CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292
FAX (415) 252-0461

March 10, 2023

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: March 15, 2023 Budget and Finance Committee Meeting

TABLE OF CONTENTS

Item 3 **File 23-0233**	**Department:** Office of the Assessor-Recorder

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves a first amendment to the agreement Sapient Corporation, increasing the agreement by $5,743,999 from $21,414,700 to $27,158,702, and reducing the term from 12 years to nine years to expire on December 31, 2027.

Key Points

- In November 2018, the Board of Supervisors approved two contracts (File 18-1037) for the property assessment and tax system replacement effort, including a contract with the Sapient Corporation for a Property Tax System Replacement Project. The total estimated budget for the project was $72.4 million over five years of implementation.
- Under the original agreement, Sapient was awarded $21,414,700 over a multi-phase implementation schedule that included a 3-year project schedule, and ongoing maintenance for ten years from 2021 through 2030.

  Several implementation adjustments were made in 2020 to revise the project schedule, as a result of inadequate project management by Sapient and the Department. The remaining portion of the project was originally scheduled to go live in May 2021 but is now delayed until February 2024.

Fiscal Impact

- The proposed amendment increase implementation costs by $6.9 million. In addition, the revised annual maintenance costs for the first year after the system goes live are $1,200,000, which is 104% higher than the original estimated annual cost of $587,000. Total maintenance costs between the original agreement and proposed amendment are decreasing due to the proposed reduction of the term of the contract. Costs are funded by the General Fund.

Policy Consideration

- Given that the proposed contract amendment (1) increases City costs for system implementation and maintenance by $5.7 million beyond the original 2018 agreement, (2) reduces the number of years of system maintenance from 10 to 4, (3) proposed actual four-year maintenance costs of $3.6 million appear to be an underestimate given that the contractor estimates actual maintenance costs will be $4.8 million over four years, and (4) the proposed cost increases are due to the Assessor and contractor failing to meeting the original project timeline, we consider approval of the proposed amendment to be a policy matter for the Board of Supervisors.
- We recommend the Department consider weekly (rather than every three weeks) project meetings to ensure delivery of remaining project deliverables.

Recommendation

- Approval of the proposed resolution is a policy matter for the Board of Supervisors.

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 City's Office of the Assessor-Recorder (Assessor-Recorder) is responsible for carrying out property assessment related functions, such as identifying property ownership and assessing the value of property. In 2014-15, the Assessor-Recorder collaborated with the offices of the Controller and Treasurer and Tax Collector to submit a project proposal to the Committee of Information Technology for approval and funding to modernize the City's property tax functions by replacing the two legacy systems that enable the assessment management of 211,500 parcels on the assessment roll, valued at $349 billion in 2022, as well as the billing, collection and allocation of approximately $3.9 billion in annual property tax revenues generated by the assessment roll. According to the Assessor-Recorder, its legacy system (EZ Access) had limited functionality which created a complex and inefficient system. In FY 2014-15, the Committee on Information and Technology allocated $2.72 million in funding over three years for a planning and procurement process.

The Committee on Information and Technology approved the Property Assessment and Tax System (PATS) as a Major Project in its FY 2015-16 ICT Plan. The objectives of the program included:

- Increasing Efficiency and Quality: Re-engineering assessment and tax business processes based on best practices to eliminate manual processes and workarounds.
- Improving Revenue Collection: Increasing turnaround time for assessments and providing timely tax billing, revenue collection and certification to reduce revenue at risk.
- Strengthening the Technology Infrastructure: Securing $3.9 billion in revenue through modern technology platforms that are secure and resilient.
- Increasing Access to Data: Improving information available to public and policymakers and enabling better revenue forecasting and data analysis.
- Improving Taxpayer Service and Transparency: Integrating property tax and assessment functions among the three departments for better customer service.

In November 2018, the Board of Supervisors approved two contracts (File 18-1037) for the property assessment and tax system replacement effort, including the contract with the Sapient Corporation. The total estimated budget for the PATS project was $72.4 million over five years of implementation, which included the planning and procurement phase, data cleanup and conversion, city staff, professional services, licenses and maintenance, and other operating expenses. Under the original agreement, Sapient was awarded $21,414,700 over a multi-phase implementation schedule that included a 3-year project schedule, and ongoing maintenance for ten years from 2021 through 2030.

The three-year project phases included:

- Phase 0 Definition – May 2019
- Phase 1 Unsecured Property Implementation – May 2020
- Phase 2 Secured Property, Change in Ownership, Possessory Interest – May 2021
- Phase 3 Appeals, Customer Service – November 2021

In the original agreement, annual maintenance and support costs were estimated to be $587,000.

Sapient Project Delays

According to the Department, several implementation adjustments were made in 2020 to revise the project schedule, as a result of inadequate project management by Sapient and the Department. These changes consolidated the project delivery from four phases to two phases, but did not result in changes to the scope of work or the contract not-to-exceed amount of $21.4 million. Phase 1 went live in January 2021, which includes the Unsecured Property as well as the Appeals & Customer Service modules.

Phase 2 was originally scheduled to go live in May 2021. According to the department, this schedule has also been delayed multiple times, due to (1) the delay of Phase 1, (2) inadequate Sapient project planning and (3) Sapient underestimating the complexity of the project. The Phase 2 go-live date was delayed to December 2022. According to the department, Sapient acknowledged in July 2022 that it would not be able to meet the December 2022 deadline. The Secured Property, Change in Ownership, and Possessory Interest portion of the project (originally Phase 2, noted above) is now expected to be complete by February 2024.

