units of service. The Department did not require a plan of action.

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[2] The technical review panel included the Department's Coordinator for the Maternal, Child & Adolescent Health Section; a representative from the San Francisco Unified School District, two Program Managers for Contra Costa County's Child & Adolescent Behavioral Health Services; the San Francisco Human Service Agency's Program Manager, Family and Children Services; two Deputy Directors of the San Francisco Department of Children, Youth and their Families; two Supervisors from the San Francisco Unified School District, and a consultant for San Francisco Human Services Agency.
[3] The review panel included the Department's Assistant Director, Adult System of Care; Alameda County's Ethnic Services Manager; the Boys & Girls Clubs of San Francisco's Citywide Director of Behavioral Health Services, a Licensed Clinical Social Worker; Occupational Therapy Training Program's Vocational Specialist Supervisor; and a representative of the Department's Mental Health Board.
[4] Administrative Code, Chapter 21.42, allows the Department to award professional services contracts for health and behavioral health services on a sole source basis when approved by the Health Commission.

- The **preventative and early-intervention program at Balboa High School** met 100 percent of performance objectives and 43.5 percent of contracted units. The Department did not require a plan of action.
- The **outpatient program** for adults met 56 percent of performance objectives and 84 percent of contracted units. Noting inconsistent compliance with performance objectives related to timely entry of certain data and documents into a medical records system, the Department required the Foundation to submit a plan explaining how it would address this through clinician training.

The Department has not completed its FY 2020-21 performance monitoring report for the **Jelani Family Program,** but its FY 2019-20 report commended the program for excellent achievement of its objectives. The Department's Business Office of Contract Compliance (BOCC) has not historically conducted the same annual performance monitoring for primary care civil service clinics like the one that houses the **Dimensions Clinic**.[5] Instead, CHPY and Dimensions leadership monitor the therapist's deliverables on an ongoing basis to ensure clients' behavioral health needs are being met.

Actual and Projected Spending

The Department calculated its requested not-to-exceed total by adding actual and projected expenditures and adding a 12 percent contingency, as shown in Exhibit 1 below.

Exhibit 1: Actual and Projected Expenditures (in Dollars)

Uses	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Adult Behavioral Health	904,650	798,194	1,229,332	1,229,332	1,229,332	5,390,840
School-based Centers (Balboa)	251,041	214,047	251,041	251,041	251,041	1,218,211
Childrens' Outpatient	681,143	373,481	637,759	637,759	637,759	2,967,901
Dimensions LGBT Outpatient	66,254	$64,293	117,344	117,344	117,344	482,579
Jelani Family Program	563,467	$582,518	593,926	593,926	593,926	2,927,763
Subtotal, Programs	2,466,555	2,032,533	2,829,402	2,829,402	2,829,402	12,987,294
Additional Funds[6]			77,638			77,638
Contingency (12%)	-	-		84,882	339,528	424,410
Total Not-to-Exceed Amount	**2,466,555**	**2,032,533**	**2,907,040**	**2,914,284**	**3,168,930**	**13,489,342**[7]

Source: DPH

Proposed Second Amendment and Future Services

The Department of Public Health is asking the Board to approve a second extension, which would extend the contract through June 30, 2023 and raise the maximum amount paid to the

[5] According to Department staff, the Dimensions clinic tracks its services using the City's medical records system, and the Department's Office of Contract Compliance does not currently report out on this system's data.

[6] The $77,638 in additional non-programmatic funds in FY 2020-21 accounts includes increases in funding for minimum compensation increases and cost of doing business increases

[7] Figures are rounded to the nearest dollar

Foundation to $13,489,343. The proposed amendment would be the second and final extension of the 2018 agreement, and the Department plans to open a new competitive bidding process for applicants interested in providing services following the end of the contract.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the second amendment to the Department's agreement with the Foundation, which is set to expire on March 31, 2022. The proposed amendment would extend the contract through June 30, 2023 and increase the total not-to-exceed amount by $3,689,230 for a total not-to-exceed amount of $13,489,343.

FISCAL IMPACT

The proposed resolution would increase the total not-to-exceed amount by $3,689,230 for a total not-to-exceed amount of $13,489,343. The Department calculated this requested not-to-exceed amount by adding projected future expenditures to actual expenditures to date, as shown in Exhibit 2 below.

Exhibit 2: Actual and Projected Expenditures (in Dollars)

	Amount
Actual Expenditures, FY 2018-19 - FY 2020-21	7,406,128
Projected Expenditures, 7/1/21 - 3/31/22	2,122,052
Projected Expenditures if Contract Extended, 4/1/22 - 6/30/23	3,536,753
Contingency if Contract Extended (12%)	424,410
Requested Not-To-Exceed Amount	**$13,489,343**

Source: DPH

Funding for the proposed expenses includes federal grants and Medi-Cal reimbursements (45.2% of expenditures), State realignment and Mental Health Service Act funding (21.4% of expenditures), and General Fund (33.4% of expenditures).

RECOMMENDATION

Approve the proposed resolution.

Item 12 **File 22-0003**	**Department:** Public Health (DPH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution retroactively approves the second amendment to the agreement between the Department of Public Health (DPH) and the Chinese Hospital Association for skilled nursing services. The proposed amendment increases the total agreement amount by $9,500,000, from $9,500,000 to $19,000,000, and extends the agreement term by one year to December 31, 2022.

Key Points

- To ensure sufficient capacity at San Francisco General Hospital for COVID surges, San Francisco General Hospital discharges non-acute patients to skilled nursing care, as clinically appropriate. To increase COVID-19 surge capacity, the Department of Public Health (DPH) entered into a memorandum of understanding with the Chinese Hospital Association in April 2020, followed by an emergency agreement for skilled nursing beds through June 2021, later extended to December 2021. The initial agreements were not subject to competitive solicitation, which was waived by the Mayor's May 2020 13th Supplement to the COVID-19 Emergency Proclamation.

