CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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June 26, 2023

TO: Budget and Appropriations Committee

FROM: Budget and Legislative Analyst

SUBJECT: June 28, 2023 Recessed Budget and Appropriations Committee Meeting

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EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would amend Section 2.1.1 of the Public Works Code and Chapter 94A of the Administrative Code to eliminate fees for Curbside Shared Space permits through June 2025 and increase the gross receipts fee discount threshold from $2.19 million to $2.5 million. Annual Curbside license fees and other Program fees would not be changed.

Key Points

- Administrative Code Chapter 94A establishes the Shared Spaces Program, which allows private entities to occupy public right of way, including sidewalks, curbside street areas (including parking spaces), roadways, and City-owned lots, for commercial activity. The focus of the proposed ordinance is curbside shared spaces.
- For a Curbside Shared Spaces permit, the San Francisco Municipal Transportation Agency (MTA) is responsible for approving the closure of the parking space and the Department of Public Works (DPW) is responsible for reviewing the parklet design, issuing the permit to occupy the right of way, and ensuring compliance of permit requirements. Permitees must pay an initial one-time permit fee and an annual licensing fee. Curbside fee revenues are split evenly between MTA and DPW.
- FY 2022-23 total program costs are $7.7 million and consist of MTA, DPW, and Planning staff costs ($3.6 million), parking meter revenue loss ($3.5 million), and MTA citation enforcement revenue loss associated with replacing parking meters with shared spaces ($0.6 million).

Fiscal Impact

- The proposed fee reduction would result in a reduction of one-time permit revenue of $1.4 million in FY 2022-23. Future permit revenue, which depends on how many new parklets are established, would also be foregone through June 2025. Annual license fees would decrease by approximately $20,000 due to the increase in the small business discount eligibility threshold.

Policy Consideration

- Under the Administrative Code, the Planning Department is tasked with "general coordination of program activities," which was provided by a Project Manager I, vacant as of June 2023. Deletion of this position was included in recommendation CPC-13 in our report for the June 21st Budget and Appropriations Committee hearing.

Recommendation

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

MANDATE STATEMENT

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

Administrative Code Chapter 94A establishes the Shared Spaces Program, which allows private entities to occupy public right of way, including sidewalks, curbside street areas (including parking spaces), roadways, and City-owned lots, for commercial activity.

The focus of the proposed ordinance is curbside shared spaces, which may be occupied by fixed, movable, or public parklets.[1] For a Curbside Shared Spaces permit, the San Francisco Municipal Transportation Agency (MTA) is responsible for approving the closure of the parking space and the Department of Public Works (DPW) is responsible for reviewing the parklet design, issuing the permit to occupy the right of way, and ensuring compliance of permit requirements. Permitees must pay an initial one-time permit fee and an annual licensing fee. The Planning Department is responsible for coordinating the program and participating in the design review.

Based on current law, permit and license fees were due and payable on March 31, 2023. Curbside fee revenues are split evenly between MTA and DPW. Businesses with annual gross receipts up to $2,000,000 are eligible for a "small business discount" - a 50% reduction to the permit fees and annual license fee. Prior to 2023, no fees were collected since the start of the program in 2020.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend Section 2.1.1 of the Public Works Code and Chapter 94A of the Administrative Code to eliminate fees for Curbside Shared Space permits through June 2025 and increase the gross receipts fee discount threshold from $2.19 million to $2.5 million. Annual Curbside license fees and other Program fees would not be changed.[2] Exhibit 1 below shows the current and proposed fee structure.

[1] Public parklets do not have commercial activity.

[2] The Shared Space Program also has fees for the Entertainment Commission, use of sidewalks, and use of roadways.

Exhibit 1: Current and Proposed Fees

	Current			Proposed		
Parklet Type	First Parking Space	Additional Parking Space	Annual License Fee	First Parking Space	Additional Parking Space	Annual License Fee
Public	$1,000	$250	$100	$0	$0	$100
Movable	$2,000	$1,000	$1,500	$0	$0	$1,500
Fixed	$3,000	$1,500	$2,000	$0	$0	$2,000
50% Discount	If gross receipts are less than $2.19 million			If gross receipts are less than $2.5 million		

Source: Public Works Code, Administrative Code, Proposed Ordinance

According to Treasurer-Tax Collector data, 74 percent of program participants qualify for the fee discount because they have gross receipts of $2.19 million per year or less. Increasing the threshold would increase the proportion of businesses that qualify for the discount to 78 percent.

Exhibit 2 below shows the program cost projected in FY 2023-24, based on permit applications that have been submitted as of May 2023.[3]

Exhibit 2: FY 2022-23 Curbside Shared Space Program Costs

	FY 2022-23
MTA	
Labor	$2,100,000
Meter Revenue	$3,500,000
Citation Loss	$600,000
Subtotal, MTA	$6,200,000
DPW	
Labor	$1,210,000
Planning	
Labor	$250,000
Total	**$7,660,000**

Sources: MTA, DPW, BLA Analysis

As shown in Exhibit 2 above, FY 2022-23 total program costs are $7.7 million and consist of MTA, DPW, and Planning staff costs ($3.6 million), parking meter revenue loss ($3.5 million), and citation enforcement revenue loss associated with replacement of parking meters with shared spaces ($0.6 million). DPW and MTA labor costs include overhead and consist primarily of evaluating permit applications. If the program achieves a "steady state" and has fewer new participants in future years, DPW and MTA staff costs for this program will be lower.

[3] As of April 2023, the program provided 644 permits covering 1,133 parking spaces, of which 763 were metered. This was a decrease from FY 2021-22, which provided permits covering 1,937 metered parking spaces.

FISCAL IMPACT

Exhibit 3 below shows the change in revenue from the proposed ordinance, which would apply to permits issued in FY 2022-23. Detail by parklet type is included in Attachment I to this report.

Exhibit 3: Change in Fee Revenue in FY 2022-23

Revenue	Current	Proposed	Change
Permits (one-time)	$1,371,668	$0	($1,371,668)
License (ongoing)	$665,280	$645,447	($19,833)

Sources: MTA, TTX, BLA Analysis

Notes: Amounts shown include the current and proposed small business discount.

As shown above, the proposed fee reduction would result in a reduction of one-time permit revenue of $1.4 million in FY 2022-23. Future permit revenue, which depends on how many new parklets are established, would also be foregone through June 2025. Annual license fees would decrease by approximately $20,000 due to the increase in the small business discount eligibility threshold.

Reducing permit fees may increase the number of businesses that participate in the Shared Space Curbside program, increasing program costs. For example, the number of parking meters taken offline for the Shared Space program decreased from 1,937 in FY 2021-22 to 763 in FY 2022-23, the year when the program began collecting fees.

POLICY CONSIDERATION

Use of Public Property

The Curbside Shared Spaces program re-purposes public right of way, 67 percent of which is metered, largely for commercial purposes. As noted above, this results in an annual revenue loss to MTA of $4.1 million. A portion of this may be offset by increased business and sales tax resulting from commercial activity.

Revenue

The program's existing fees are not based on a fee study and do not provide for full cost recovery. Before including the small business discount, for which most businesses are eligible, the average cost for a fixed parklet is $4,100 per permit and $2,000 per annual license. Based on FY 2022-23 program costs and lost revenues totaling $7.66 million and 645 permits issues that year, the cost per permit is approximately $11,900.

Programmatic Data

Administrative Code Section 94A requires collection and reporting of programmatic data, including data on time between permit application and issuance, participation and user feedback data, reporting on revoked permits, and compliance audits of existing shared space permits. Documentation of this work was not available for our review and the work does not appear to be underway. According to the former Shared Spaces Program manager, the Mayor's Office of Civic Innovation is currently building a reporting tool that will aggregate program data for management analysis. The Board should request a report from Public Works, MTA, and Planning on the performance of the program.

Planning Department Role

Under the Administrative Code, the Planning Department is tasked with "general coordination of program activities," which was provided by a Project Manager I, vacant as of June 2023. The Board of Supervisors should consider amending the Code to remove that responsibility from Planning and deleting that position, providing annual savings of $250,000. Deletion of this position was included in recommendation CPC-13 in our report for the June 21st Budget and Appropriations Committee hearing. DPW and MTA each already have senior management staff assigned to this program (a Manager VII and Transportation Planner IV, respectively).

RECOMMENDATION

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

Attachment I: Revenue Change Detail

Permits (FY 2022-23)

Count	Revenue	Current	Proposed	Change
104	Public	$125,500	$0.00	($125,500)
12	Movable	$31,000	$0.00	($31,000)
528	Fixed	$2,177,250	$0.00	($2,177,250)
	Discounts	($805,583)	$0.00	n/a
644	Total	$1,371,668	$0.00	($1,371,668)

Licenses (ongoing)

Count	Revenue	Current	Proposed	Change
104	Public	$10,400	$10,400	$0
12	Movable	$18,000	$18,000	$0
528	Fixed	$1,056,000	$1,056,000	$0
	Discounts	($390,720)	($410,553)	($19,833)
644	Total	$665,280	$645,447	($19,833)

Source: BLA Analysis

Item 5 **File 23-0664** *(Continued from 6/22/23 meeting)*	**Department:** Treasurer-Tax Collector (TTX)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would amend the Business Regulations and Tax Code to codify the First Year Free fee waivers and extend them through June 2028. Shared Space program permit and license fees are not waived.

Key Points

- In July 2021, the Board of Supervisors approved an ordinance waiving first-year permit, license, and business registration fees for certain small businesses (File 21-0741). The goal of the waiver program, referred to as the "First Year Free Program," was to provide relief to small businesses during the City's recovery from the COVID-19 pandemic. In November 2022, the fee waivers were expanded to all business types and extended through June 2023 (File 22-0970). The Treasurer-Tax Collector administers the First Year Free Program, which has enrolled 4,122 businesses as of June 5, 2023.

Fiscal Impact

- According to the Treasurer-Tax Collector's Office staff, in FY 2022-23 the First Year Free program waived $1,192,643 in fees through April 2023. Using a straight-line projection, this would amount to $1.4million for the entire fiscal year. TTX staff do not expect the changes in the proposed legislation to significantly change the cost of the fee waivers.
- Funding of $2 million for the cost of the fee waivers is included in the proposed FY 2023-24 budget for the Treasurer-Tax Collector. No funding is included in the proposed budget for FY 2024-25.

Recommendation

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

MANDATE STATEMENT

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

First Year Free Program

In July 2021, the Board of Supervisors approved an ordinance waiving first-year permit, license, and business registration fees for certain small businesses (File 21-0741). The goal of the waiver program, referred to as the "First Year Free Program," was to provide relief to small businesses during the City's recovery from the COVID-19 pandemic. In November 2022, the fee waivers were expanded to all business types and extended through June 2023 (File 22-0970). The Treasurer-Tax Collector administers the First Year Free Program, which has enrolled 4,122 businesses as of June 5, 2023.