As noted in our report on the original agreement, the Assessor-Recorder planned to add 14 staff in FY 2018-19, and had a work order with the Department of Building Inspection to fund four positions with subject matter expertise, for a total of 21 positions in the Assessor-Recorder's Office to support implementation of the property assessment and tax system.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves a first amendment to the agreement Sapient Corporation, increasing the agreement by $5,744,002 from $21,414,700 to $27,158,702, and reducing the term from 12 years to nine years to expire on December 31, 2027. The contract is funded by the General Fund.

Services Provided

Through this agreement, Sapient will complete the remaining implementation of the project by February 2024, and will provide four years of maintenance and support services through December 31, 2027. The Department will have the option to extend the contract for five years.

Project Monitoring

According to the Department, there are multiple mechanisms in place for project monitoring. The project team from Sapient and the department meet every three weeks in Sprint retroactive meetings to review the status of completed deliverables. There are also weekly meetings between the department and Sapient project managers to review the project schedule and risks and issues. The project also has an Independent Verification & Validation consultant who provides monthly and bi-monthly status reports on the project. Additionally, ASR holds a bi-monthly Steering Committee meeting with or project partners at the Treasurer-Tax Collector and Controller.

FISCAL IMPACT

The proposed amendment estimates a total project cost of $27,158,702 to complete the implementation December 31, 2027, as shown below. Cost is funded by the General Fund.

Exhibit 1: Projected Expenditures of Proposed Agreement, FY 2018-19 to FY 2026-27

	Original	Proposed	Change
Implementation	11,801,108	18,728,109	6,927,001
Phase 1 Maintenance during implementation	761,475	1,861,476	1,100,001
Maintenance after go-live	5,283,000	3,600,000	(1,683,000)
Contingency	3,569,117	2,969,117	(600,000)
Total	**21,414,700**	**27,158,702**	**5,744,002**

Source: ASR

Actual expenditures for this agreement since FY 2018-19 total $17,378,702.

Although the proposed agreement estimates a total reduction in maintenance costs, the revised costs reflect increased annual costs over fewer years. The revised annual maintenance costs for the first year after the system goes live are $1,200,000, which is 104% higher than the original estimated annual cost of $587,000, as shown below.

Exhibit 1: Original and Proposed System Maintenance Costs

	Original	Proposed
Year 1	587,000	
Year 2	587,000	
Year 3	587,000	
Year 4	587,000	1,200,000
Year 5	587,000	1,000,000
Year 6	587,000	800,000
Year 7	587,000	600,000
Year 8	587,000	
Year 9	587,000	
Year 10	587,000	
Total	**5,870,000**	**3,600,000**

Source: ASR

Note that the contractor has estimated that it will need $1.2 million in each year to maintain and support the system, but agreed to this reduction.

This proposed amendment will increase the total project costs for the Property Assessment and Tax System by $6,491,390, as shown below. Notably, the system implemented by the offices of the Controller and Treasurer and Tax Collector as part of this project was implemented on time and under budget.

Exhibit 3: Original and Proposed PATS Project Costs

	Original Budget at Contract Approval	2023 Revised Budget	Change
Cross Department			
Professional Services	$2,708,244	$1,236,063	($1,472,181)
Cross Department Subtotal	**$2,708,244**	**$1,236,063**	**($1,472,181)**
Assessor Project (SMART)			
Labor	$11,598,066	$10,127,112	($1,470,954)
Sapient Contract	$15,075,103	$23,558,701	$8,483,598
Carahsoft Contract	$4,848,899	$6,354,282	$1,505,383
Project Management	$1,575,000	$1,013,223	($561,777)
Data Conversion	$5,150,000	$6,697,308	$1,547,308
Integration Vendors	$1,500,000	$3,454,686	$1,954,686
Training	$650,000	$52,835	($597,165)
Hardware	$600,000	$0	($600,000)
Equipment & Office Supplies	$112,000	$78,937	($33,063)
Other Services		$150,990	$150,990
Work Orders (CAT and DT)	$1,000,464	$203,103	($797,361)
Assessor Subtotal	**$42,109,532**	**$51,691,178**	**$9,581,646**
TTX/CON Project (TaxSys)			
Labor	$2,529,330	$4,084,126	$1,554,796
Project Management	$2,500,000		($2,500,000)
Grant St Contract	$21,460,867	$21,332,091	($128,776)
Integration Vendors	$850,000	$498,262	($351,738)
Data Conversion		$44,362	$44,362
Training	$100,000	$0	($100,000)
Equipment & Office Supplies	$40,000	$3,280	($36,720)
Work Orders (CAT and DT)	$100,000	$0	($100,000)
TTX Subtotal	**$27,580,197**	**$25,962,122**	**($1,618,075)**
Total	**$72,397,973**	**$78,889,363**	**$6,491,390**

Source: ASR

Note: the Sapient contract figure in Exhibit above excludes the projected $3.6 million in that contract for ongoing maintenance.

POLICY CONSIDERATION

Given that the proposed contract amendment (1) increases City costs for system implementation and maintenance by $5.7 million beyond the original 2018 agreement, (2) reduces the number of years of system maintenance from 10 to 4, (3) proposed actual four-year maintenance costs of $3.6 million appear to be an underestimate given that the contractor estimates actual maintenance costs will be $4.8 million over four years, and (4) the proposed cost increases are due to the Assessor and contractor failing to meeting the original project timeline, we consider approval of the proposed amendment to be a policy matter for the Board of Supervisors.