Fiscal Impact

- Under the agreement, DPH pays the Chinese Hospital Association using a tiered billing approach for a minimum of 13 skilled nursing beds up to a maximum of 23 skilled nursing beds. Costs range from $533,813 per month for 13 beds to $944,438 per month for 23 beds. There is no change in the monthly billing rates in the proposed Second Amendment compared to the First Amendment to the agreement.
- The cost per bed per night is $1,369, which is 57 percent greater than DPH's costs for skilled nursing beds ($871) and 81 percent greater than Medi-Cal reimbursement rates for skilled nursing beds at Laguna Honda Hospital ($758). The Chinese Hospital beds are licensed and charged as acute care beds, not skilled nursing beds, resulting in higher costs
- Expenses will initially be funded by the General Fund but are 100% reimbursable by FEMA according to DPH staff. The beds cannot be billed for insurance reimbursement until the facility has been certified as a skilled nursing facility.

Policy Consideration

- The existing agreement was not competitively procured and DPH is paying acute care costs for skilled nursing level of care patients.

Recommendations

1. Request that (a) DPH undertake a competitive solicitation for skilled nursing bed overflow, and (b) DPH enter into a six-month contract extension with a revised not to exceed amount of $14,250,000.
2. Reduce the proposed resolution's not to exceed amount from $19 million to $14,250,000.
3. Approve the proposed resolution, as amended.

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

To increase COVID-19 surge capacity, the Department of Public Health (DPH) entered into an emergency contract with the Chinese Hospital Association for skilled nursing services. DPH approved an initial memorandum of understanding (MOU) with the Chinese Hospital Association in April 2020. The MOU specified that the parties would negotiate more definitive terms within 90 days. In October 2020, DPH approved an emergency services agreement for a seven-month term from December 2020 through June 2021 for a not-to-exceed amount of $9.5 million. In June 2021, DPH adopted the First Amendment, which reduced the monthly billing rates (as discussed below) and extended the term by six months through December 31, 2021. The initial agreements were not subject to competitive solicitation, which was waived by the Mayor's May 2020 13th Supplement to the COVID-19 Emergency Proclamation.

Skilled Nursing Care for Non-Acute Patients

To ensure sufficient capacity at San Francisco General Hospital for COVID surges, San Francisco General Hospital discharges non-acute patients to skilled nursing care, as clinically appropriate. In many cases, such patients are discharged from San Francisco General Hospital and admitted to Laguna Honda Hospital, a skilled nursing facility with 780 beds. This ensures that acute care beds are available for anticipated increases in acute care needs during COVID surges. However, Laguna Honda Hospital's capacity to accept patients from San Francisco General Hospital has varied during the COVID-19 pandemic (as discussed below), and San Francisco General Hospital has discharged patients to Chinese Hospital per the terms of the agreement when Laguna Honda could not accept them according to DPH staff.

Laguna Honda Hospital did not have any admissions from San Francisco General Hospital from March 2020 to June 2020 due to a COVID-19 outbreak at Laguna Honda Hospital. Laguna Honda Hospital restarted admissions in July 2020 but had reduced capacity to accommodate COVID-19 surge needs due to the need to dedicate staffing and beds for isolation and quarantine of new and existing patients. Until June 2021, admissions had to quarantine for 14 days in the five-bed Admission Observation Unit before going to the other units, which limited capacity for admissions. As of July 2021, admissions could go directly to the appropriate unit without quarantining. In addition, 29 of the 780 beds at Laguna Honda Hospital were dedicated for isolation and quarantine of existing patients. Laguna Honda Hospital closed admissions again in December 2021 and has not resumed as of January 2022.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution retroactively approves the second amendment to the agreement between DPH and the Chinese Hospital Association for skilled nursing services to provide COVID-19 surge capacity. The proposed amendment increases the total agreement amount by $9,500,000, from $9,500,000 to $19,000,000, and extends the agreement term by one year to December 31, 2022. The proposed resolution authorizes DPH to enter into amendments or modifications to the agreement prior to its final execution by all parties that do not materially increase the obligations or liabilities to the City and are necessary to implement the agreement.

Performance Monitoring

The Chinese Hospital Association is monitored through annual reporting of performance measures as outlined in Attachment 1 to Appendix A of the original agreement, which requires the Chinese Hospital Association to provide the agreed upon number of beds. According to DPH staff, the Chinese Hospital Association met this performance measure in FY 2020-21, and DPH continues to monitor to ensure that skilled nursing services are provided safely and effectively for patient care and support services.

FISCAL IMPACT

Under the agreement, DPH pays Chinese Hospital using a tiered billing approach for a minimum of 13 skilled nursing beds up to a maximum of 23 nursing beds. The minimum monthly rate is $533,813 for 13 skilled nursing beds. According to DPH staff, this allows the Chinese Hospital Association to maintain appropriate staffing levels even if the census is low. DPH can pay to use an additional 10 beds if they are needed in increments of five because the staffing ratio is one staff per five patients. This ensures that DPH does not have to purchase all 23 beds if the census is low. The maximum monthly rate is $944,938 for 23 beds.