Program Eligibility

Both new small businesses and existing small businesses with new locations are eligible for fee waivers through June 2023 and have up to $5 million or less in gross receipts in San Francisco. Any non-residential business qualifies for fee waivers.

In addition, fee waivers may be revoked if a business that originally qualified for a fee waiver had more than $15 million in gross receipts in San Francisco in the calendar year of or in any of the three calendar years following the date the business commenced or opened a new location.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend the Business Regulations and Tax Code to codify the First Year Free fee waivers and extend them through June 2028. Shared Space program permit and license fees are not waived.

The Treasurer Tax Collector would have to provide an annual report to the Board of Supervisors on the program regarding the business types, location, and fee waived.

FISCAL IMPACT

According to the Treasurer-Tax Collector's Office staff, in FY 2022-23 the First Year Free program waived $1,192,643 in fees through April 2023. Using a straight-line projection, this would amount to $1.4 million for the entire fiscal year. TTX staff do not expect the changes in the proposed legislation to significantly change the cost of the fee waivers.

Funding of $2 million for the cost of the fee waivers is included in the proposed FY 2023-24 budget for the Treasurer-Tax Collector. No funding is included in the proposed budget for FY 2024-25.

RECOMMENDATION

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

Item 6 **File 23-0657** *(Continued from 6/22/23 meeting)*	**Department:** Homelessness & Supportive Housing (HSH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would modify the Homelessness Gross Receipt Tax funding allocation requirements by $20.6 million FY 2023-24 and $39.4 million FY 2024-25.

Key Points

- Under current law, Homeless Gross Receipts Tax revenues must be spent in the following manner: at least 50 percent on permanent housing (including 20 percent on transitional aged youth, 25 percent on families, and the remaining portion on all populations), up to 10 percent on shelter and hygiene, up to 15 percent on prevention, and at least 25 percent on mental health.

Fiscal Impact

- In FY 2023-24, the proposed $20.6 million decrease to Transitional Age Youth (TAY) and families permanent housing category would be used to fund the increase in general housing, shelter for adults and families, and prevention programming for all populations.
- In FY 2024-25, the ordinance would enable the reallocation of prior year Homelessness and Supportive Housing (HSH) project funding of $39.4 million to be appropriated for general housing, shelter for families and adults, and prevention for all populations.

Policy Consideration

- As of June 1, 2023, the City had $858 million in Homelessness Gross Receipt Tax spending budgeted. Actual revenues have been $21 million less than budgeted this year. As of June 12, 2023 in FY 2022-23, $268 million had been spent and $113 million was encumbered, leaving a remaining unspent balance of $478 million, $282.9 million of which is assigned to various HSH projects. The proposed budget re-appropriates $75.9 million of unspent projects, including $39.4 million in FY 2024-25 proposed spending that is subject of this ordinance.
- At its June 9, 2023 meeting, the Our City, Our Home Oversight Committee meeting approved a motion to request the Mayor's Office not reduce family and youth housing funding and look for other sources of funding to maintain the levels of funding for those programs as required by the Homelessness Gross Receipts Tax.

Recommendation

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

MANDATE STATEMENT

Charter Section 2.105 requires that legislative acts in San Francisco be by ordinance, subject to approval by a majority of the Board of Supervisors.

Business and Tax Regulations Code Section 2811 states that amendments to the Homeless Gross Receipts Tax are subject to Board of Supervisors approval by a two-thirds vote. Such amendments may only be to further the purpose of the tax.

BACKGROUND

The Homelessness Gross Receipts Tax was authorized by voters in November 2018 with the passage of Proposition C and became effective in January 2019. The tax added between 0.175% to 0.69%, depending on the businesses type, to the gross receipts tax on businesses earning over $50 million in a given year.

Under current law, expenditures of Homelessness Gross Receipts Tax revenues must be spent in the following manner:

- At least of 50 percent on permanent housing
  - Of which, at least 20 percent must be spent on transitional aged youth (TAY), defined as underage 30
  - Of which, at least 25 percent must be spent on family housing
  - Of which, the remaining portion must be spent on general housing, serving all populations
  - Of which, no more than 12 percent can be spent on short-term (less than five-year) rental subsidies
- Up to 10 percent on shelter and hygiene programs
- Up to 15 percent on prevention programs
- At least 25 percent on mental health services

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would modify the Homelessness Gross Receipt Tax funding allocation requirements by $20.6 million FY 2023-24 and $39.4 million FY 2024-25. The requirements for funding housing for TAY and families would be decreased in in FY2023-24 and re-allocated to adult housing, shelter, and prevention. The change in funding allocation percentages is shown below in Exhibit 1.

Exhibit 1: Proposed Funding Allocations

Program	FY 2022-23	FY 2023-24	FY 2024-25
Housing	50%	44%	50%
Shelter & Hygiene	7%	13%	10%
Prevention	14%	18%	15%
Mental Health	29%	25%	25%
Admin	1%	1%	1%

Source: HSH

Spending levels in FY 2024-25 would be consistent with the Homelessness Gross Receipts Tax allocation requirements.

FISCAL IMPACT

Exhibit 2 below shows the funding impact of the proposed modification to the Homelessness Gross Receipts Tax spending allocations.

Exhibit 2: Proposed Change in Spending, by Program

	FY 2023-24	FY 2024-25
General Housing	**3,418,500**	**14,831,500**
350 Slots of Adult Rapid Rehousing	3,418,500	10,581,500
New 75 units of Adult Permanent Supportive Housing	0	4,250,000
Prevention	**9,082,000**	**11,088,000**
Homelessness Prevention/Diversion	8,122,000	8,122,000
Problem Solving for Latin Youth	960,000	960,000
Sustains Prevention Portfolio Funding Level	0	2,006,000
Shelter	**8,140,000**	**13,440,000**
District 10 Cabin Site Operations	3,000,000	7,000,000
Vehicular Assistance Program	150,000	150,000
Expand Hours at Buena Vista Horace Mann Family Shelter	600,000	600,000
Expand Hours at Hospitality House Adult Shelter	220,000	220,000
Fund Mission Cabins Operations	4,170,000	5,470,000
Total Additional Spending	**20,640,500**	**39,359,500**

Source: Proposed Ordinance, HSH

In FY 2023-24, the proposed $20.6 million decrease to TAY and families permanent housing category would be used to fund the increase in general housing, shelter for adults and families, and prevention programming for all populations.

In FY 2024-25, the ordinance would enable the reallocation prior year HSH project funding of $39.4 million to be appropriated for general housing, shelter for families and adults, and prevention for all populations.

POLICY CONSIDERATION

Existing Funding Resources

As of June 1, 2023, the City had $858 million in Homelessness Gross Receipt Tax spending budgeted. Actual revenues have been $21 million less than budgeted this year. As of June 12, 2023 in FY 2022-23, $268 million had been spent and $113 million was encumbered, leaving a remaining unspent balance of $478 million, $282.9 million of which is assigned to various HSH projects. The proposed budget re-appropriates $75.9 million of unspent projects, including $39.4 million in FY 2024-25 proposed spending that is subject of this ordinance.

Oversight Committee Recommendation

At its June 9, 2023 meeting, the Our City, Our Home Oversight Committee meeting approved a motion to request the Mayor’s Office not reduce family and youth housing funding and look for other sources of funding to maintain the levels of funding for those programs as required by the Homelessness Gross Receipts Tax.

RECOMMENDATION

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

Item 8 **File 23-0680** *(Continued from 6/22/23 meeting)*	**Department:** Office of Economic & Workforce Development (OEWD)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the fifth amendment to OEWD's grant agreement with the San Francisco Tourism Improvement District Management Corporation to increase the not to exceed amount from $16,227,000 to $21,377,000, an increase of $5,150,000, and extend the term by one year and eight months for a total term of July 2021 to June 2025.

Key Points

- The Department of Emergency Management (DEM) is assuming responsibilities from the Office of Economic and Workforce Development (OEWD) to manage the City's portfolio of ambassador programs in coordination with the City's street response efforts. DEM will be responsible for coordinating the ambassador programs (including identifying training needs), evaluating the programs, and creating a streamlined process for ambassadors to be deployed to respond to complaints received via 311 or by the contractor. OEWD will continue to be responsible for fiscal management of the contracts.
- In March 2022, the Board of Supervisors approved the fourth amendment to the agreement for the Downtown Welcome Ambassador program, increasing the not to exceed amount from $9,927,000 to $16,227,000 and extending the term from June 2023 through October 15, 2023.

Fiscal Impact

- Costs are funded by the General Fund. The Mayor's proposed budget includes $5.0 million for the proposed amended grant in FY 2023-24 and $3.15 million in FY 2024-25, which reflects the grant budget.
- City staff costs to support the ambassador programs (including the Mid-Market/Tenderloin and Downtown Ambassadors programs, as well as other programs) are $275,565 in FY 2023-24 and $283,147 in FY 2024-25.

Policy Consideration

- According to the existing agreement, the intent of the program is to ramp down ambassador presence over time. However, there is no planned end date to the program, and the City is adding permanent positions to manage the ambassador programs.
- Administrative and overhead costs for the program are high. The Board of Supervisors could consider rejecting the proposed resolution and request that OEWD and DEM reprocure the service with a direct service provider to reduce administrative costs.

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

Change in Ambassador Program Oversight and Budget

The Department of Emergency Management (DEM) is assuming responsibilities from the Office of Economic and Workforce Development (OEWD) to manage the City's portfolio of ambassador programs, including the Mid-Market/Tenderloin Community-Based Safety Program and Downtown Ambassadors Program, in coordination with the City's street response efforts. DEM staff report that the Department will be responsible for coordinating the ambassador programs (including identifying training needs), evaluating the programs, and creating a streamlined process for ambassadors to be deployed to respond to complaints received via 311 or by the contractor. OEWD will continue to be responsible for fiscal management of the contracts.

The Mayor's Proposed Budget includes a new Street Ambassador Program Coordinator (0922 Manager I) in DEM to oversee the City and CBD-funded ambassador teams. OEWD reports they are reducing staffing dedicated to the ambassador programs from 0.30 FTE in July 2022 to 0.15 FTE in July 2023.

Total spending on the two program contracts in FY 2023-24 is budgeted at $26.5 million in the Mayor's proposed budget, decreasing to $19.15 million in FY 2024-25. Funding over the two-year period includes opioid settlement funding of $15.1 million in FY 2023-24 and $11.2 million in FY 2024-25 to support the Mid-Market/Tenderloin program.