Operational Savings

Section 26.1 of the Administrative Provisions of the Annual Appropriation Ordinance for FY 2017-18 and FY 2018-19 directs the Controller to apply operational savings from the offices of the Assessor, Controller, and Tax Collector to the property tax system replacement project, in order to minimize future General Fund appropriations required for the project. Section 26.1 requires a report on these savings be provided to the Board of Supervisor's Budget & Finance Committee and its Budget & Legislative Analyst's Office. According to the department, a total of $21.9 million in operational savings has been applied to the project.

Stronger Project Monitoring

As proposed, the amendment does not include enhanced project monitoring or oversight. Given the implementation delays and increased costs, the Department should consider increasing the frequency of the Sprint retroactive meetings from every three weeks to every week, until Phase 2 has gone live. This would enable the department to identify and address any new delays quickly in order to ensure that the contractor meets the new proposed timelines for project deliverables. Under the proposed amendment, maintenance payments are only due once the system is fully implemented.

Proposed Maintenance Costs Lower than New Estimates from Contractor

As discussed above, the contractor has indicated that actual costs for annual maintenance and support will be $1.2 million, until the system is stabilized. It is unclear how the Department anticipates that the contractor will be able to provide adequate maintenance services in 2025, 2026 and 2027, for less than $1.2 million, as proposed in the new agreement. The department reports that they recently informally surveyed other IT Director's around the City as well as in other County Assessor's offices to understand whether Sapient's increased maintenance cost was reasonable. Most agreed that typical maintenance costs are approximately 15-20% of the implementation cost, which would have been a maintenance cost of $1.7M - $2.4M, using the original implementation cost of $11.8M. Sapient's revised cost of $1.2M is slightly below this range, and the proposed costs for the remaining three years of support are even lower.

According to Simone Jacques, the Department will competitively solicit vendors for system maintenance following the conclusion of the current Sapient contract.

Report to Board of Supervisors in Six Months on Implementation Status

The Board of Supervisors could consider requiring the department to report on the status of PATS implementation in six months, to ensure that there are no additional delays or cost increases and that the contractor remains on schedule to implement the system in accordance with the new schedule.

RECOMMENDATION

Approval of the proposed resolution is a policy matter for the Board of Supervisors.

Item 4 **File 23-0121**	**Department:** Controller's Office

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would establish the City's FY 2022-23 appropriations limit at $10,608,963,481, as calculated by the Controller. The appropriations limit for FY 2022-23 is based on the amount of the FY 2021-22 appropriations limit and adjusted to reflect increases in: (1) the population and (2) the cost of living (calculated using the increase in the local assessment roll due to the addition of non-residential new construction).

Key Points

- The California Constitution places annual limits on the appropriations of tax proceeds made by the State, school districts, and local governments in California. The annual appropriations limit is based on the appropriations limit for the preceding fiscal year and adjusted for: (1) the change in population, and (2) the change in the cost of living. There are two definitions that local governments may use to calculate the cost-of-living adjustment: (1) the change in California per capita personal income, or (2) the change in the local assessment roll due to the addition of non-residential new construction. The City is allowed to choose whichever percentage change is higher. In FY 2020-21, the growth in personal income was 7.55 percent and the roll growth due to non-residential new construction was 10.65 percent. The Controller's Office is using the change in non-residential new construction for the cost-of-living factor to calculate the appropriations limit.

Fiscal Impact

- The appropriations limit does not apply to tax proceeds appropriated for: (a) debt service, (b) federal mandates (such as Social Security and Medicare), and (c) qualified capital outlays. Consequently, the Controller excluded $412,147,280 from the City's total FY 2022-23 tax proceeds of $6,135,294,436, resulting in net tax proceeds subject to the appropriations limit of $5,723,147,157.
- The City's FY 2022-23 appropriations limit, as calculated by the Controller, is $10,608,963,482. The FY 2022-23 net tax proceeds of $5,723,147,157 are $4,885,816,325 less than the FY 2022-23 appropriation limit of $10,608,963,482.

Policy Consideration

- For the FY 2022-23 appropriations limit, the Controller elected to use the percentage change in the local assessment roll from the preceding year due to the addition of local nonresidential new construction to calculate the cost-of-living adjustment, and consequently calculating the appropriations limit at $10,608,963,482. Had the Controller elected to use the percentage change in per-capita personal income from the preceding year, the appropriations limit would have been calculated at $10,351,529,213.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

California Constitution Article XIIIB states that each local government must set an annual appropriations limit as calculated using the preceding year's appropriations limit adjusted for: (1) the change in population and (2) the change in the cost of living.

BACKGROUND

Proposition 4, known as the Gann Initiative and approved by California voters in November 1979, added Article XIIIB to the California Constitution. Article XIIIB (later amended by State Proposition 111, as approved by the voters in June 1990) places annual limits on the appropriation of tax proceeds made by the State, school districts, and local governments in California. The annual appropriations limit is based on the appropriations limit for the preceding fiscal year and adjusted for: (1) the change in population and (2) the change in the cost of living.

Per Article XIIIB Section 9 and California Government Code Section 7901, the appropriations limit does not apply to any tax proceeds appropriated for: (a) debt service, (b) federal mandates for Social Security and Medicare payroll taxes, (c) qualified capital outlays, and (d) other federal mandates.