Exhibit 1: Monthly Billing Rates

Number of Beds	Monthly Billing Amount
13 beds	$533,813
18 beds	739,125
23 beds	944,438

Source: Proposed Second Amendment to the Agreement

There is no change in the monthly billing rates in the proposed Second Amendment compared to the First Amendment to the agreement. However, the rates are less than the rates in the initial MOU and the original agreement. The First Amendment reduced the monthly billing rate for 13 beds to $533,813 from $685,100 and reduced the rate for 23 beds to $944,438 from $1,140,800. The First Amendment also added a middle tier of 18 beds for a monthly rate of $739,125. According to DPH staff, the billing rates were determined based on Chinese Hospital's calculation of costs for providing the services, including staffing, direct care supplies, and indirect costs.

The contract billing rates are more expensive compared to DPH costs for skilled nursing beds at Laguna Honda Hospital and Medi-Cal reimbursement rates. Based on the monthly billing rates presented above, the daily cost per bed is $1,369, which is 57 percent greater than DPH costs for skilled nursing beds ($871) and 81 percent greater than Medi-Cal reimbursement rates for skilled nursing beds at Laguna Honda Hospital ($758).[1] According to DPH staff, the Chinese Hospital beds are licensed and charged as acute care beds, not skilled nursing beds, resulting in higher costs compared to skilled nursing beds due to staffing ratio requirements. In addition, because the beds are not licensed as skilled nursing beds, Chinese Hospital cannot bill Medi-Cal or Medicare for bed costs, resulting in higher billing to DPH. DPH staff also report that at the time the contract was negotiated with Chinese Hospital, the unit was in the process of becoming certified by the State Department of Public Health for skilled nursing level of care[2] and there were no additional skilled nursing facilities willing to contract with DPH due to COVID-19 outbreaks and reduced or suspended admissions at the facilities.

Historical Billing and Expenditures

Based on the average daily census, DPH paid for all 23 beds from April 2020 through March 2021. Between April 2021 and December 2021, DPH paid for 13 beds due to a reduced average daily census. The average daily census was at or below five patients between June 2021 and December 2021 as shown in Attachment 1.

Actual spending for the contract term December 2020 through December 2021 was $9,821,378, or $321,378 more than the $9.5 million not to exceed amount. According to the DPH staff, expenses incurred above the agreement not-to-exceed amount have not been paid, pending approval of the proposed Second Amendment. DPH paid Chinese Hospital Association $9.1 million for skilled nursing services under the April 2020 memorandum of understanding before the existing agreement was in place. In total, actual spending was approximately $18.9 million between April 2020 and December 2021.

Exhibit 2: Actual Expenditures, April 2020 – December 2021

Contract	Number of Months	Not to Exceed Amount	Actual Expenditures
MOU effective April 2020	8 months *(Apr 2020 – Nov 2020)*	n/a	$9,126,400
Agreement effective Dec 2020	13 months *(Dec 2020 – Dec 2021)*	$9,500,000	9,821,378
Total	**21 months**		**$18,947,778**

Source: DPH

[1] Based on the California Department of Health Care Services skilled nursing facility reimbursement rates provided by DPH staff, including a $623.70 skilled nursing facility reimbursement rate and a $134.48 distinct part nursing facility supplemental reimbursement rate.

[2] According to DPH, the State suspended skilled nursing certification surveys to attend to COVID-19 response work and only recently began scheduling them again.

Funding Sources

The Second Amendment to the Agreement would initially be funded by the General Fund. DPH staff anticipate that 100 percent of the $19.0 million not to exceed amount would be reimbursed by the Federal Emergency Management Agency (FEMA). The beds cannot be billed for insurance reimbursement until the facility has been certified as a skilled nursing facility.

POLICY CONSIDERATION

As the COVID-19 pandemic continues, DPH will need to maintain surge capacity at San Francisco General Hospital on an on-going basis in part by discharging non-acute patients to skilled nursing level of care beds, as clinically appropriate. To date, Laguna Honda Hospital has not been able to accept sufficient patients from San Francisco General Hospital to meet this need, and the existing agreement with Chinese Hospital has been used to address this gap. However, the existing emergency contract was not competitively procured (as permitted under the Mayor's 13th Supplement, see above), and DPH is paying acute care costs for skilled nursing level of care patients. Moreover, the proposed $9,500,000 contract increase assumes an average daily census of 19 patients,[3] however, as shown in Attachment 1, the average daily patient census was 17 between April 2020 and May 2021 and was four between June 2021 and December 2021, during which time the City paid for 13 beds per month, as required by the agreement.

We therefore recommend the Board of Supervisors: (a) request that DPH undertake a competitive solicitation for skilled nursing bed overflow, and (b) request that DPH enter into a six-month contract extension with a revised not to exceed amount of $14,250,000 rather than a 12-month contract extension with Chinese Community Hospital with a not to exceed amount of $19,000,000. This would allow for the continuation of services, payment of previously incurred expenses of $321,378, and provide six months for DPH to complete a competitive procurement process prior to the expiration of the existing agreement. Based on the skilled nursing facility daily bed rates at Laguna Honda ($871) and Medi-Cal daily bed rates ($758), we estimate the City could save up to $2 million the last six months of the agreement by securing a lower rate.[4]

We therefore recommend that the Board of Supervisors amend the proposed resolution to reduce the not-to-exceed amount to $14,250,000. This will give DPH adequate time to conduct a procurement and sufficient resources to maintain surge capacity at San Francisco General Hospital in the interim.