Exhibit 1: Funding for Ambassador Contracts in Mayor's Proposed Budget

Grantee	FY 2022-23 Original	FY 2023-24 Proposed	FY 2024-25 Proposed	3-Year Total
Mid-Market Foundation	$23,590,570	$21,500,000	$16,000,000	$61,090,570
Tourism District	6,600,000	5,000,000	3,150,000	14,750,000
Total	**30,190,570**	**26,500,000**	**19,150,000**	**75,840,570**

The proposed budget of $26.5 million for FY 2023-24 reflects an increase of $9.1 million above the original FY 2023-24 budget of $17.4 million previously approved by the Board of Supervisors.

Downtown Community Ambassador Program

In July 2021, OEWD entered into a contract with the San Francisco Tourism Improvement District Management Corporation, a California non-profit benefit organization that allocates funding[1] to San Francisco Travel[2] programs that draw business and leisure travelers to the City, to provide community ambassador staffing for the Downtown Welcome Ambassador program, after selecting the organization through a competitive process.[3] The original agreement was for a not to exceed amount of $6,440,000 for a one-year term from July 2021 to June 2022.

OEWD has modified the contract four times, as shown in Exhibit 2 below.

Exhibit 2: SFTIDMC Contract Amendments

Modification No.	Date	Description	Not-to-Exceed Amount
1	7/1/21	Extended the term from June 2022 to December 2022 for a total term of 18 months and added Appendix E detailing four permitted subgrantees	$6,440,000
2	3/1/22	Extended the term from December 2022 to June 2023 for a total term of two years and increased the not to exceed by $187,000. The scope was updated to reflect the additional funding, make changes to the schedule of deliverables, and add four additional permitted subgrantees for a total of eight subgrantees.	$6,627,000
3	10/1/22	Increased the not to exceed amount by $3.3 million and updated the scope to specify ambassador staffing levels and require regular deployment summaries, among other changes	$9,927,000
4	3/21/23	Extended the term from June 2023 to October 15, 2023 for a total term of two years and three-and-a-half months and increased the not to exceed by $6,300,000 (File 23-0043). The scope was updated to increase the number of ambassadors deployed daily from an average of 40 to 45 ambassadors to an average of 45 to 50.	$16,227,000

Source: SFTIDMC Contract Amendments

[1] As of January 2009, an assessment of 1%-1.5% is levied on gross hotel room revenue to support San Francisco Travel programs.

[2] The San Francisco Travel Association is a marketing organization founded in 1909, following the 1906 earthquake, to attract tourism to the City.

[3] SFTIDMC submitted the only response to a 2021 Request for Proposals (RFP) to provide community ambassador staffing in the Downtown area. As noted in our March 2023 report, the RFP's minimum qualifications and two-week posting may have limited the pool of proposers (See File 23-0043). The RFP provided for a maximum $7.5 million and one-year term for the Downtown scope of work, but also stated that the City may renew or extend programming through FY 2024-25.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the fifth amendment to OEWD's grant agreement with the San Francisco Tourism Improvement District Management Corporation to increase the not to exceed amount from $16,227,000 to $21,377,000, an increase of $5,150,000, and extend the term by one year and eight months for a total term of July 2021 to June 2025.

Service Provided

Under the proposed amended agreement, an average of 45 to 50 ambassadors will be deployed daily between 8am and 8pm, which is consistent with the existing agreement. However, OEWD staff report that the average number of ambassador posts will decrease to 20-25 ambassadors in FY 2023-24, reflecting the decrease in annual funding, and that the Department will amend the agreement to reflect the service change.

According to OEWD staff, starting in FY 2023-24, there will be less ambassador presence in Chinatown and North Beach, and there will be more focus on the corridor between Union Square and Moscone. Ambassadors will continue to serve Powell Street, Montgomery Street, Embarcadero BART stations, the cable car turnarounds, the Embarcadero, and Fisherman's Wharf. Appendix 1 to this report shows the coverage area.

The grantee may alter staffing and the deployment area to support special or community events at the grantee's discretion. The grantee is also responsible for training and supporting the ambassadors.

Existing subgrantees include:

- **Block by Block**, which provides ambassador staffing;
- **San Francisco Travel Association**, which provides oversight of the grant and finances;
- **Urban Place Consulting**, which helped San Francisco Travel Association launch the program and provides assistance to maintain the program;
- **Destination Analysts**, which conducts the required community survey;
- **Baker and Tilly**, which provides auditing services;
- **DN&Co**, **SITELAB**, and **AdvanceSF** which provide stakeholder input, facilitation, and coordination services. These subgrantees will not be funded after FY 2022-23.

Ambassador Activities

The role of the ambassadors is to: (a) provide hospitality and wayfinding to commuters and visitors; (b) engage with people in need and make referrals; and (c) address safety and cleanliness issues by making referrals, such as to 311. Exhibit 3 below shows ambassador activities for January 2022 through February 2023, as reported by the San Francisco Tourism Improvement District Management Corporation.

Exhibit 3: Downtown Ambassadors Activities, Jan 2022-Jan 2023

Task	2022 Annual Total	2022 Monthly Average	Jan 2023	Feb 2023
211 Call	28	2	1	-
311 Call	499	42	6	7
911 Call	72	6	3	6
Attraction/Museum Info Provided	105,422	8,785	5,715	6,403
Business Contact	11,962	997	751	784
Business Information Provided	59,640	4,970	4,044	3,989
CBD Calls	78	7	13	27
Collateral Provided	16,125	1,344	891	1,808
Directions Provided	277,733	23,144	17,525	14,387
Event Information Provided	5,586	466	235	367
Hospitality Escort	24,555	2,046	1,032	1,117
Photo Assistance Provided	60,035	5,003	3,396	2,381
Positive Neighbor Engagement	22,452	1,871	1,577	1,607
Program Info Provided	4,080	340	129	136
Public Greeting	4,849,497	404,125	484,389	383,251
Restaurant Recommendation	15,747	1,312	1,056	787
Translation Provided	802	67	117	71
Umbrella Escort	57	5	40	10
Welfare Check	4,252	354	914	941
Total Ambassador Hours		10,115*	10,351	9,258
Average Daily Deployments		42*	42	42

Sources: 2022 Full Year Stats, Deliverables 28 & 29, San Francisco Tourism Improvement District Management Corporation

*Average Monthly Total Ambassador Hours and Average Daily Deployments over three-month period between October and December 2022

Performance Monitoring/Program Evaluation

The grant agreement requires annual program evaluation, including through community surveys. In addition, the grantee provides OEWD with periodic deployment reports, which are summarized in Exhibit 2 above.

The most recent community survey was completed in April 2022. The 407 respondents included San Francisco residents and visitors. According to the survey, due to the presence of welcome ambassadors:

- 80 percent of respondents felt welcomed in the City;
- 56 percent of respondents felt safer in the City;
- 46 percent of respondents felt more informed or confident enjoying the City; and
- 35 percent of respondents were more likely to recommend the City as a place to visit.

Results from the 2023 community survey will be included in a Final Program Evaluation Report due to the City by June 20, 2023.

FISCAL IMPACT

The proposed grant agreement provides for milestone payments, payable upon receipt of foundational and ramp-down program plans and monthly or quarterly activity reports. As shown in Exhibit 4 below, the total four-year programmatic budget is $21,377,000, including a total of $8,150,000 in FY 2023-24 and FY 2024-25. The existing grant provides funding for services through October 15, 2023. The proposed increase of $5,150,000 includes $2,000,000 to provide programming as reflected through the current proposed FY 2023-24 budget and $3,150,000 million for FY 2024-25.

Exhibit 4: Grant Agreement Budget

	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	Total	% of Total
SFTIDMC						
Salary and Benefits	$182,250	$145,125	$198,563	$191,063	$717,000	
Accounting, Auditing, & Payroll Processing Fee	8,500	2,250	3,000	2,100	15,850	
Insurance & Taxes	3,000	2,475	3,300	3,300	12,075	
Telecommunications	5,600	2,565	2,280	2,160	12,605	
Management Information System	22,900	6,300	3,000	3,000	35,200	
Staff Development	3,000	4,500	3,000	600	11,100	
Hosted Function	22,400	9,000			31,400	
Food/Meals	10,500	4,500	1,800	900	17,700	
Uniforms	30,755				30,755	
Equipment (Radio)	29,985	1,800			31,785	
Marketing Costs	75,000	13,500	1,800	900	91,200	
Other Support Costs	5,980	5,670	4,668	2,878	19,195	
Subtotal, SFTIDMC	**399,870**	**197,685**	**221,410**	**206,900**	**1,025,865**	**4.8%**
Subgrant: SF Travel						
Rent & Office/Equipment Maintenance	17,880	14,081	16,250	3,600	51,811	
SF Travel Staff Administrative Services	172,500	144,000	145,340	94,500	556,340	
Subtotal, SF Travel	**190,380**	**158,081**	**161,590**	**98,100**	**608,151**	**2.8%**
Subgrant: Destination Analysis	30,000	34,235	15,000	10,000	89,235	**0.4%**
Subgrant: Downtown Recovery Project	187,000				187,000	**0.9%**
Subgrant: Baker Tilly (Audit Services)		5,000			5,000	**0.0%**
Subgrant: Urban Place Consulting	168,000	110,000	102,000		380,000	**1.8%**
Subgrant: Block by Block	5,651,750	6,095,000	4,500,000	2,835,000	19,081,750	**89.3%**
Total	**$6,627,000**	**$6,600,000**	**$5,000,000**	**$3,150,000**	**$21,377,000**	**100.0%**
Program Administration (SFTIDMC, SF Travel, Urban Place)	758,250	465,766	485,000	305,000	2,014,016	
Share of Total Costs	11.4%	7.1%	9.7%	9.7%	9.4%	

Source: OEWD

Costs are funded by the General Fund. As of February 2023, $9,927,000 of the $15,117,000 grant agreement (66 percent) had been spent. The Mayor's proposed budget includes $5.0 million for the proposed amended grant in FY 2023-24 and $3.15 million in FY 2024-25, which reflects the grant budget.

City Staff Costs

OEWD and DEM staff costs to support the ambassador programs (including the Mid-Market/Tenderloin and Downtown Ambassadors programs, as well as other programs) are $275,565 in FY 2023-24 and $283,147 in FY 2024-25 (See File 23-0681). Under the new oversight structure, the City's role in the programs is enhanced, and DEM is responsible for operational management of the programs, and OEWD is responsible for fiscal management activities. The new structure results in additional costs of approximately $215,000[4] in FY 2023-24 relative to the previous structure under which OEWD was solely responsible for operational management and fiscal management activities.