California Government Code Section 7901(b) defines the change in population as the population growth for the calendar year preceding the beginning of the fiscal year for which the appropriations limit is to be determined. According to the California Department of Finance, in calendar year 2021, the population growth of the nine-county Bay Area was -0.67 percent.[1]

California Constitution Article XIIIB Section 8(e)2 allows the local government to use one of the two following definitions to calculate the cost-of-living adjustment:

Definition 1: The percentage change in California per-capita personal income from the preceding year, estimated to be 7.55 percent in FY 2021-22, or

Definition 2: The percentage change for the local jurisdiction in the assessment roll from the preceding year due to non-residential new construction, estimated to be 10.65 percent in 2021.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would establish the City's FY 2022-23 appropriations limit at $10,608,963,481, as calculated by the Controller. The appropriations limit for FY 2022-23 is based on the amount of the FY 2021-22 appropriations limit and adjusted to reflect increases in: (1) the

[1] Chapter 1222 of the California State Statutes of 1980 allows the City to use the greater of its percentage change in population from the preceding year or the percentage change of the nine-county Bay Area. The percentage change of the Bay Area population of -0.67 percent was greater than the percentage change of the City's population of -0.79 percent.

population and (2) cost of living (calculated using the increase in the local assessment roll due to the addition of non-residential new construction).

FISCAL IMPACT

Cost of Living Factor

Cost of living is determined by using either the change in California per capita personal income or the increase in the local assessment roll due to the addition of non-residential new construction. According to the Controller's Office, the City may choose whichever percentage change is higher.

As mentioned above, in FY 2021-22, the growth in personal income was 7.55 percent and the roll growth due to nonresidential new construction was 10.65 percent. Consequently, the Controller's Office is using the non-residential construction growth for the cost-of-living factor to calculate the appropriations limit.

Appropriations Subject to Limit

As mentioned above, the appropriations limit does not apply to tax proceeds appropriated for: (a) debt service, (b) federal mandates (such as for Social Security and Medicare), and (c) qualified capital outlays. Consequently, the Controller excluded $412,147,280 from the City's total FY 2022-23 tax proceeds of $6,135,294,436, as shown in Exhibit 1 below, resulting in net tax proceeds subject to the appropriations limit of $5,723,147,157.

Exhibit 1: Tax Proceeds Subject to the Proposed Appropriations Limit

FY 2021-22 Total Tax Proceeds[2]	**$6,135,294,436**
Exclusions	
(a) Debt Service	(150,967,150)
(b) Federal Mandate for Social Security/Medicare	(144,970,317)
(c) Qualified Capital Outlays	(116,209,813)
Subtotal Exclusions	**$412,147,280**
FY 2022-23 Net Tax Proceeds Subject to Appropriations Limit	**$5,723,147,157**

Source: Controller's Office

Article XIIIB allows voters to approve an increase to the appropriations limit for up to four years. In the past four years, voters approved seven measures: the Traffic Congestion Mitigation Tax (Proposition D in November 2019), the Vacancy Tax (Proposition D in March 2020), the Parcel Tax for San Francisco Unified School District (Proposition J in November 2020), the Real Estate Transfer Tax (Proposition I in November 2020), the Executive Compensation Tax (Proposition L in November 2020), the Business Tax Overhaul (Proposition F in November 2020), and the Residential Vacancy Tax (Proposition M in November 2022). These adjustments raise the FY 2022-23 appropriations limit by $1,420,220,941.

[2] Includes property taxes, business taxes, excess Education Revenue Augmentation Fund (ERAF) revenues, other local taxes, and interest.

As shown in Exhibit 2 below, the City's FY 2022-23 appropriations limit, as calculated by the Controller, is $10,608,963,481. The FY 2022-23 net tax proceeds of $5,723,147,157 are $4,885,816,325 less than the FY 2022-23 appropriations limit of $10,608,963,481.

Exhibit 2: Proposed FY 2022-23 Appropriations Limit

Base FY 2021-22 Appropriations Limit	**$8,360,345,577**
Adjustment Factors	
Increase in Population	-0.67%
Roll Growth due to Nonresidential Construction	10.65%
Subtotal	**$9,188,742,541**
Voter Approved Limit Changes	**$1,420,220,941**
FY 2022-23 Appropriations Limit	**$10,608,963,481**

Source: Controller's Office

POLICY CONSIDERATION

As previously mentioned, the Controller has discretion to calculate the cost-of-living adjustment factor using one of two definitions:

Definition 1: The percentage change in California per-capita personal income from the preceding year, estimated to be 7.55 percent in FY 2021-22, or

Definition 2: The percentage change for the local jurisdiction in the assessment roll from the preceding year due to non-residential new construction, estimated to be 10.65 percent in 2021.

Exhibit 3 below shows the FY 2022-23 appropriations limit using both definitions.

Exhibit 3: FY 2022-23 Appropriations Limit by Definition

	Definition 1: Per Capita Personal Income	**Definition 2: Local Assessment Roll from Non-Residential New Construction**
FY 2021-22 Appropriations Limit	**$8,360,345,577**	**$8,360,345,577**
Adjustment Factors		
Increase in Population	-0.67%	-0.67%
Increase in Per-Capita Personal Income	7.55%	-
Income in Local Assessment Roll		10.65%
Subtotal	**$8,931,308,272**	**$9,188,742,541**
Voter Approved Limit Changes	1,420,220,941	1,420,220,941
FY 2022-23 Appropriations Limit	**$10,351,529,213**	**$10,608,963,481**

For the FY 2022-23 appropriations limit, the Controller elected to use the percentage change in the local assessment roll from the preceding year due to the addition of local nonresidential new construction to calculate the cost-of-living adjustment, consequently calculating the appropriations limit at $10,608,963,481, as shown in Exhibit 2 above. Had the Controller elected to use the percentage change in per-capita personal income from the preceding year, the appropriations limit, as shown in Exhibit 3 above, would have been calculated at $10,351,529,213, which is (a) $257,434,268 less than the proposed appropriations limit of $10,608,963,481 and (b) $4,628,382,057 more than the Controller's calculation of net tax proceeds subject to the appropriations limit of $5,723,147,156, as shown in Exhibit 1 above.