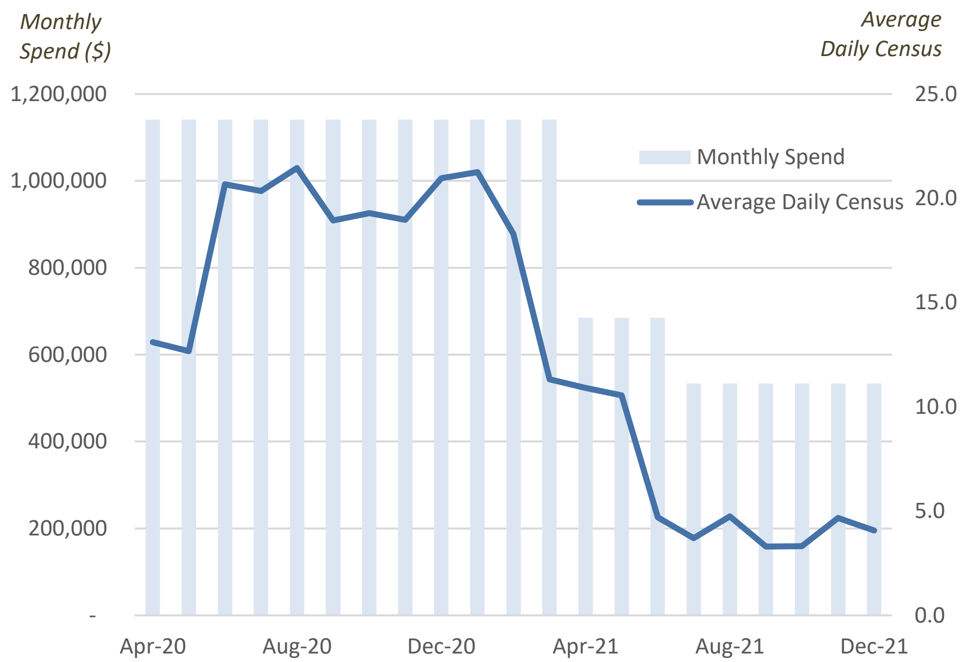
[3] The $9.5 million for 2022 Chinese Hospital contract costs divided by $1,369 per day per day divided by 365 days is equal to 19 beds per day.

[4] Six months of the 2022 Chinese Hospital contract costs is $4,750,000 (half of $9,500,000), which is $2,014,000 more than the cost of 19 beds per day at $800 per day for six months ($2,736,000).

RECOMMENDATIONS

1. Request that (a) DPH undertake a competitive solicitation for skilled nursing bed overflow, and (b) DPH enter into a six-month contract extension with a revised not to exceed amount of $14,250,000.
2. Reduce the proposed resolution's not to exceed amount from $19 million to $14,250,000.
3. Approve the proposed resolution, as amended.

Attachment 1: Chinese Hospital Average Daily Census and Monthly Billing, April 2020 – December 2021



Source: DPH

Item 14 **File 22-0092**	**Department:** Mayor's Office of Housing & Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would: (1) approve a $26,746,467 amended and restated loan agreement with Octavia RSU Associates, L.P. (2) approve a ground lease for a term of 75 years, with a 24-year option to extend and an annual base rent of $15,000.

Key Points

- The purpose of the proposed loan is to provide development financing for a 63-unit affordable housing project on Octavia Boulevard and Haight Street. The project includes 32 units for formerly homeless transitional aged youth (TAY) and their children as well as a commercial space that will be used as a childcare center for low-income families. The project is being developed by Tenderloin Neighborhood Development Corporation (TNDC), with TAY services provided by Larkin Street Youth, which were selected following a 2017 competitive solicitation.
- All units in the proposed project will be restricted to households making between 50% and 65% of area median income, as determined by the Mayor's Office of Housing and Community Development (MOHCD). Construction is expected to begin April 2022 with the building fully occupied by December 2023.

Fiscal Impact

- The proposed $26.7 million MOHCD loan will be combined with tax credit financing and $625,390 in deferred interest to fund the $54,417,514 development cost. Sources for the MOHCD loan include inclusionary fees, general obligation bond proceeds, Education Augmentation Revenue funds, and State No Place Like Home grant funds.
- The total development cost per unit is $863,770 and the City subsidy, not including the No Place Like Home Grant funds, is $348,670.
- The City's Local Operating Subsidy Program (LOSP) will provide ongoing funding for the 32 transitional age youth units at an estimated cost of $14.5 million over 20 years.
- The commercial space will receive a below market rate rent of $1 per year because it will be used as a childcare center for low-income families.

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

Project

The proposed project will provide 63 affordable housing units, including 58 studios & five one-bedrooms. Of those, 27 studios and all five one-bedrooms, or approximately 51 percent of the total project units, will be provided for transitional age youth[1] and their children. All of the transition age youth units will be supportive housing units with associated social services provided by Larkin Street Youth. Other supportive services will be provided on-site by Tenderloin Neighborhood Development Corporation (TNDC).

All units in the proposed project will be restricted to households making between 50% and 65% of area median income, as determined by MOHCD. In addition, the ground floor will include a subsidized childcare center operated by Wu Yee Children's Services. The rent for the childcare center will be $1 per year, with Wu Yee responsible for its share of building operating and capital costs. The project includes space for resident services and supportive services. Construction is expected to begin April 2022 with the building fully occupied by December 2023.

The project will be developed on a City-owned parcel on Octavia Boulevard and Haight Street. Parcel U, the site of the proposed project, is currently being used as a parking lot for the Mount Trinity Baptist Church. The City originally took control of Parcel U (and 22 nearby parcels) in 1999 from the California Department of Transportation in order to develop mixed use residential infill, including affordable housing.

Three parcels remain undeveloped, including Parcel U, the site of the proposed project, and Parcels R and S, which are used as a community garden and construction staging for another affordable housing project respectively. According to the January 14, 2022 Evaluation Request for Financing for 78 Haight Street, Parcels R and S are no longer being considered for affordable housing due to expected high unit costs, though no new development plan has been finalized. At one point, planned financing included an inclusionary housing in-lieu fee to be paid by Build Inc.'s proposed One Oak development. The One Oak project was put on old due to high construction costs and MOHCD's moved forward with a Request for Proposals for Parcels R, S, & U with predevelopment funding provided by the Education Revenue Augmentation Fund (ERAF).