POLICY CONSIDERATION

Reduced but Continued Ambassador Deployment through June 2025

The Downtown Ambassadors program was designed to promote economic recovery in the downtown area, which was impacted by the COVID-19 pandemic and the onset of widespread remote work. According to the existing agreement, the intent of the program is to ramp down ambassador presence over time. However, there is no planned end date to the program, and the City is adding permanent positions to manage the ambassador programs. The proposed grant budget reduces funding over the four-year period, but the FY 2024-25 budget is still $3.15 million, or 47 percent of the FY 2021-22 budget. Because the proposed agreement extends the program by an additional one-year and eight-months, we consider approval of the proposed resolution to be a policy matter for the Board of Supervisors.

Status of Program Ramp Down

The ramp down plan prepared by the grantee did not detail how to reduce ambassador deployment over time or provide a FY 2023-24 budget proposal but did identify alternative funding sources if the City could no longer fund the program.[5] According to DEM staff, the service area and number of ambassadors deployed will decline over the next two years. The program will shift its focus to mass transit and convention center events.

High Administrative Costs

As shown in Exhibit 4 above, the proposed grant agreement budget includes $1.0 million for the San Francisco Tourism Improvement Management Corporation's management of the program,

[4] In July 2022, OEWD had 0.30 FTE dedicated to the programs, including 0.15 FTE 0922 Manager I, 0.10 FTE 9774 Senior Community Development Specialist I, and 0.05 FTE 1823 Senior Administrative analyst. If this structure was continued in FY 2023-24, the cost of these positions would be $61,112.

[5] Alternative funding sources included: (1)an allocation of 1.25% of City hotel tax revenue; (2) an overall City-managed Ambassador Grant Pool which would allocate funding to all City ambassador programs based on current needs; (3) donations from major corporations; (4) funding from the Moscone Center to fund ambassadors during events; and (5) funding from the San Francisco Tourism Improvement District, which would require approval from a majority of the Tourism Improvement District Board of Directors.

$608,151 for the San Francisco Travel Association's administrative support to the program, $380,000 for Urban Place Consulting to assist in the launch and on-going operation of the program. These items total $2.0 million (9.4 percent of the grant budget), including more than $600,000[6] in the extended term, and do not provide direct services. These costs appear high given that the Block by Block budget (according to the organization's budget proposal) includes salaries and benefits for two Operations Managers and one General Manager, as well as amounts for administrative support, uniforms, and equipment. According to OEWD staff, these expenditures are related to the management and administration of the grant and design of the program.

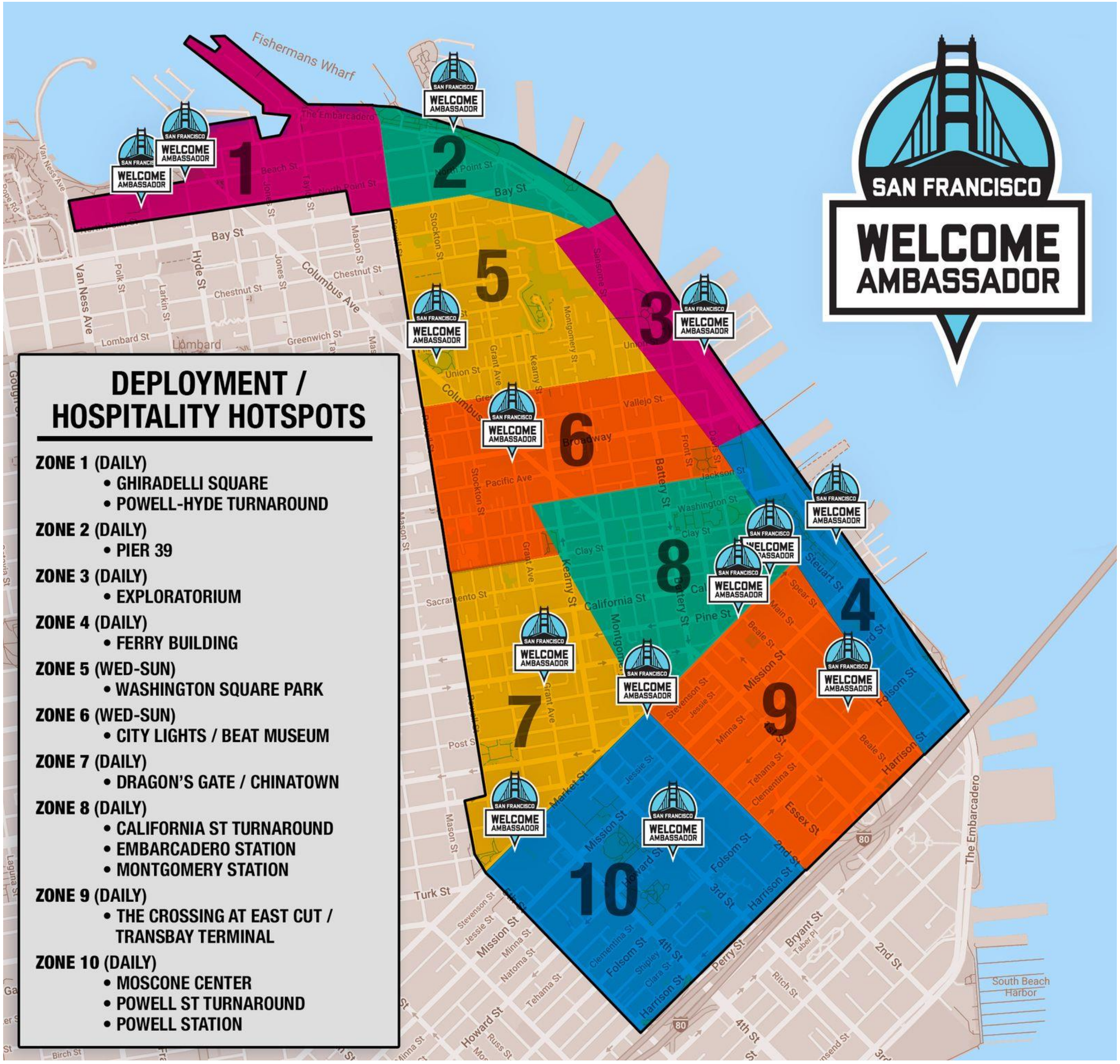
In addition, the City is enhancing its role in operational management of the programs at an annual cost of approximately $215,000 in FY 2023-24, without any significant reduction in administrative costs of the grants. The Board of Supervisors could consider rejecting the proposed resolution and requesting that OEWD and DEM reprocure the service with a direct service provider to reduce administrative costs.

RECOMMENDATION

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

[6] Includes $333,333 for eight-month extension in FY 2023-24 and $315,000 in FY 2024-25.

Appendix 1: Downtown Ambassadors Coverage Area



Source: San Francisco Tourism Improvement District website

Item 9 **File 23-0681** *(Continued from 6/22/23 meeting)*	**Department:** Office of Economic & Workforce Development (OEWD)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the third amendment to OEWD's grant agreement with the Mid-Market Foundation to increase the not to exceed amount from $30,090,570 to $61,090,570, an increase of $31,000,000 and to extend the term by one-year and eight-months through June 2025.

Key Points

- The Department of Emergency Management (DEM) is assuming responsibilities from the Office of Economic and Workforce Development (OEWD) to manage the City's portfolio of ambassador programs in coordination with the City's street response efforts. DEM will be responsible for coordinating the ambassador programs (including identifying training needs), evaluating the programs, and creating a streamlined process for ambassadors to be deployed to respond to complaints received via 311 or by the contractor. OEWD will continue to be responsible for fiscal management of the contracts.
- In March 2022, the Board of Supervisors approved the second amendment to the July 2022 agreement with the Mid-Market Foundation for the Mid-Market/Tenderloin Community-Based Safety Program, increasing the not to exceed amount from $20.49 million to $33,590,570 and extending the term from June 2023 through October 15, 2023. The Department executed the second amendment at a lower funding level of $30,090,570.

Fiscal Impact

- Costs are funded by $26.3 million in opioid settlement funding ($15.1 million in FY 2023-24 and $11.2 million in FY 2024-25) and $34,790,570 from the General Fund over the 3-year period. The Mayor's proposed budget includes $21.5 million for the proposed amended grant in FY 2023-24 and $16.0 million in FY 2024-25, which reflects the grant budget.
- City staff costs to support the ambassador programs (including the Mid-Market/Tenderloin and Downtown Ambassadors programs, as well as other programs) are $275,565 in FY 2023-24 and $283,147 in FY 2024-25.

Policy Consideration

- According to the existing agreement, the intent of the program is to ramp down ambassador presence over time. However, there is no planned end date to the program, and the City is adding permanent positions to manage the ambassador programs.
- Administrative and overhead costs for the program are high. The Board of Supervisors could consider rejecting the proposed resolution and request that OEWD and DEM reprocure the service with a direct service provider to reduce administrative costs.

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

Change in Ambassador Program Oversight and Budget

The Department of Emergency Management (DEM) is assuming responsibilities from the Office of Economic and Workforce Development (OEWD) to manage the City's portfolio of ambassador programs, including the Mid-Market/Tenderloin Community-Based Safety Program and Downtown Ambassadors Program, in coordination with the City's street response efforts. DEM staff report that the department will be responsible for coordinating the ambassador programs (including identifying training needs), evaluating the programs, and creating a streamlined process for ambassadors to be deployed to respond to complaints received via 311 or by the contractor. OEWD will continue to be responsible for fiscal management of the contracts.

The Mayor's Proposed Budget includes a new Street Ambassador Program Coordinator (0922 Manager I) in DEM to oversee the City and CBD-funded ambassador teams. OEWD reports they are reducing staffing dedicated to the ambassador programs from 0.30 FTE in July 2022 to 0.15 FTE in July 2023.

Total spending on the two program contracts in FY 2023-24 is budgeted at $26.5 million in the Mayor's proposed budget, decreasing to $19.15 million in FY 2024-25. Funding over the two-year period includes opioid settlement funding of $15.1 million in FY 2023-24 and $11.2 million in FY 2024-25 to support the Mid-Market/Tenderloin program.

Exhibit 1: Select Ambassador Program Costs

Grantee	FY 2022-23 Original	FY 2023-24 Proposed	FY 2024-25 Proposed	3-Year Total
Mid-Market Foundation	$23,590,570	$21,500,000	$16,000,000	$61,090,570
SF Travel	6,600,000	5,000,000	3,150,000	14,750,000
Total	**30,190,570**	**26,500,000**	**19,150,000**	**75,840,570**

The proposed budget of $26.5 million for FY 2023-24 reflects an increase of $9.1 million above the original FY 2023-24 budget of $17.4 million previously approved by the Board of Supervisors.