RECOMMENDATION

Approve the proposed resolution.

Item 6 **File 23-0226**	**Department:** Homelessness and Supportive Housing (HSH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the second amendment to the grant agreement between the Department of Homelessness and Supportive Housing (HSH) and Five Keys Schools and Programs (Five Keys) for supportive services at the Embarcadero SAFE Navigation Center, extending the term by nine months through December 2023, and increasing the not-to-exceed amount by $4,209,528, for a total not to exceed $14,009,528. If the Port Commission extends permission for the navigation center to operate on Port property, the proposed resolution would also authorize HSH to extend the term an additional four years through December 2027 and increase the not-to-exceed amount by $26,821,656, for a total not to exceed $36,621,656.

Key Points

- The Embarcadero SAFE Navigation Center is a low-barrier shelter program located at Seawall Lot 330 on Port property, providing services for 200 adults with more flexibility for partners, pets, and possessions than traditional congregate shelters. In June 2020, HSH issued a Request for Qualifications (RFQ) for COVID-19 response services. Five Keys, which had provided support services at Embarcadero SAFE through an interim agreement, was deemed to meet the minimum qualifications and was awarded a grant to continue providing services for a term of one year and 10 months and an amount not to exceed $9,800,000. In July 2022, HSH executed the first amendment to the grant agreement, extending the term by nine months through March 2023, with no change to the amount.
- Under the grant agreement, Five Keys' scope of services includes intake, assessment and service plans, engagement, case management, benefits navigation, wellness checks, support groups and activities, referrals and coordination of services, and exit planning. Five Keys also provides emergency services, consisting of operating the navigation center 24 hours a day by providing safe and clean sleeping accommodations with amenities.

Fiscal Impact

- The proposed second amendment would increase the not-to-exceed amount of the grant agreement by $4,209,528, for a total not to exceed $14,009,528. If the Port Commission extends its lease with HSH, HSH would be authorized to increase the not-to-exceed amount for the four-year extension period by $26,821,656, for a total not to exceed $36,621,656.
- The grant Year 1 amount of $2,380,652 was funded by state funds, and the remaining amount of up to $34,241,004 has been and would be funded by Proposition C funds.

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

In April 2019, the Port and Department of Homelessness and Supportive Housing (HSH) entered into a Memorandum of Understanding (MOU) to operate the Embarcadero SAFE Navigation Center at Seawall Lot 330 on Port property, for a term of two years from December 30, 2019 through December 29, 2021, with a two-year option to extend through December 29, 2023, and initial monthly rent of $36,861 ($0.79 per square foot), with 2.5 percent annual escalation. Embarcadero SAFE is a low-barrier shelter program for 200 adults with more flexibility for partners, pets, and possessions than traditional congregate shelters.

In April 2019, the Board of Supervisors approved an ordinance that allowed HSH to enter into contracts for homeless services without competitive bidding (File 19-0047). Under this authority, HSH entered into an agreement in 2019 with Five Keys Schools and Programs (Five Keys) to provide support services at Embarcadero SAFE Navigation Center. This agreement ended when the site closed in the initial response to COVID-19. In June 2020, HSH issued a Request for Qualifications (RFQ) for COVID-19 response services, including services at shelter-in-place sites, congregate care settings, and isolation and quarantine sites. HSH received 26 responses, and 25 respondents (including Five Keys) were deemed to meet the minimum qualifications. HSH awarded Five Keys a grant to continue support services at Embarcadero SAFE for a term of one year and 10 months, from September 2020 through June 2022, and an amount not to exceed $9,800,000. In July 2022, HSH executed the first amendment to the grant agreement, extending the term by nine months through March 2023, with one three-month option to extend through June 2023, and seven subsequent one-year options to extend through June 2030, with no change to the not-to-exceed amount.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the second amendment to the grant agreement between HSH and Five Keys for supportive services at Embarcadero SAFE, extending the term by nine months through December 2023, and increasing the not-to-exceed amount by $4,209,528, for a total not to exceed $14,009,528. If the Port Commission extends permission for the navigation center to continue operating, HSH would be authorized to extend the term for an additional four years through December 2027 and increase the not-to-exceed amount by $26,821,656, for a total not to exceed $36,621,656.[1] The proposed resolution would also authorize HSH to enter into immaterial amendments to the lease.

[1] According to Legislative Analyst Miller, HSH has started conversations with the Port to renew the lease and plans to move ahead with that request in the coming months.

Under the grant agreement, Five Keys' scope of services includes intake, assessment and service plans, engagement, case management, benefits navigation, wellness checks, support groups and activities, referrals and coordination of services, and exit planning. Five Keys also provides emergency services, consisting of operating the navigation center 24 hours a day by providing safe and clean sleeping accommodations with amenities.