[1] Transitional Age Youth refer to people ages 18 – 24.

Developer Selection and Predevelopment Funding

MOHCD issued a Request for Proposals (RFP) to develop Parcels R, S, & U around Octavia Boulevard in June 2017, with an amended version in August 2017. The RFP required the successful candidate to develop the site, identify service providers, conduct community outreach, and manage the property under a ground lease with the City. The RFP specified that the maximum affordability level would be 60 percent of area median income and that the project provide up to 30 units for transitional youth and their children referred by the Department of Homelessness & Supportive Housing.

Two proposals were submitted and were evaluated based on the proposers' prior experience, site concept, plan financing and cost controls, and services plan. A project submitted by TNDC (developer and housing operator) and Larkin Street Youth (service provider) was selected for funding.[2] In September 2019, MOCHD provided a $2,600,250 predevelopment loan to TNDC, to fund architectural, entitlement, developer fees, and other predevelopment costs. That City loan was funded by $600,250 in inclusionary fee proceeds and $2,000,000 in Education Revenue Augmentation Funds (ERAF).

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would: (1) approve a $26,746,467 amended and restated loan agreement for a term of 57 years between the City and Octavia RSU Associates, L.P.,[3] (2) approve a ground lease for a term of 75 years, with a 24-year option to extend and an annual base rent of $15,000, (3) find that the loan and ground lease are consistent with the City's General Plan and policy priorities in the Planning Code, (4) find that the property is exempt from the California Surplus Lands Act because it is being developed as affordable housing, and (5) determine that the below market rate rent of the ground lease serves a public purpose. The purpose of the loan is to provide gap financing for project construction, which includes 63 affordable housing units, including 32 for transitional age youth, and a childcare center.

Ground Lease & Affordability Restrictions

Affordability restrictions to preserve the affordability of the housing units in the proposed development are included in the loan agreement, a declaration of restrictions, and in the ground lease between the City and the affordable housing operator. These agreements specify the

[2] The RFP selection panel was appointed by the MOHCD Director and composed of staff from MOHCD, OCII, HSH, and the Arts Commission, as well as a representative from the Hayes Valley Neighborhood Association.
[3] Under Internal Revenue Service (IRS) regulations and for the purpose of eligibility for low-income housing tax credits, the non-profit (tax exempt) partner in the limited partnership serves as the general manager and retains a nominal percentage interest, and the investors (which are not tax exempt) serve as limited partners, obtaining the majority financial interest, including profits, losses, deductions, and credits. Octavia RSU Associates, L.P. is composed of Taylor Family Housing Inc., the initial limited partner that will be replaced by a tax-credit investor, and Octavia RSU GP LLC, a general partnership managed by TNDC.

affordability levels for each unit and require the non-profit housing operator to maintain these for the duration of the agreements unless agreed to by the City.

The ground lease is for a term of 75 years with an option to extend an additional 24 years and restricts the lessee to operating the housing development as affordable housing only (aside from the commercial space mentioned above). The lessee must receive MOHCD approval before entering into any contracts related to use of the commercial space. The ground lease includes a base rent of $15,000 per year, plus residual rent of up to two-thirds of net income after operating costs, ground lease base rent, and replenishing operating reserves, consistent with MOHCD's Residual Receipts policy. According to MOHCD's cash flow projections, the project will generate sufficient income to make residual receipts payments on the City loan.

FISCAL IMPACT

The proposed $26.7 million loan includes the original $2.6 million predevelopment loan provided by MOHCD. The total estimated cost to develop the 63-unit project is $54.4 million. Exhibit 1 below shows the permanent financing sources and uses of funding.

Exhibit 1: Sources and Uses of Development Financing

Sources	Total
MOHCD Loan	
Local Funding	21,966,228
State Grant	4,780,239
MOHCD Loan, Subtotal	26,746,467
Federal LIHTC	24,622,538
State LIHTC	2,423,019
TNDC Capital	100
Accrued Deferred Interest	625,390
Development Sources	**54,417,514**
Uses	**Total**
Acquisition	37,438
Construction	35,861,808
Soft Costs	10,683,870
Reserves	5,634,398
Developer Costs	2,200,000
Development Costs	**54,417,514**

Source: MOHCD

Note: LIHTC refers to low-income housing tax credit

As shown above, the proposed $26.7 million MOHCD loan will be combined with tax credit financing and $625,390 in deferred interest to fund the $54,417,514 development cost. Although San Francisco affordable housing projects were generally not awarded tax exempt bonds and the associated 4% tax credit financing in 2021 due to high construction costs, this project received state and federal 9% tax credits under the Tax Credit Allocation Committee's Special Needs Regulation, which prioritizes awards for projects that serve the formerly homeless.

Sources of funding for the proposed $26.7 million MOHCD loan include the following:

- Market & Octavia Inclusionary Fund: $10.5 million
- Inclusionary Fund: $5.5 million
- 2019 General Obligation Bond: $4 million
- No Place Like Home State Grant: $4.8 million
- Education Augmentation Revenue Funds: $2 million

According to the promissory notes associated with the City's loan, the $4.8 million of funding provided by the State No Place Like Home grant will have 0% interest and no residual receipt payments consistent with No Place Like Home regulations. The remaining $21.97 million in loan funding will have a 3% interest rate and residual receipt payments. The City loan has a 57-year term to be consistent with the term of the tax credit financing. The State No Place Like Home grant was provided to the City to fund housing for people with a history of homelessness and mental illness.