Mid-Market/Tenderloin Community-Based Safety Program

In July 2021, OEWD entered into a contract with the Mid-Market Foundation, a 501(c)(3) organization affiliated with the Mid-Market Business Association,[1] to provide community ambassador services in the Mid-Market/Tenderloin neighborhood based on a competitive solicitation process.[2] The original agreement was for a not to exceed amount of $4,500,000 for a one-year term from July 2021 to June 2022. In December 2021, OEWD amended the agreement to increase the funding amount to $5.25 million to increase community ambassador staffing in the Tenderloin neighborhood.[3]

In July 2022, OEWD entered into a new $9 million agreement with Mid-Market Foundation for the period July 2022 to March 2023, relying on the 2021 RFP related to the Mid-Market/Tenderloin Community-Based Safety Program. In November 2022, the Board of Supervisors approved the first amendment to the July 2022 agreement, increasing the not to exceed amount from $9 million to $20.49 million and extending the term from March 2023 through June 30, 2023 (File 22-1058). In March 2022, the Board of Supervisors approved the second amendment to the July 2022 agreement, increasing the not to exceed amount from $20.49 million to $33,590,570 and extending the term from June 2023 through October 15, 2023 (File 23-0041). The Department executed the second amendment at a lower funding level of $30,090,570.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the third amendment to OEWD's grant agreement with the Mid-Market Foundation to increase the not to exceed amount from $30,090,570 to $61,090,570, an increase of $31,000,000 and to extend the term by one-year and eight-months through June 2025.

[1] According to the Internal Revenue Service, a business league is an association of persons formed to address a common business interest rather than for generating profit. Section 501(c)(6) of the Internal Revenue Code provides for tax exemption of business leagues. According to its website, the purpose of the Mid-Market Foundation is to secure grants to fund community-based safety programs, cleanliness, arts/activation, and connect the community.

[2] The Mid-Market Foundation submitted the only response to a 2021 Request for Proposals (RFP) to provide community ambassador staffing in the Mid-Market area. As noted in our November 2022 report, the RFP's minimum qualifications and two-week posting may have limited the pool of proposers (See File 22-1058). The 2021 Request for Proposals provided for a maximum $4.5 million and one-year term for the Mid-Market/Tenderloin scope of work, but also stated that the City may renew or extend programming through FY 2024-25.

[3] Separately, under the Mayor's Tenderloin Emergency Declaration, OEWD entered into a sole-source $7.4 million agreement with the Mid-Market Foundation for the period January 2022 – June 2022- to further increase ambassador staffing in the Tenderloin.

Service Provided

According to Appendix B-1 of the proposed amended agreement, Mid-Market Foundation will continue to manage the Mid-Market Community-Based Safety Program, whose purpose is to ensure safe and inviting public space, overdose prevention, and connect people to services.

Urban Alchemy

Mid-Market Foundation subcontracts to two organizations: Urban Alchemy and Urban Space Planning. Urban Alchemy will provide 225 community ambassadors to cover 80 block faces within Mid-Market/Tenderloin Community-Based Safety Program Area[4] between 7am and 7pm, every day. The second amendment added 20 community ambassadors between January 2023 and March 2023, a three-month period, to provide increased services to United Nations Plaza. The second amendment also funded an expansion in the service area in the Market Street and Civic Center area between December 2022 and June 2023, which is maintained under the proposed third amendment, although DEM staff expect deployment levels to decline over time.[5]

Under the proposed grant agreement, Mid-Market Foundation's deployment plan must be approved by OEWD after it is approved by DEM. Appendix 1 to this report shows the deployment area as of March 2023.

Urban Alchemy's scope of work includes recruiting, training, and deploying community ambassadors to provide visitors, residents, and businesses with resource information (including emergency medical and law enforcement requests), interrupting negative behavior (such as public urination, noise, and littering), de-escalating mental health events, reversing overdoses, preventing or interrupting violence and other crimes, and light trash pick-up (including needle disposal). Exhibit 2 below shows these activities for July 2022 through March 2023, as reported by the Mid-Market Foundation. Total ambassador hours and block faces with ambassador presence have increased over the nine-month period due to the Mayor's expansion of ambassador programming, which was implemented on December 1st according to Mid-Market Foundation's November report on the program.

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[4] According to the 2021 RFP, the Mid-Market/Tenderloin Community-Based Safety Program Area boundaries are from Powell Station (5th Street) to 8th Street on Market Street and adjacent areas south of Market Street to Mission; UN Plaza; and the Tenderloin blocks bordered by Market Street, Larkin Street, and Ellis Street.

[5] The Market Street area expanded from 8th Street to Van Ness Avenue and from 5th Street to 4th Street, and the Civic Center area expanded to provide services around Bill Graham Auditorium.

Exhibit 2: Urban Alchemy Community Ambassador Activities, July 2022 – March 2023

Activity	Jul-Sep 2022	Oct-Dec 2022	Jan-Mar 2023	9-Month Total	3-Quarter Change
Positive Engagements	359,547	206,110	203,172	768,829	-43.5%
Interrupt Negative Behavior	85,206	35,826	57,974	179,006	-32.0%
De-Escalation Interventions	10,927	4,204	8,942	24,073	-18.2%
311 Calls	378	295	687	1,360	81.7%
911 Calls	54	9	30	93	-44.4%
Overdose Reversals	40	20	12	72	-70.0%
Needle Removals	23,781	13,979	13,786	51,546	-42.0%
Trash Bags Filled	11,992	7,037	8,309	27,338	-30.7%
Total Ambassador Hours	135,464	134,434	139,079	408,977	2.7%
Average Monthly Ambassador Hours	45,155	44,811	46,360		2.7%
Blockfaces with Ambassador Presence (Monthly Average)	70	78	82		17.1%

Source: Mid-Market Foundation Deliverables 9, 12, and 14

Urban Place Consulting

Urban Place Consulting is a private firm subcontracted by the Mid-Market Foundation to take "total responsibility" for the management, administration, and operations of the Mid-Market Foundation, including managing the Urban Alchemy contract, managing the Foundation's finances, conducting marketing and outreach for the Mid-Market Foundation and Mid-Market Business Association, and preparing invoices and periodic reports for the City.

Performance Monitoring/Program Evaluation

The grant agreement requires that the Mid-Market Foundation complete ongoing program evaluation, including through community surveys. In addition, the grantee provides OEWD with periodic deployment reports, which are summarized in Exhibit 2 above.

The most recent community survey was completed in November and December 2022 and included 162 respondents. Respondents were residents, employees, business owners, visitors, and students. According to the survey, 30 percent of respondents feel much safer or somewhat safer than they did six months ago, and 70 percent reported feeling the same level of safety or less safe. Sixty-two percent of respondents reported feeling not safe outside of program hours (after 7pm). Results from a forthcoming 2023 community survey will be included in the Semi-Annual Report for the January to June 2023 period due to the City by June 20, 2023.

FISCAL IMPACT

The proposed grant agreement provides for milestone payments, payable upon receipt of start-up and ramp-down program plans and monthly or quarterly activity reports.

The programmatic budget is shown in Exhibit 3 below. The budget declines by 9 percent in the second year from $23,590,570 in FY 2022-23 to $21,500,000 in FY 2023-24 and by an additional

25 percent in the third year to $16,000,000 in FY 2024-25 driven by reductions in the subgrant to Urban Alchemy for ambassador programming.

Exhibit 3: Grant Agreement Budget

	FY 2022-23	FY 2023-24	FY 2024-25	Three-Year Total	Percent of Total
Sources					
General Fund	$23,590,570	$6,400,000	$4,800,000	34,790,570	56.9%
Opioid Settlement Funding		15,100,000	11,200,000	26,300,000	43.1%
Total Sources	**$23,590,570**	**$21,500,000**	**$16,000,000**	**$61,090,570**	**100.0%**
Uses					
Mid-Market Foundation					
Program Management & Administration					
Accounting Monthly & Annual Audit	40,000	40,000	42,000	122,000	
Insurance	5,000	6,500	7,000	18,500	
Office Rent Utilities Supplies	57,000	56,400	57,000	170,400	
Property Owner Data, Usage Data, Other	21,000	20,000	17,000	58,000	
Communication/Outreach/Website	304,400	304,400	155,000	763,800	
Subcontract: Urban Place Program Admin	540,000	572,400	572,400	1,684,800	
Subtotal, Mid-Market Foundation	**967,400**	**999,700**	**850,400**	**2,817,500**	4.6%
Community Safety Program Implementation					
Subgrant: Urban Alchemy					
Urban Alchemy Ambassadors (incl. overhead and non-personnel)	21,520,570	19,126,300	14,015,600	54,662,470	
UA Turk/Hyde Field Office[6]	180,000	384,000	384,000	948,000	
Subtotal, Urban Alchemy	21,700,570	19,510,300	14,399,600	55,610,470	91%
Subgrant: Tenderloin CBD[7]	700,000			700,000	1.1%
Subgrant: Tenderloin Merchants[7]	222,600			222,600	0.4%
Subgrant: TBD for Neighborhood Safety Improvements[8]		990,000	750,000	1,740,000	2.8%
Total Uses	**$23,590,570**	**$21,500,000**	**$16,000,000**	**$61,090,570**	**100.0%**

Source: OEWD

[6] According to OEWD staff, costs for the UA Turk/Hyde Field office are more than doubling in FY 2023-24 to reflect annual operating costs because the FY 2022-23 budgeted amount was estimated before the field office opened.

[7] In FY 2022-23, $700,000 was included to staff community ambassadors for three parks in the Tenderloin via the Tenderloin Community Benefits District, and $222,600 is included to staff community ambassadors to patrol alleys off Larkin Street via the Tenderloin Merchant Association. According to OEWD staff, OEWD funding for other ambassador programs is not included in the remaining years of the grant to streamline ambassador programs and minimize fragmented funding. The Tenderloin CBD has a separate grant under the Tenderloin emergency plan for park ambassadors, safe passage, and cleaning services that will continue in FY 2023-24.

[8] According to OEWD staff, Neighborhood Safety Improvements stimulate positive activity in the district and ensure negative activity is less likely to return. Initiatives could include activations, support to small businesses and filling vacancies, and pro-social programming. Funds will be programmed as sub-grants to organizations, which could include Urban Alchemy.

Costs are funded by $26.3 million in opioid settlement funding ($15.1 million in FY 2023-24 and $11.2 million in FY 2024-25) and $34,790,570 from the General Fund. As of June 2023, $20.3 million of the $23.6 million grant agreement (87 percent) had been spent. The Mayor's proposed budget includes $21.5 million for the proposed amended grant in FY 2023-24 and $16.0 million in FY 2024-25, which reflects the grant budget.

City Staff Costs

City staff costs to support the ambassador programs (including the Mid-Market/Tenderloin and Downtown Ambassadors programs, as well as other programs) are $275,565 in FY 2023-24 and $283,147 in FY 2024-25, as shown in Exhibit 4 below.