The grant agreement lists seven performance objectives for Five Keys: (1) provide intake and program orientation to 100 percent of all participants; (2) utilize intake and assessment information to identify options and create a service plan for 95 percent of pathway stay participants; (3) offer referral for problem solving and or assessment within one week of placement for 90 percent of time-limited stay participants; (4) encourage 100 percent of time-limited stay participants to create a profile and join the shelter reservation waitlist within 72 hours of placement; (5) provide referrals for benefits, employment, health, and transportation support to 90 percent of pathway stay participants; (6) administer a quarterly satisfaction survey and achieve a 50 percent response rate; and (7) 75 percent of survey respondents strongly agree or agree that they are satisfied with services on site. HSH's FY 2021-22 monitoring report found that Five Keys generally met performance targets and contracted units of service. However, Five Keys did not conduct quarterly surveys for the first two quarters of the fiscal year due to the COVID-19 pandemic. According to Bryn Miller, HSH Legislative Analyst, Five Keys has conducted surveys each quarter to date in FY 2022-23. The grant agreement funds approximately 51.11 full-time equivalent (FTE) employees in FY 2022-23.[2]

In July 2022, the Department of Children, Youth, and their Families (DCYF) reviewed Five Keys' financial documents as part of the FY 2021-22 Citywide Fiscal and Compliance Monitoring process and identified no findings.

FISCAL IMPACT

The proposed second amendment would increase the not-to-exceed amount of the grant agreement between HSH and Five Keys by $4,209,528, for a total not to exceed $14,009,528. If the Port Commission extends its lease with HSH, the resolution would enable HSH to increase the not-to-exceed amount for the four-year extension period by $26,821,656, for a total not to exceed $36,621,656. HSH projects annual expenditures of approximately $4,915,680 based on FY 2022-23 projected expenditures, which are shown in Exhibit 1 below.

[2] According to Legislative Analyst Miller, the number of FTE employees increased from 40.11 in FY 2021-22 to 51.11 in FY 2022-23 because Five Keys added four Care Coordinators to bring case management ratios to 1:25 in line with HSH's standards at all sites after the shelter rebase process in FY2022-23, as well as four Care Coordinators that had previously been employed by Bayview Hunters Point Foundation through a subcontract. Additionally, FTE counts for various part-time and overhead positions were adjusted, bringing the total increase to 11 FTEs.

Exhibit 1: FY 2022-23 Projected Grant Agreement Expenditures

Expenditures	Amount
Salaries & Benefits	$3,861,159
Operating Expenses[3]	304,253
Subtotal	*$4,165,411*
Indirect Costs (16.4%)	683,389
Other Expenses[4]	66,880
Total Projected Expenditures	**$4,915,680**

Source: HSH

Actual and projected contract expenditures are shown in Exhibit 2 below.

Exhibit 2: Actual and Projected Expenditures by Year

Expenditures	Amount
Year 1 (9/2020-6/2021)	$2,380,652
Year 2 (7/2021-6/2022)	3,676,038
Year 3 (7/2021-3/2023)	3,511,407
9-Month Extension (4/2023-12/2023)	3,862,114
Contingency (15% of 9-Month Extension Amount)	579,317
Not-to-Exceed Amount through 12/2023	*$14,009,528*
Option Year 1 (1/2024-12/2024)	4,915,680
Option Year 2 (1/2025-12/2025)	4,915,680
Option Year 3 (1/2026-12/2026)	4,915,680
Option Year 4 (1/2027-12/2027)	4,915,680
Contingency (15% of Option Term Amount)	2,949,408
Subtotal – Option Term	*$22,612,128*
Total Not-to-Exceed	**$36,621,656**

Source: HSH

The initial not-to-exceed amount of $14,009,528 provides funding through December 2023, including a 15 percent contingency for the nine-month extension period from April through December 2023. The total not-to-exceed amount of $36,621,656 provides funding for an additional four years through December 2027, pending Port Commission approval of the lease extension, with a 15 percent contingency. The contingency may be used to fund expanded services at Embarcadero SAFE or account for cost escalation.

The grant Year 1 amount of $2,380,652 was funded by the State Homeless Emergency Aid Program (HEAP). The remaining amount of up to $34,241,004 has been and would continue to be funded by Proposition C funds.[5]

[3] Operating Expenses include utilities, supplies, maintenance and repairs, insurance, training, laundry, and pest control.

[4] Other Expenses are retroactive pay increases to Five Keys' Ambassadors, Janitors, and Care Coordinators.

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

RECOMMENDATION

Approve the proposed resolution.

Item 9 Files 23-0163	Departments: Recreation and Park Department Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance de-appropriates $1,724,908 from the Recreation and Park Department and appropriates $1,724,908 to the Mayor's Office of Housing and Community Development for uses permitted in the 706 Mission Street Fund in FY 2022-2023.

Key Points

- In 2013, the Office of Community Investment and Infrastructure (OCII) and 706 Mission Street Co, LLC entered into a purchase and sale agreement for property located at 706 Mission Street. The agreement required the developer to make payments to OCII to be used only for cultural operations, general maintenance and operations, and capital expenditures of open spaces in the South of Market area and Yerba Buena Gardens. The agreement also required the developer to make a transfer payment to OCII to fund public benefits within the South of Market area.
- In February 2022, a Government Audit and Oversight Committee hearing was held to receive updates on the developer payments and present on the use of funds. The Recreation and Park Department provided an update on the transfer of $1,800,268 in one-time open space fee payment funds that was allocated and encumbered for the Gene Friend Recreation Center Capital Project, which is located in the South of Market area.
- In December 2022, the Board of Supervisors passed an ordinance amending the Administrative Code to establish the 706 Mission Fund, which authorized the Recreation and Park Department and the Mayor's Office of Housing and Community Development to expend monies from the Fund for specified purposes after receiving recommendations from the SOMA Community Stabilization Fund Community Advisory Committee.