According to the proposed loan agreement, TNDC intends to apply for a $945,000 federal affordable housing program loan, which will be used to repay the City's $26.7 million loan.

City's Subsidy of Housing Development Costs

The City's total subsidy for the housing development costs is $21.97 million (not including the $4.8 million in No Place Like Home state grant funding), or 40.4 percent of the total development costs. This is equal to a per unit City subsidy of $348,670, or $1,232 per square foot, as shown in Exhibit 2 below:

Exhibit 2: Unit Costs

Units	63
Residential Square Feet	44,185
Development Cost / Unit	$863,770
City Subsidy / Unit	$348,670
Cost per square foot	$1,232

Source: MOCHD

Operating Sources

According to MOHCD, the Local Operating Subsidy Program (LOSP), which is a locally funded program that subsidizes housing costs for the formerly homeless, will be used to provide subsidies for the 32 units reserved for homeless and formerly homeless transitional age youth. MOHCD will enter into a 15-year LOSP agreement with the project sponsor, totaling approximately $14.5 million. These households will pay rent sized at 30% of their income. The LOSP agreement will not be subject to Board of Supervisors approval per Chapter 120.4 of the

Administrative Code, which allows MOHCD to enter into LOSP agreements, subject to Board of Supervisors appropriation approval.

Other operating income includes tenant rents for non-LOSP units, which is capped at 30% of the income level for each unit (as noted above, income levels for this project will range from 50% to 65% of area median income). As noted above, the commercial space will receive a below market rate rent of $1 per year because it will be used as a childcare center for low-income families.

RECOMMENDATION

Approve the proposed resolution.

Item 15 **File 21-0094**	**Department:** Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would: (1) approve a not to exceed loan amount of $26,286,000 for the acquisition and rehabilitation of three existing affordable multi-family buildings, known as the "Throughline Apartments," with 88 residential and four commercial units, located at 777 Broadway (Bayside), 1204 Mason Street (Consorcia), and 1525-1529 Grant Avenue (Tower).

Key Points

- Two of the three properties—Consorcia and Tower—were placed in Tier 4 of the Mandatory Soft Story Retrofit Program (MSSP) in 2013 by the Department of Building Inspection. The deadline to complete the mandatory seismic retrofitting of these buildings has been extended to October and November 2023, respectively. Chinatown Community Development Center (CCDC) sponsored an application to the Mayor's Office of Housing and Community Development (MOHCD) to finance the acquisition and rehabilitation of these properties as a single project in order to achieve savings in legal and financing costs.

Fiscal Impact

- The cost rehabilitation project at the three project sites is $31,223,750 or $354,815 per residential unit. The proposed $26,286,000 loan agreement's primary sources of funds are the Community Development Block Grant and Preservation and Seismic Safety Program bond funds.

Policy Consideration

- The current project proforma makes two assumptions about the ability to generate increased rent revenue: (1) that newly vacant units can be rented at the maximum allowable income level; and (2) that HUD will approve a Rent Comparison Study, which will restore the recently reduced Section 8 subsidies associated with the Bayside units. Current contingencies for both soft and hard development costs for the project do not meet MOHCD standards. Given that actual tenant rents may be less than assumed in the project proforma included in the proposed loan package, outside or additional City funding may need to be identified for ongoing operating costs for the three projects.
- The proposed loan agreement does not include an option for the City to purchase the land and properties nor does it contain a right of first refusal in the event that the owner sells the property.

Recommendations

1. Amend the proposed resolution to request MOHCD include a provision in the final loan agreement that provides the option for the City to purchase the Throughline properties at a future date.
2. Approve the proposed resolution, as amended.

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

Mandatory Soft Story Retrofit Program

In 2013, the Board of Supervisors passed an ordinance amending the Building Code to establish a Mandatory Soft Story Retrofit Program (MSSP) to ensure the safety of San Francisco's housing stock through the retrofit of older, wood-framed multi-family buildings that include housing over a non-housing ground floor space that has less stability for lateral load resistance, creating a soft-story condition. The Department of Building Inspection (DBI) enforces compliance for the 2,800 buildings that were determined to have a soft-story vulnerability, and established a tiered system to create timelines for submitting permit applications and completing work. DBI placed 1204 Mason (Consorcia) and 1525-29 Grant Avenue (Tower) in Tier 4, which requires permit applications for the seismic retrofit work by September 15, 2018, with work completed by September 16, 2020. The deadline for completion of work has been extended to October and November 2023 for Consorcia and Tower, respectively.

Preservation and Seismic Safety Program

The Preservation and Seismic Safety Program (PASS) provides low-cost and long-term financing to fund seismic retrofits, as well as the acquisition, rehabilitation, and preservation of affordable multi-family housing. PASS was created to complement the City's anti-displacement and preservation strategy. PASS is funded by repurposing $260.7 million in underutilized bond authority from the 1992 Seismic Safety Loan Program, as approved by the voters in 2016. PASS loans may include market rate interest, below market interest rates, and deferred interest payments.

Chinatown Community Development Center (CCDC)

Chinatown Community Development Center (CCDC) has built and rehabilitated 36 properties in San Francisco, including 874 units for seniors and 314 supportive housing units. According to the loan evaluation for the proposed loan, starting in 2015, CCDC assumed ownership of all 526 public housing units in Chinatown through HUD's Rental Assistance Demonstration Program and completed $150 million in renovations. In 2017, CCDC launched its Small Sites and Single Room Occupancy (SRO) Programs to acquire and renovate Chinatown buildings housing vulnerable residents.