Exhibit 4: City Staff Costs

Job Classification	FTE	FY 2023-24	FY 2024-25	Two-Year Total
OEWD				
9774 Senior Community Development Specialist I	0.05	$9,020	$9,262	$18,282
0931 Manager III	0.05	12,707	13,075	25,782
1823 Senior Administrative Analyst	0.05	9,524	9,778	19,302
Subtotal, OEWD	*0.15*	*31,251*	*32,115*	*63,366*
DEM				
0922 Manager I	0.80	178,929	183,858	362,787
0942 Manager VII	0.20	65,385	67,173	132,558
Subtotal, DEM	*1.00*	*244,314*	*251,032*	*495,345*
Total	**1.15**	**$275,565**	**$283,147**	**$558,711**

Sources: OEWD

Under the new oversight structure, the City's role in the programs is enhanced, and DEM is responsible for operational management of the programs, and OEWD is responsible for fiscal management activities. The new structure results in additional costs of approximately $215,000[9] in FY 2023-24 relative to the previous structure under which OEWD was solely responsible for operational management and fiscal management activities.

POLICY CONSIDERATION

Reduced but Continued Ambassador Deployment through June 2025

The Mid-Market/Tenderloin program was designed to promote economic recovery in the Mid-Market/Tenderloin area, which was impacted by the COVID-19 pandemic. According to the existing agreement, the intent of the program is to ramp down ambassador presence over time. However, there is no planned end date to the program, and the City is adding permanent

[9] In July 2022, OEWD had 0.30 FTE dedicated to the programs, including 0.15 FTE 0922 Manager I, 0.10 FTE 9774 Senior Community Development Specialist I, and 0.05 FTE 1823 Senior Administrative analyst. If this structure was continued in FY 2023-24, the cost of these positions would be $61,112.

positions to manage the ambassador programs. The proposed grant budget reduces funding over the three-year period, but the FY 2024-25 budget is still $16.0 million, or 68 percent of the FY 2022-23 budget. Because the proposed agreement extends the program by an additional one-year and eight-months, approval of the proposed resolution is a policy matter for the Board of Supervisors.

Status of Program Ramp Down

OEWD staff report that Urban Alchemy initiated the planned ramp down[10] in October 2022. The expanded coverage area that began in December added additional ambassadors while the originally planned ramp down in other areas continued – primarily achieved by reducing the concentration of posts where feasible and adding roving posts to supplement reduced fixed posts. Although the service area will remain the same, DEM staff report that they expect the number of ambassadors to decline over the upcoming two-year period by implementing program efficiencies. According to DEM staff, such program efficiencies may include new partnerships with other ambassador programs and additional changes to the configurations of postings (i.e., transitioning from fixed posts to roving posts).

High Administrative Costs

Administrative and overhead costs are more than 20 percent of direct service costs, including administrative costs for Mid-Market Foundation and Urban Place, as well as Urban Alchemy's overhead. As shown in Exhibit 3 above, the proposed grant agreement includes $2.8 million (4.6% of the grant budget) for outreach and management to pay for Mid-Market Foundation and Urban Place activities, including $1.5 million over the extended term.[11] These monies do not provide direct service and do not appear essential to service delivery, given that the Urban Alchemy budget includes field staff, program management, and overhead, calculated as 15 percent of direct costs to support executive leadership, accounting support, human resources, payroll, etc. According to OEWD, these expenditures are related to ongoing community engagement efforts that inform community ambassador deployment to ensure the program is responsive to community needs.

In addition, the City is enhancing its role in operational management of the programs at an annual cost of approximately $215,000 in FY 2023-24, without any reduction in administrative costs of the grants in FY 2023-24. The Board of Supervisors could consider rejecting the proposed resolution and request that OEWD and DEM reprocure the service with a direct service provider to reduce administrative costs. For example, Urban Alchemy directly contracts with the City for other programs. The approximately $1.5 million in administrative savings could be used for other purposes such as (a) an increase in ambassador coverage, (b) up to 12,500 hours of Police

[10] The ramp down plan prepared by the grantee identified the following three elements to sustain a reduced initiative after the grant: (1) a decrease in the number of 12-hour/7-day per week posts from 115 in September 2022 to 63 in June 2023; (2) an increase in fundraising efforts to raise financial support from the private sector; and (3) a reduction in the need for the program through "public art, placemaking, and targeted retail activations."

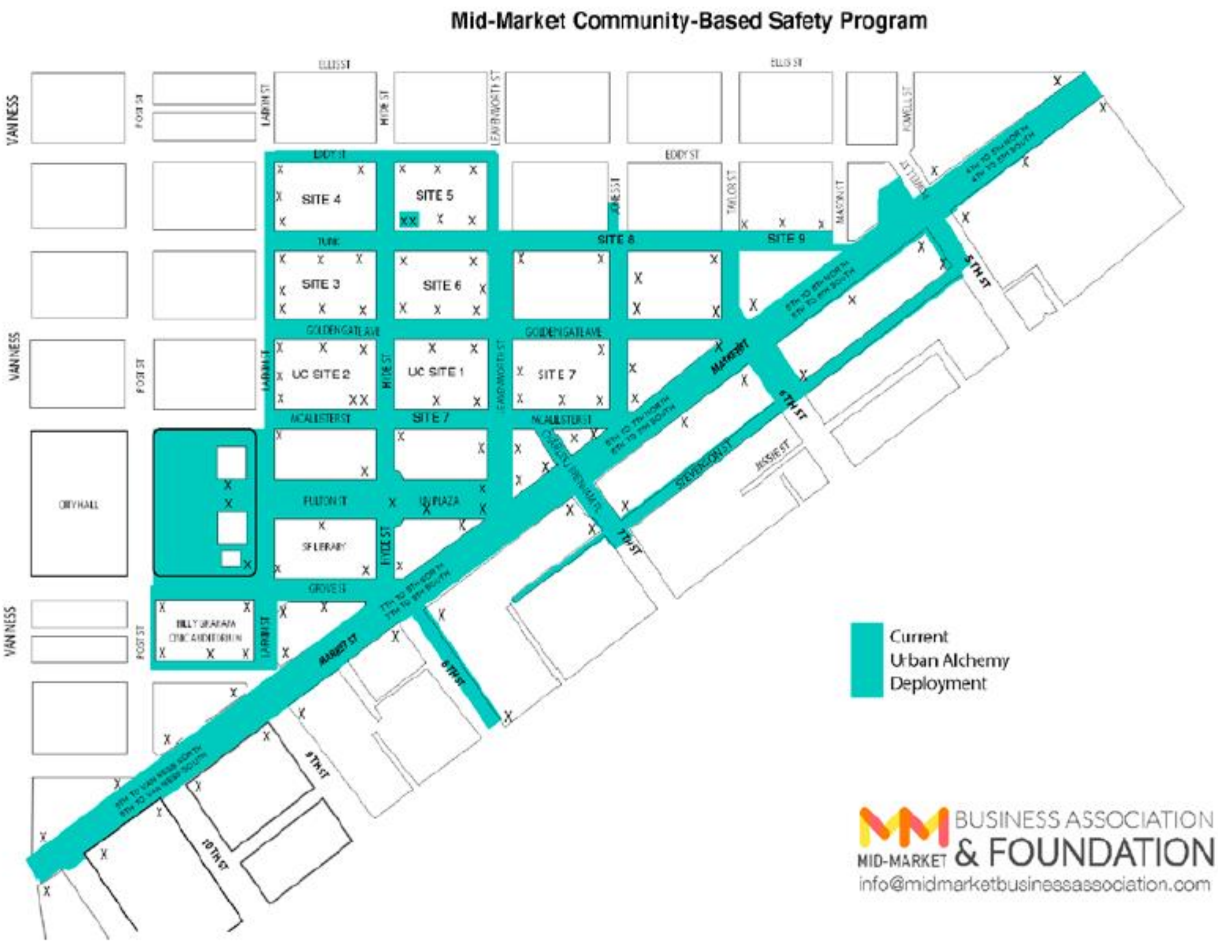
[11] Includes $666,467 for eight-month extension in FY 2023-24 and $850,400 in FY 2024-25.

overtime, (c) 100 clients attending DPH-funded residential substance use disorder treatment, or (d) 278 clients attending DPH-funded mental health outpatient treatment.

RECOMMENDATION

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

Appendix 1: Mid-Market Community Ambassador Coverage



Source: Mid-Market Foundation Deliverable 14

Item 10 **File 23-0155** *(Continued from 6/22/23 meeting)*	**Department:** Controller

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance provides up to three years of business tax credits for businesses in several office-based sectors that open (or opened) a physical location in San Francisco between Jan. 1, 2023 and Dec. 31, 2027, through no later than tax year 2028.
- It also postpones by two years Gross Receipts Tax rate increases for certain sectors that are scheduled to take effect for tax years 2023 and 2024.

Key Points

- The proposed ordinance would introduce a temporary Gross Receipts Tax credit for businesses in specific office-based sectors that open in, or relocate to, San Francisco during tax years 2023-2027.
- Qualifying businesses would be eligible for up to three years of credits, starting with the first tax year after the business opened a new San Francisco location, through no later than 2028. The maximum available credit per business is $1 million per year.
- The proposed ordinance would also delay for two years Gross Receipts Tax rate increases scheduled to take effect for 2023 and 2024 for the following sectors: retail trade, certain services, manufacturing, food services, accommodations, and arts, entertainment, and recreation. It would delay these increases until 2025 and 2026.

Fiscal Impact

- The Controller's Office estimates the total cost of the proposed changes to be approximately $69.7 million, with the extension of targeted gross receipts tax relief costing an estimated $28 million and the new location tax credit costing an estimated $41.9 million.
- The proposed FY 2023-24 – FY 2024-25 budget assumed a higher revenue decrease from the new location portion of proposed tax change. As such, revenues of $3 million in FY 2023-24 and $5.7 million in FY 2024-25 could be appropriated in those years.

Policy Consideration

- The proposed changes are part of Mayor Breed's plan to stabilize Downtown and promote economic recovery amid the continuing impact of the Covid-19 pandemic and the increase in remote work.
- Revenue projections from March 2023 project average business tax revenue of $934.4 million per year between FY 2022-23 and FY 2025-26. These projections are $104.8 million lower per year, on average, than the average revenue that had been projected for the same years in the January 2022 five-year forecast.

Recommendation

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

MANDATE STATEMENT

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

In November of 2020, San Francisco voters approved Proposition F, which directed the City to complete its phaseout of the payroll tax and implementation of the Gross Receipts Tax, which is now the City's primary business tax. Under the schedule laid out in Proposition F, Gross Receipts Tax rates increased in 2021 for most industries, but to provide temporary relief for industries disproportionately affected by the Covid-19 pandemic, the Proposition F tax rate schedule included two-year tax rate decreases for specific sectors: retail trade; manufacturing; food services accommodations; arts, entertainment and recreation; and certain services (a classification that includes businesses such as nail salons).[1] Gross receipts tax rates for these sectors are scheduled to increase for both 2023 and 2024.