Fiscal Impact

- The proposed ordinance de-appropriates $1,724,908 from the Recreation and Park Department's Gene Friend Recreation Center Capital Project. According to Recreation and Parks staff, as of this writing, only $1,674,056 is available for de-appropriation due to the payment of design contractor invoices between October 2022 and February 2023.
- If the proposed ordinance is passed, the appropriated funds will be used for public benefits within the South of Market Area. Because a SOMA Community Stabilization Fund Community Advisory Committee hearing has not occurred yet, the Mayor's Office of Housing and Community Development intends to expend funds only after this has been held.

Policy Consideration

- The Recreation and Park Department has not identified an alternative funding source to backfill the $1.7 million funding that is the subject of the proposed appropriation and may remove a planned multi-purpose room from the project's scope of work.

Recommendation

- Approval of the proposed ordinance is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

City Charter Section 9.105 states that amendments to the Annual Appropriations Ordinance, after the Controller certifies the availability of funds, are subject to Board of Supervisors approval by ordinance.

BACKGROUND

In 2013, the Office of Community Investment and Infrastructure[1] (OCII) and 706 Mission Street Co, LLC entered into a purchase and sale agreement for property located at 706 Mission Street, to develop the site for mixed-use market rate housing and a museum. The Mexican Museum, a nonprofit organization, was named as a third-party beneficiary as part of the agreement. The agreement required the developer to make payments (Open Space Fee and Developer Payment[2]) to OCII to be used only for cultural operations, general maintenance and operations, and capital expenditures of open spaces in the South of Market area and Yerba Buena Gardens. The agreement also required the developer to make a transfer payment[3] to OCII to fund public benefits within the South of Market area, including homeless prevention rent subsidies, affordable housing, housing/eviction counseling, nonprofit and small business rental assistance and services to senior and youth.

On February 17, 2022, a hearing was held at a Government Audit and Oversight Committee meeting to receive updates on the developer payments and funding streams required by the 706 Mission purchase and sale agreement and to present on the use of funds, Request for Proposal timelines and fund balances (File 21-0973). The Recreation and Park Department provided an update on the transfer of $1,800,268 in one-time open space fee payment funds that was allocated and encumbered for the Gene Friend Recreation Center Capital Project, which is a capital improvement project for a recreation center located in the South of Market area (270 Sixth St.) and owned by the Recreation and Park Department. According to the department, this use meets the open spaces requirement of the agreement because it is defined as "other public

[1] Previously known as the Successor Agency to the Redevelopment Agency of the City and County of San Francisco

[2] According to the agreement, the Open Space Fee will be paid on an annual basis, in the following amounts: (1) at the initial rate of $1.50 per square foot of the Project's above-grade net leasable building area devoted to commercial uses, exclusive of the Cultural Component, subject to annual increases based on the annual Consumer Price Index for the San Francisco-Oakland-San Jose Metropolitan Statistical Area ("CPI") not to exceed 5% per annum, and (2) at the initial rate of $1.25 per square foot of the Project's above-grade net residential saleable area, subject to annual increases based on the annual CPI not to exceed 3% per annum (collectively, the "Open Space Fee Payment"). The Open Space Fee Payment will be based on building square footage at completion, and each payment shall include a brief report to show how the payment amount was calculated. In addition to the Open Space Fee, the Developer will pay to the Successor Agency a one-time payment for open space uses (the "Developer Payment") before issuance of the first construction document (as defined in Section 107A.13.1 of the City Building Code) for the Project. The Developer Payment shall be calculated based on the gross square footage of each of the following uses that are developed as part of the Project: (i) residential at $2.50/gsf, (ii) institutional/cultural/medical at $5.00/gsf, and (iii) retail at $5.00/gsf. The Developer Payment shall be used for the Permitted Uses only within the SOMA Open Spaces.

[3] According to the agreement, subject to any applicable requirements of the California Department of Real Estate and California Civil Code section 1098, the sale of residential condominium units in the project is subjected to a transfer payment made to OCII for public benefits within the South of Market area.

open spaces owned by the City in the adjacent South of Market area." The proposed ordinance (and subject of this report) addresses this initial one-time payment to the Recreation Center.

Establishment of 706 Mission Fund

In December 2022, the Board of Supervisors passed an ordinance amending the Administrative Code to establish the 706 Mission Fund to receive funds provided to the City under the 2013 purchase and sale agreement regarding the property at 706 Mission Street; to authorize the Recreation and Park Department and the Mayor's Office of Housing and Community Development to expend monies from the Fund for specified purposes after receiving recommendations from the SOMA Community Stabilization Fund Community Advisory Committee; and to require the Recreation and Park Department and the Mayor's Office of Housing and Community Development to prepare reports regarding expenditures from the Fund (File 22-1125). The ordinance established two separate subsidiary funds as part of the 706 Mission Fund: (1) 706 Mission Open Space Fund to be used by the Recreation and Park Department for open spaces in the South of Market area, and (2) 706 Mission Community Development Fund to be used by the Mayor's Office of Housing and Community Development for public benefits in the South of Market area. As part of the ordinance, the departments are prohibited from spending money in the funds until the SOMA Community Stabilization Fund Community Advisory Committee has held at least one hearing to make recommendations on the spending. The departments are also required to submit annual reports summarizing fund expenditures. In addition, the ordinance requires the SOMA Community Stabilization Fund Community Advisory Committee to hold quarterly hearings in calendar years 2023, 2024 and 2025 to provide recommendations to the Recreation and Park Department on expenditures of monies in the 706 Mission Open Space Fund and to monitor the department's expenditures from that fund.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance de-appropriates $1,724,908 from the Recreation and Park Department and appropriates $1,724,908 to the Mayor's Office of Housing and Community Development for uses permitted in the 706 Mission Street Fund in FY 2022-2023.[4]