Throughline Apartments Project

According to the Project's Affordable Housing Loan Committee Evaluation Report, in March 2018, CCDC proposed to MOHCD the syndication[1] of three properties in its portfolio (Bayside, Consorcia, and Tower) as a single scattered site development project called the Throughline Apartments, to: (1) achieve some economies of scale by bundling three project rehabilitations into one project – saving in administrative, financing and legal costs, (2) leverage Bayside's Section 8 contracts to support two relatively lower rental income properties, and (3) efficiently use CDBG to put funds back into the project for acquisition.

CCDC planned to finance the project using Low Income Housing Tax Credits, but the project's application was denied due to the competitive nature of the CDLAC/TCAC program, where only one rehab project in the City and County of San Francisco was awarded funds in the 3rd round of the 2020 Notice of Funding Availability (NOFA).

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would: (1) approve an amendment and restated loan agreement not to exceed $26,286,000 for the acquisition and rehabilitation of three existing affordable multi-family buildings, known as the "Throughline Apartments," with 88 residential and four commercial units, located at 777 Broadway (Bayside), 1204 Mason Street (Consorcia) and 1525-1529 Grant Avenue (Tower), and (2) affirm the Planning Department's determination that this project is consistent with the General Plan and the priority policies of Planning Code Section 101.1. The proposed loan agreement adds $25,486,000 to an existing City loan of $800,000 made in 2020.

Overview of Properties

Chinatown Community Development Corporation currently owns the land at Consorcia and Tower. Bayside Elderly Housing Corporation, a subsidiary company of CCDC, holds an air rights lease with the San Francisco Housing Authority (SFHA) for an annual rent equal to 1.4 percent of the gross income from Bayside, as well as a non-exclusive easement agreement which allows CCDC to access the structural supports for long-term maintenance of Bayside improvements.

CCDC created the entity CCDC Throughline LLC for ownership of the "Throughline Apartments," which include Consorcia, Tower and Bayside.

The Consorcia Apartments, built in 1909, consists of 24 units (studios and 1 bedrooms). The last major rehabilitation of this property was completed in 1982. In addition to the seismic retrofit required by the Mandatory Soft Story Retrofit Program, the building needs include accessibility improvements and fire and life safety code upgrades, estimated to cost $8.7 million.

Tower Hotel, built in 1911, is a Single Room Occupancy building with 33 units. The last major rehabilitation of this property was completed in 1985. In addition to the seismic retrofit required

[1] Syndication refers to selling tax credit to investors to fund development and rehabilitation costs.

by the Mandatory Soft Story Retrofit Program, the building needs include accessibility improvements and fire and life safety code upgrades, estimated to cost $6.6 million.

Bayside Elderly Housing, built in 1990, includes 31 studio units built on the air rights above the parking lot for Ping Yuen, a former SFHA public housing building now owned by CCDC. The renovation needs in these units include accessibility improvements, seismic retrofitting, and energy efficiency upgrades, estimated to cost $7 million.

Prior City Financing

Since 1981, the City has made investments in these properties through loans and grants, as shown in Table 1 below.

Table 1: Existing Debt on Properties from Previous City Loans, estimated at closing 3/15/22

Property	Loan Year	Original Loan Amount	Outstanding Principal	Accrued Interest	Total Outstanding Debt
Consorcia	1981	330,898	330,898	402,979	733,877
Tower	1983	645,286	645,286	392,872	1,038,158
Bayside	1989	829,387	829,387	2,732,139	3,561,526
Consorcia	2004	101,423	10,625	713	11,338
Total		**1,906,994**	**1,816,196**	**3,528,702**	**5,344,898**

Note that as part of the proposed project financing, MOHCD will forgive $2,398,821.31 on the 1989 Bayside loan in order to reduce the sales price. This forgiveness will bring the total remaining debt on this project to $2,946,077 at the estimated date of closing (March 15, 2022). The final amount of the forgiven date may change, depending on the actual final closing date.

In addition, MOHCD provided a loan of $800,000 in Housing Trust Funds to Throughline LLC as a predevelopment loan, at a 3% interest rate for a 57-year term. The principal and accrued interest on this loan will be rolled into MOHCD's loan to the project.

Tenant Relocation

CCDC estimates a 17-month construction schedule, with three phases of relocation, during which current residents will be required to relocate off-site for approximately six months. The project budget includes $1.9 million for relocation: $1.3 million for residential relocation, $457,000 for commercial relocation, and $195,000 for relocation consultant fees.

The planned sequence of renovations is:

Consorcia: April 2022 to September 2022

Tower: October 2022 to February 2023

Bayside: March 2023 to July 2023

CCDC will make 24 market-rate units at Hamlin House available to relocate residents from all three buildings.

FISCAL IMPACT

Sources and Uses

The proposed $26,286,000 loan agreement's primary sources of funds are $14,840,000 provided by a Community Development Block Grant, $8,499,000 in PASS funds, and $2,947,077 in loan forgiveness funded by Community Development Block Grant. Additional resources include community project funding (made available through Congresswoman Pelosi's Office), Bayside's existing project reserves, and refinanced loans previously made on the properties, as shown in Table 2 below.

Table 2: Sources of Funds for Throughline Project

Sources	**Amount**
New City Funding	
CDBG/Housing Trust Fund	13,519,791
PASS - Market Rate Loan	5,175,891
PASS - Below Market Rate Loan	2,855,664
PASS - Deferred	467,445
Subtotal, New City Funding	*22,018,791*
City Loan Forgiveness	
Consorcia 1981 CDBG Debt	733,877
Tower 1983 CDBG Debt	1,038,158
Bayside 1989 CDBG Debt	1,162,698
Consorcia 2004 CDBG Debt	11,344
Subtotal, City Loan Forgiveness	*2,946,077*
Subtotal, City Loan	24,964,868
Community Project Fund	2,500,000
CCDC Sponsor Loan	309,523
GP Project Reserves	2,723,968
GP Project Reserves (Hamlin)	600,000
Predevelopment Expenses pre 12/31/19	125,391
Total Sources	**31,223,750**

Source: MOHCD

Notes: CDBG refers to Community Development Block Grant, a federal source. Community Project Fund is also a federal source.