In the years since Proposition F, San Francisco's economy has continued to reflect challenges brought by Covid-19 and related decreases in commuting and travel. Declines in tourism, business travel and in-person office work have also contributed to an increase in commercial vacancies Downtown, which has traditionally been a core driver of the City's economy and tax revenue. The proposed ordinance would implement two types of tax relief as part of Mayor Breed's broader strategy for supporting Downtown's economic recovery.[2]

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance (1) postpones by two years Gross Receipts Tax rate increases for certain sectors that are scheduled to take effect for tax years 2023 and 2024, and (2) provides up to three years of business tax credits for businesses in several office-based sectors that open (or opened) a physical location in San Francisco between Jan. 1, 2023 and Dec. 31, 2027, through no later than tax year 2028.

Extension of Targeted Gross Receipts Tax Relief

The proposed ordinance would delay for two years Gross Receipts Tax rate increases scheduled to take effect for 2023 and 2024 and keep them at the 2022 levels for the following sectors: retail trade, certain services, manufacturing, food services, accommodations, and arts, entertainment, and recreation. Under the current tax schedule, most tax brackets in these sectors received tax

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[1] The top tax bracket, for businesses reporting more than $25 million in annual gross receipts, received a 40 percent increase in their marginal tax rate between 2021 and 2022.

[2] [Roadmap to Downtown San Francisco's Future.]

decreases in 2021 and 2022.[3] The gross receipts tax rate for these brackets are scheduled to increase by 50% and 33%, respectively, for tax years 2023 and 2024. The proposed ordinance would delay these increases until 2025 and 2026, maintaining 2022 gross receipts tax rates until then.

Exhibit 1 below compares the schedule of increases in the proposed ordinance with current schedule of increases as laid out in Proposition F.

Exhibit 1: Proposed Delays of Tax Rate Increases for Gross Receipts Up to $25 Million Annually

Business Activity	2023 Scheduled Increase	**2023 Proposed Increase**	2024 Scheduled Increase	**2024 Proposed Increase**	2025 Scheduled Increase	**2025 Proposed Increase**	2026 Scheduled Increase	**2026 Proposed Increase**
Certain Services	50%	**0**	33%	**0**	0	**50%**	0	**33%**
Retail Trade	50%	**0**	33%	**0**	0	**50%**	0	**33%**
Food Services	50%	**0**	33%	**0**	0	**50%**	0	**33%**
Manufacturing	50%	**0**	33%	**0**	0	**50%**	0	**33%**
Accommodations	50%	**0**	33%	**0**	0	**50%**	0	**33%**
Arts, Entertainment, and Recreation	50%	**0**	33%	**0**	0	**50%**	0	**33%**

Source: San Francisco Controller's Office

Note: Tax rates for gross receipts beyond $25 million are not scheduled to change and would not be affected by the proposed ordinance.

For the affected tax brackets, tax rates in these sectors ranged from 0.05% to 0.26% in 2022, depending on the sector and tax bracket. Following the increases described above, this range will increase from 0.11% to 0.52% in 2024 under the current schedule or in 2026 under the proposed ordinance.[4]

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[3] The proposed ordinance would not affect top tax bracket, which applies to gross receipts over $25 million. Tax rates for this tax bracket did not receive the 2021 and 2022 decreases and instead received a 40% increase in 2021. Tax rates for gross receipts beyond $25 million are not scheduled to change and would not be affected by the proposed ordinance.

[4] In the top tax bracket, gross receipts tax rates were fully implemented in 2021 for these sectors and range from 0.22% (Certain Services) to 0.67% (Food Services and Manufacturing).

New Location Tax Credit

The proposed ordinance would also introduce a temporary Gross Receipts Tax credit for businesses in specific office-based sectors that open in, or relocate to, San Francisco during tax years 2023-2027. (This includes eligible businesses that have already opened in 2023). Qualifying businesses would be eligible for up to three years of credits, starting with the first tax year after the business opened a new San Francisco location, through no later than 2028. The maximum available credit per business is $1 million per year. Businesses that reopen in San Francisco that previously had a City location within the past three years are not eligible for the credit.

Businesses in the following sectors that pay the Gross Receipts Tax are eligible for the tax credit: information; administrative and support services; financial services, insurance, and professional, scientific; and technical services. For these businesses, the proposed credit would be equal to 0.45% of San Francisco taxable gross receipts in the relevant year. The 2023 tax rates for these industries range from 0.57% to 0.94% of gross receipts.

Although most San Francisco businesses pay the Gross Receipts Tax, some businesses that have an administrative presence only in the City are instead required to pay an Administrative Office Tax. For these businesses, the proposed credit would be equal to 0.7% of taxable payroll.

Reporting to the Board of Supervisors

The proposed ordinance would require the Tax Collector to provide an annual report to the Board of Supervisors with the number of businesses taking the credit and the aggregate amount credited to these businesses. These reports would be due by October 31 of each year following the tax years that the credit is in effect.

FISCAL IMPACT

The Controller’s Office estimates the total cost of the proposed changes to be approximately $69.70 million, with the extension of targeted gross receipts tax relief costing an estimated $28 million and the new location tax credit costing an estimated $41.9 million.

The proposed FY 2023-24 – FY 2024-25 budget assumed a higher revenue decrease from the new location portion of proposed tax change. As such, revenues of $3 million in FY 2023-24 and $5.7 million in FY 2024-25 could be appropriated in those years.

Extension of Targeted Gross Receipts Tax Relief

To estimate the impact of the proposed delays in increasing the affected Gross Receipts Tax rates, the Controller’s Office assumed 2021 levels of taxable business activity for tax years 2023-2026. It then subtracted the projected revenue under the proposed schedule of increases from the projected revenue under the current schedule of increases. Exhibit 2 below shows the results of this analysis, rounded to the nearest thousand.

Exhibit 2: Estimated General Fund Revenue Loss of Extending Targeted Gross Receipts Tax Relief (Millions)

Business Activity	FY 2022-23*	FY 2023-24	FY 2024-25	FY 2025-26	Total
Accommodations	$0.4	$1.2	$1.2	$0.4	**$3.3**
Arts, Entertainment, and Recreation	$0.2	$0.7	$0.7	$0.2	**$1.8**
Certain Services	$0.1	$0.3	$0.3	$0.1	**$0.7**
Food Services	$0.8	$2.3	$2.3	$0.8	**$6.3**
Manufacturing	$0.6	$1.7	$1.7	$0.6	**$4.5**
Retail Trade	$1.4	$4.2	$4.2	$1.4	**$11.3**
Total	**$3.5**	**$10.4**	**$10.4**	**$3.5**	**$27.8**

Source: San Francisco Controller's Office

FY 2022-23 values are for half the fiscal year. The proposed ordinance would decrease revenues in the 2023 calendar and going forward.

New Location Tax Credit

Exhibit 3 below shows projected costs of the new location tax credit, as calculated by the Controller's Office. To estimate these costs, the Controller's Office reviewed tax return data for tax years 2019, 2020, and 2021 and then calculated the tax credits for tax year 2021 for businesses that opened a San Francisco location during those years. It then adjusted this figure to account for the eligibility timeline of the proposed tax credit (i.e., for FY 2023, no businesses will be receiving the tax credit for a second or third year).

Exhibit 3: Estimated Cost of New Location Tax Credit (Millions)

Tax Year	2023	2024	2025	2026	2027	2028	Total
Total	$1.4	$5.5	$9.1	$9.1	$9.1	$7.7	**$41.9**

Source: San Francisco Controller's Office

The Controller's Office originally projected that the new location tax credit would cost $84.4 million through 2028, but updated the analysis based on a closer review of tax filings which showed that historical "new" business locations were in fact changes in legal ownership.

POLICY CONSIDERATION

Limitations of Cost Estimates

The cost estimates above use 2021 as a baseline year and assume business activity will remain at the same level in the coming years. Notably, 2021 was the second year of the Covid-19 pandemic; should the City's economic recovery continue in the coming years, relevant business activity may exceed 2021 activity levels, resulting in the actual costs of the proposed changes exceeding estimated costs. Alternatively, should economic activity fall below 2021 levels in certain years, actual costs would likely be lower than projected.

The projected cost for the new location tax credit also does not account for businesses that relocate to San Francisco, having previously had a location in the City more than three years prior. Because these relocations do not require a new business license, they do not show up in the data the Controller's Office used to project costs of the new location tax credit. Businesses in this category that relocate to San Francisco and receive the tax credit would increase both the tax credit's cost and the number of jobs associated with its implementation.

Job Losses and Downtown Vacancies

The proposed changes are part of Mayor Breed's plan to stabilize Downtown and promote economic recovery amid the continuing impact of the Covid-19 pandemic and the increase in remote work. As we reported in February,[5] the City lost nearly 22,837 total private sector jobs between the second quarter of 2019 and the second quarter of 2022, with the Accommodation and Food Services (-24,977 jobs) and Retail Trade (-7,711 jobs) sectors experiencing the greatest reductions.[6] From Q4 of 2019 to the Q4 of 2022, office vacancy rates in the Greater Downtown area increased from 5.2% to 25.1%.[7]

Lower Projections of Overall Business Tax Revenue

The March 2023 five-year revenue projections issued jointly by the Controller, Mayor's Office, and our office project average business tax revenue of $934.4 million per year between FY 2022-23 and FY 2025-26. However, these projections are $104.8 million lower per year, on average, than the average revenue of $1,039.18 million that had been projected for the same years in the January 2022 five-year forecast. Factors contributing to this decrease in projected revenue include an increased estimate of long-term telecommuting rates among office workers and reductions in the City's population.

RECOMMENDATION

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

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[5] *Options for Addressing Economic and Tax Revenue Trends in Downtown San Francisco*

[6] Quarterly Census of Employment and Wages, U.S. Bureau of Labor Statistics

[7] JLL San Francisco Office Insight, Q4 2019 and Q4 2022

Item 11 **File 23-0660** *(Continued from 6/22/23 meeting)*	**Department:** Early Childhood (DEC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would amend the Commercial Rents Tax provisions to allow a sublessor of commercial space to deduct the rent paid to its lessor from the rent received from its sublessee when calculating its commercial rents tax liability for the tax years 2023 through 2029.