Gene Friend Recreation Center Project

The proposed ordinance de-appropriates $1,724,908 from the Recreation and Park Department's Gene Friend Recreation Center Capital Project. According to the department, the center is located in the South of Market area and is slated for a large-scale capital improvement project beginning in Fall 2023.[5]

The center will be expanded to include a dual court gym, multi-purpose rooms and related outdoor amenities such as a playground, half basketball court and landscaping. According to the department, the project's current total cost is approximately $59.3 million, as shown in Exhibit 1 below. The department states that approximately $1.75 million has been spent so far on the

[4] The ordinance includes an interim transfer from REC to ADM and then to MOHCD.

[5] The department anticipates that the general contractor will be bidding out the first trade packages in Spring 2023 and starting demolition, remediation, and then new construction late Summer 2023/early Fall 2023.

project, with approximately $4.3 million transferred to other departments or encumbered. The Recreation and Park Department awarded a $39 million construction contract to Swinerton in August 2022.

Exhibit 1: Gene Friend Recreation Center Capital Project Budget

Sources	Amount
2020 Health and Recovery Bond – Neighborhood Parks	$30,000,000
The Trust for Public Land In-Kind Grant	520,500
Downtown Park Fund	1,000,000
Impact Fees (Eastern Neighborhood)	2,800,300
Impact Fees (SOMA Neighborhood)	14,238,000
706 Mission Open Space Fund (Special Revenue)	1,800,268
Impact Fees (11th and Natoma)	5,500,000
2020 Health and Recovery Bond – Sustainability	2,000,000
2020 Health and Recovery Bond – Named Project Contingency	1,461,732
Total Sources	**$59,320,800**

Source: Recreation and Park Department

FISCAL IMPACT

The appropriation and de-appropriation sources and uses budget is shown in Exhibit 2 below.

Exhibit 2: Sources and Uses of Proposed Appropriation

Sources De-Appropriation	Total
Gene Friend Recreation Center Capital Project Budget	$1,724,908
Total Sources	**$1,724,908**
Uses Re-Appropriation	
706 Mission Open Space Fund/Mayor's Office of Housing and Community Development	$1,724,908
Total Uses	**$1,724,908**

Source: Appropriation Ordinance

According to Recreation and Parks staff, as of this writing, only $1,674,056 is available for de-appropriation due to the payment of design contractor invoices between October 2022 and February 2023.[6]

[6] The department states that approximately $1.8 million has been encumbered as partial funding for a design contract with a Joint Venture between Mark Cavagnero Associates and Kuth Ranieri Architects for the Gene Friend project. Funding for that contract includes the 706 developer payment, 2020 general obligation bond proceeds, and developer fees.

According to the Mayor's Office of Housing and Community Development, if the proposed ordinance is passed, the appropriated funds will be used for public benefits within the South of Market Area, including affordable housing, rent subsidies to prevent homelessness, housing/eviction counseling, rental assistance to small business and nonprofits organizations, and services to youth and seniors. The department states that a proposed budget and timeline have not been developed yet for the use of the funds. As previously mentioned, as part of the ordinance passed in December 2022 (File 22-1125), the departments are prohibited from spending money in the funds until the SOMA Community Stabilization Fund Community Advisory Committee has held at least one hearing to make recommendations on the spending. The department states that there has been no hearing since the legislation was passed in December 2022. Because a hearing has not occurred yet, the department intends to expend funds only after this has been held. The department plans to work with the SOMA Community Advisory Committee to set up a hearing date and finalize a process for the community hearing.

Annual Reports

As previously mentioned, the ordinance passed in December 2022 required the Mayor's Office of Housing and Community Development and the Recreation and Park Department to submit annual reports summarizing fund expenditures. Both departments have not yet issued a report for the 706 Mission Fund because the first report is due September 30, 2023.

POLICY CONSIDERATION

Impact on Gene Friend Recreation Center Capital Project

According to the Recreation and Park Department, if the funds are de-appropriated and not backfilled, the department will remove a planned multi-purpose room from the project's scope of work. The department states that the budget shortfall would require additional design costs for redesign work and possibly contractor costs for extended overhead due to project delay[7]. The department estimates the project will be delayed at least three months due to value engineering to address the budget change and because permit drawings that have been submitted will likely need to be updated and resubmitted and the final Arts Commission Civic Design Review presentations will need to be postponed or revisited.

According to the department, the project has been scoped with the anticipated $1,800,268 as a confirmed source of funding. If the funds are de-appropriated, the department states that it has not identified an alternative source of funding as of this writing. In addition, the department states that, if necessary, they intend to participate in the SOMA Community Stabilization Fund Community Advisory Committee hearing to request the funds be returned to the Gene Friend Recreation Center Capital Project budget.

[7] The department states that because a contractor is already on board, via the Construction Manager/General Contractor (CM/GC) contract approved by the Recreation and Park Commission in August 2022, delays of such nature make it likely that the department would be required to compensate the Contractor for extended overhead.

RECOMMENDATION

Approval of the proposed ordinance is a policy matter for the Board of Supervisors.