The uses of funds for the proposed loan agreement are shown in Table 3 below.

Table 3: Uses of Funds for Throughline Project

Uses	Amount
Acquisition	0
Construction	20,429,668
Hard Cost Contingency	2,323,792
Architecture & Design	895,000
Engineering	105,000
Financing	242,988
Legal	40,000
Other Development	6,010,397
Soft Cost Contingency	163,565
Reserves	513,341
Developer Costs	500,000
Total Uses	31,223,750

Source: MOHCD

Loan Terms

The details of the loan terms included in the proposed gap loan for this project are detailed in Table 4 below.

Table 4: Repayment Terms

Loan Fund	Amount	Term Years	Interest Rate
CDBG/HTF	14,840,000	55	3%
PASS - Market	5,175,891	40	3.87%
PASS - Below Market	2,855,664	40	0.96%
PASS - Deferred	467,445	40	0.96%
Total	**23,339,000**		

Source: MOHCD and Proposed Promissory Notes

As shown above, total new funding is $23,339,000. The remaining $2,946,000 of the proposed $26,286,000 loan is $2,946,000 in forgiveness of previously loaned City funds, noted above. The CDBG / Housing Trust Fund (HTF) loan amount of $14,840,000 includes the $13,519,791 in new funding notes above in Table 2 as well as a mortgage payment of $987,209 and a tax payment of $333,000.

Rehabilitation Cost per Unit

The cost per unit for the proposed rehabilitation is estimated at $354,815, with the cost per residential square footage estimated at $626, as shown in Table 5 below.

Table 5: Rehabilitation Costs per Unit and Square Foot

Residential Units	88
Residential Square Footage (SF)	49,870
Total Cost	$31,223,750
Cost per Residential Unit	$354,815
Cost per Residential SF	$626

Source: BLA Analysis

POLICY CONSIDERATION

Hard and Soft Cost Contingencies

The hard and soft cost contingencies currently estimated in the project costs as detailed in the Loan Committee Evaluation Report and the Proforma do not meet MOHCD standards. The MOHCD standard hard cost contingency is 15 percent; the project's hard cost contingency is 11.4 percent of hard costs.

The MOHCD soft cost contingency typically ranges between 5 and 10 percent of total soft costs related to the project (including legal, financing and developer costs). This project's soft cost contingency equals 2.2 percent of soft costs.

Total project costs would need to increase $1.1 million to bring the contingencies up to MOHCD standards for contingencies, at the lowest end of the range for soft cost contingencies as shown in Table 6 below.

Table 6: Hard and Soft Cost Contingencies

Hard Costs	20,429,668
Hard Cost Contingency	2,323,792
15% Hard Cost Contingency	3,064,450
Soft Costs	7,293,385
Current Soft Cost Contingency (2.2%)	163,565
5% Soft Cost Contingency	364,669
Total Cost of Increasing Contingency Costs	1,105,327

Source: MOHCD

Current versus Allowable Rent Levels

According to the Affordable Housing Loan Evaluation Report, CCDC acknowledged in its 2018 Annual Monitoring Report a "large discrepancy between current rents and maximum allowed rents" at both Consorcia and Tower. The average rent currently collected at Consorcia is 23 percent of Area Median Income (AMI), and the average rent currently collected at Tower is 13 percent of AMI. According to the Affordable Housing Loan Evaluation Report, CCDC "plans to increase revenue at the Consorcia by charging the maximum allowed rents to incoming tenants. However, there is very little turnover at the Consorcia. The last time a unit was vacated was in 2015 and currently, there are no vacancies." The discrepancy between current and maximum allowed rents impacts the ability of these buildings to sustain sufficient reserves to cover future maintenance costs.

Bayside Section 8 Subsidy

The units at Bayside are subsidized through HUD's Section 8 subsidy program. In November 2020, a Rent Comparability Study was conducted that reduced the Section 8 subsidy for these units by $500 per month from $2,731 to $2,231. CCDC has appealed this evaluation and has requested a new Rent Comparability Study; according to MOHCD, HUD has not yet approved this. The current proforma assumes that the subsidy will be increased from $2,231 to $2,400 per month.

Given that actual tenant rents may be less than assumed in the project proforma included in the proposed loan package, outside or additional City funding may need to be identified for ongoing operating costs for the three projects.

Ensuring Affordability

The proposed loan agreement does not include an option for the City to purchase the land and properties nor does it contain a right of first refusal in the event that the owner sells the property. According to MOHCD, the Department is not including these provisions because the PASS program funds will require and ensure permanent affordability to be recorded on the properties at the time of loan closing.

MOHCD's general practice is to own the land and enter into long-term ground leases with the affordable housing sponsor to ensure the long-term affordability of the project and allow the City to retain an asset in exchange for providing financing to the project. Therefore, the Budget and Legislative Analyst recommends amending the proposed resolution to request MOHCD include a provision in the final loan agreement that provides the option for the City to purchase the Throughline properties at a future date.

RECOMMENDATIONS

1. Amend the proposed resolution to request MOHCD include a provision in the final loan agreement that provides the option for the City to purchase the Throughline properties at a future date.
2. Approve the proposed resolution, as amended.