Key Points

- The Early Care and Education Commercial Rents Tax applies to businesses leasing commercial space that are subject to the City's gross receipts tax and is in addition to gross receipts or payroll taxes paid by businesses in the City. The tax equals (a) 1 percent of lease revenues from the lease or sublease of warehouse space, and (b) 3.5 percent of lease revenues from the lease or sublease of other commercial spaces in the City. Currently, commercial landlords with less than $2.09 million in gross receipts, and rents paid from non-profit, government, arts, industrial use, and non-formula retail tenants are exempt from the tax.
- According to the Mayor's Office, the intent of this proposed ordinance is to suspend the duplicative tax on the same commercial space, as well as to stimulate commercial leasing, especially in the downtown corridor.
- The proposed ordinance would reduce the tax liability of an estimated 250-350 taxpayers.

Fiscal Impact

- The proposed ordinance would reduce Commercial Rents Tax proceeds by an estimated $17.0 million annually, of which $14.45 million would have otherwise been appropriated for early childcare and education programs and $2.55 million would have been allocated to the General Fund for discretionary use.

Recommendation

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

MANDATE STATEMENT

Charter Section 2.105 requires that legislative acts in San Francisco be by ordinance, subject to approval by a majority of the Board of Supervisors.

Business and Tax Regulations Code Section 2113 states that amendments to or repeal of Article 21 of the Business and Tax Regulations Code are subject to Board of Supervisors approval by ordinance without voter approval.

BACKGROUND

The Early Care and Education Commercial Rents Tax was authorized by the voters in June 2018 with the passage of Proposition C and went into effect on January 1, 2019. According to the Proposition's provisions, 85% of the proceeds from the tax are to be used for early childcare and education programs and 15% are to be allocated to the General Fund for discretionary use.

The tax applies to businesses leasing commercial space that are subject to the City's gross receipts tax and is in addition to gross receipts or payroll taxes paid by businesses in the City. The tax equals (a) 1 percent of lease revenues from the lease or sublease of warehouse space, and (b) 3.5 percent of lease revenues from the lease or sublease of other commercial spaces in the City. For 2022, commercial landlords with less than $2,090,000 in San Francisco gross receipts, and rents paid from non-profit tenants, government tenants, arts, industrial uses, and non-formula retail uses are exempt from the tax.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend the Commercial Rents Tax provisions to allow a sublessor of commercial space to deduct the rent paid to its lessor from the rent received from its sublessee when calculating its commercial rents tax liability for the tax years 2023 through 2029.

The proposed ordinance also requires the Controller to provide a report to the Board of Supervisors detailing the number of taxpayers that took the deduction and the amount of the resulting forgone tax proceeds.

FISCAL IMPACT

The Controller has estimated the proposed ordinance would reduce Commercial Rents Tax proceeds by $17.0 million annually. Of this amount, 85% or $14.45 million would otherwise be appropriated for early childcare and education programs and 15% or $2.55 million would otherwise be allocated to General Fund uses.

This reduction has been factored into the commercial rent tax revenues included in the Mayor's Proposed Budget of $172.0 million for FY 2023-34 and $194.1 million for FY 2024-25, representing a 9.0% and an 8.0% decrease.

According to the Treasurer-Tax Collector, these deductions are estimated to impact 250 to 350 taxpayers. According to the Mayor's Office, the intent of this proposed ordinance is to suspend the duplicative tax on the same commercial space, as well as to stimulate commercial leasing, especially in the downtown corridor.

RECOMMENDATIONS

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

Item 12 **File 23-0661** *(Continued from 6/22/23 meeting)*	**Department:** Early Childhood (DEC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would modify the Early Care and Education baseline funding requirements by allowing $20,000,000 in FY 2023-24 and $10,000,000 in FY 2024-25 to be funded by interest earned in the Babies and Families First Fund.

Key Points

- The Early Care and Education Commercial Rents Tax was authorized by the voters in June 2018 with the passage of Proposition C. Revenues from this tax on commercial rents are deposited into the Babies and Families First Fund, with 15 percent then transferred to the General Fund and the remaining funds generally restricted to early care and education spending. Proposition C also required that the City maintain existing spending on early care and education programs. Growth in this baseline funding may be suspended if the City projects a budget deficit.
- The required baseline funding in FY 2022-23 is $93.2 million. Baseline growth for FY 2023-24 was suspended due to the City's projected deficit of $290.9 million that year.
- The Department reports that its proposed budget includes interest revenues and use of fund balances, such that the FY 2023-24 proposed budget will not result in a decrease to early care and education programs and services relative to FY 2022-23 levels. Total Department spending in FY 2022-23 is projected to be $282.5 million based on current expenditure rates; the proposed FY 2023-24 Department budget is $324.5 million.

Fiscal Impact

- The proposed ordinance will reduce General Fund support of early care and education programs in the Department of Early Childhood by providing a credit for interest earned on fund balances in the Babies and Families First Fund. As such, funding for those early care and education programs would be shifted to Babies and Families First Fund.
- If the Board does not approve the proposed ordinance, General Fund baseline spending requirements for early care and education services will be $20 million higher than budgeted in FY 2023-24 and $10 million more than budgeted in FY 2024-25. Meeting those requirements would require re-allocation of General Fund monies to early care and education programs.
- General Fund support of food access programs in the Human Services Agency is increasing $20,999,899 in FY 2023-24 and $11,027,103 in FY 2024-25 to replace one-time funding and prior year fund balances used in FY 2022-23

Recommendation

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

MANDATE STATEMENT

Charter Section 2.105 requires that legislative acts in San Francisco be by ordinance, subject to approval by a majority of the Board of Supervisors.

Business and Tax Regulations Code Section 2113 states that amendments to or repeal of Article 21 of the Business and Tax Regulations Code are subject to Board of Supervisors approval by ordinance without voter approval.

BACKGROUND

The Early Care and Education Commercial Rents Tax was authorized by the voters in June 2018 with the passage of Proposition C and went into effect on January 1, 2019. The tax applies to businesses leasing commercial space that are subject to the City's gross receipts tax and is in addition to gross receipts or payroll taxes paid by businesses in the City.[1] Revenues from this tax on commercial rents are deposited into the Babies and Families First Fund, with 15 percent then transferred to the General Fund and the remaining funds generally restricted to early care and education spending.

Proposition C also required that the City maintain existing spending on early care and education programs at the FY 2017-18 level, adjusted annually by the changes in the City's discretionary revenues. The City may suspend growth in the early care and education baseline funding if the City's projected budget deficit at the time of the Joint Report of the Five-Year Financial Plan exceeds $200 million (adjusted annually by changes in aggregate City discretionary revenues). The FY 2023-24 deficit trigger to suspend baseline growth is $200.5 million.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance, as amended at the June 22, 2023 Budget & Appropriations Committee meeting, modifies the provisions of the Business and Tax Regulations Code by providing a credit against the General Fund baseline funding requirement of $20,000,000 in FY 2023-24 and $10,000,000 in FY 2024-25 for interest earned on fund balance in the Babies and Families First Fund. While this ordinance maintains the Early Care and Education baseline funding requirements as determined by the Controller's Office of $93.2 million in FY 2023-24 and $97.1 million in FY 2024-25, those requirements will now be funded from the General Fund, Public Education and Enrichment Fund, and Children and Youth Fund, as well as from designated interest earnings in the Babies and Families First Fund.

[1] According to the Treasurer-Tax Collector's Office, the gross receipts filing threshold was $2,090,000 in 2022. Residential real estate providers are exempt.

Baseline Growth

According to Carol Lu at the Controller's Office, the required baseline funding in FY 2022-23 is $93.2 million. Baseline funding in FY 2023-24 remains the same because of the City's projected deficit of $290.9 million that year.[2]

The proposed ordinance would suspend any growth in the baseline amount in FY 2024-25 which would otherwise be adjusted by the Controller's determination of the increase in discretionary revenue, unless the Joint Report shows a projected budget deficit less than at least $200.5 million (the actual trigger for FY 2024-25 will be calculated by the Controller's Office with the March 2024 Joint Report).

FISCAL IMPACT

The Mayor's Proposed Budget for FY 2023-24 and FY 2024-25 reduces the Department of Early Childhood (Department) General Fund appropriations by $20.0 million in FY 2023-24 and $10.0 million in FY 2024-25. The proposed ordinance applies a credit against the Early Care and Education baseline requirements using interest earnings on fund balances in the Babies and Families First Fund. The Controller reports that interest revenues available to be applied to FY 2023-24 baseline funding requirements are $21.9 million ($10.7 million earned in FY 2022-23 and $11.2 million projected to be earned in FY 2023-24). For FY 2024-25, the Controller reports projected interest revenue available to apply to the baseline funding requirement will be $10.5 million.

The Department reports that the Mayor's Proposed Budget will not result in a decrease to early care and education programs and services relative to FY 2022-23 levels. In order to maintain service levels, the Department reports that it will use $10.3 million of fund balance and $21.7 million in interest earnings over the proposed two-year budget that have or will be accrued to the Babies and Families First Fund and will now be considered part of Early Care and Education baseline funding, if the proposed ordinance passes. Total Department spending in FY 2022-23 is projected to be $282.5 million based on current expenditure rates; the proposed FY 2023-24 Department budget is $324.5 million.

Further, the Department reports that it will allocate $160 million of the $399.5 million balance on reserve[3] to support the following investments in FY 2023-24:

- $70 million for facility capacity expansion;
- $30 million for workforce development; and
- $60 million for Early Educator grant reserve.

[2] According to the March 2023 Joint Report.

[3] There is $399.5 million on reserve and an additional projected ending fund balance of $54.2 million in the Commercial Rents Tax Special Revenue Fund. Further, the Department is projecting a year-end fund balance of $37 million in the Public Education Enrichment Special Revenue Fund (PEEF), one-third of which is allocated to early care and education programs.

Current Requirements

If the Board does not approve the proposed ordinance, General Fund baseline spending requirements for early care and education services will be $20 million higher than budgeted in FY 2023-24 and $10 million more than budgeted in FY 2024-25. Meeting those requirements would require re-allocation of General Fund monies to early care and education programs.

Re-Allocation of Funding to Food Programs

The Mayor's Office reports that the General Fund spending otherwise required absent the proposed ordinance of $20.0 million in FY 2023-24 and $10.0 million in FY 2024-25 are being shifted to fund food access programs managed by the Human Services Agency.

In FY 2022-23, these food programs are funded by the General Fund using $17.0 million in FY 2022-23 appropriations as well as $14.0 million in prior year carryforward balances at a total cost of $30.95 million primarily in the Disability & Aging Community Programs Division and uses temporary employees to manage the program. The Mayor's Proposed Budget for FY 2023-24 funds food access programs at $20.0 million, not including $999,899 for five (5.0 FTE) new positions, including one 0923 Manager II position and four 1823 Senior Administrative Analyst positions, one of which is assigned to the Contracts Division. Total FY 2024-25 proposed funding is $11,027,103, of which $10,000,000 is for community-based organization services and $1,027,103 is for increased staffing.

RECOMMENDATION

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