CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: January 24, 2024 Budget and Finance Committee Meeting

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Item 3 **File 23-1249**	**Departments:** Office of Contract Administration (OCA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution authorizes OCA to enter into a third contract modification with Alameda Electrical Distributors, Inc. for the purchase of electrical supplies, materials, and fixtures for City departments. The resolution increases the contract amount by $600,000 for a total not to exceed amount of $10,500,000. There is no change to the contract term, which is approximately six years from May 1, 2018 through April 30, 2024.

Key Points

- In December 2017, the Office of Contract Administration (OCA) issued a low bid solicitation for electrical supplies, materials and fixtures for the Airport. OCA determined that Maltby Electric Supply Company (which was acquired by Alameda Electrical Distributors, Inc.) provided the lowest cost bid and was awarded an $8.5 million contract with a three-year term from May 1, 2018, through April 30, 2021, with the option to extend the contract for an additional three years, through April 30, 2024. The subsequent two modifications extended the term through April 2024 and increased the contract amount to $9.9 million.
- Specific products provided include electrical hardware, electrical cables, tape and wires, electrical connectors and conduits, and other electrical products. The contract allows for all City departments to purchase electrical supplies and fixtures although the contract was originally intended for use by the Airport. The contract provides discounts that range from 5 percent to more than 98 percent from catalog prices, depending on the product type and manufacturer/brand.
- OCA plans to issue a new solicitation in early 2024 with awarded contracts by April 2024.

Fiscal Impact

- The proposed $600,000 increase in the not to exceed amount is intended to cover contract purchases through the remainder of the contract term.
- Contract funding sources vary depending on the department making the purchase. Spending date indicates that 73.7 percent has been funded by the Airport.

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 December 2017, the Office of Contract Administration (OCA) issued a low bid solicitation for electrical supplies, materials and fixtures for the Airport for a contract period of three years from February 1, 2018 through January 31, 2021, with the possibility of extension for up to six years. Three bids were received, and in February 2018, OCA determined that Maltby Electric Supply Company (which was acquired by Alameda Electrical Distributors, Inc.) provided the lowest cost bid and was awarded an $8.5 million contract with a three-year term from May 1, 2018, through April 30, 2021, with the option to extend the contract for an additional three years, through April 30, 2024. The original contract and subsequent two modifications, which extended the term through April 2024 and increased the contract amount to $9.9 million, did not require Board of Supervisors approval because the term did not exceed 10 years and the total not to exceed amount was less than $10 million.[1] According to OCA, the contract was initially intended for use by the Airport as the primary buyer but could also be utilized citywide by all City departments to purchase electrical materials and supplies.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution authorizes OCA to enter into a third contract modification with Alameda Electrical Distributors, Inc. for the purchase of electrical supplies, materials, and fixtures for City departments. The resolution increases the contract amount by $600,000 for a total not to exceed amount of $10,500,000. There is no change to the contract term, which is approximately six years from May 1, 2018 through April 30, 2024.

Under the contract, specific products provided include electrical hardware, electrical cables, tape and wires, electrical connectors and conduits, and other electrical products. The contract allows for all City departments to purchase electrical supplies and fixtures. The contract provides discounts that range from 5 percent to more than 98 percent from catalog prices, depending on the product type and manufacturer/brand.

According to OCA, the proposed modification is needed due to a delay in completing a new solicitation caused by staffing shortages at OCA and challenges in accessing and analyzing usage

[1] The first modification (March 9, 2021) extended the contract term date to April 30, 2021. A novation agreement (October 1, 2021) transferred the contract from Maltby Electrical Supply Company to Alameda Electrical Distributors, Inc. A novation agreement is used when a company merges with another entity that assumes the contractual obligations. In this case, Alameda Electrical Distributors purchased all assets of Maltby under a purchase agreement. The second modification (October 17, 2022) extended the contract term date to April 30, 2024 and increased the total contract amount to $9,900,000.

data of City departments, which is maintained by the vendor and needs to be transformed for analysis. OCA plans to issue a new solicitation in early 2024 with awarded contracts by April 2024.

Performance Monitoring

While the contract does not include specific performance measures, it includes several contract terms and conditions to hold the vendor accountable for product availability, delivery timeframes, the condition of products, and the inspection of products.

According to OCA staff, ordering departments will notify OCA if the vendor does not meet delivery requirements or other required contract specifications. In addition, OCA staff meet with the vendor quarterly to discuss any contract matters. OCA states that the new solicitation will include improved performance measures and outcomes to be tracked, including establishing timelines for the vendor to reply to the City's requests for quotes and to deliver goods.

Department Encumbrances

OCA staff report spending or encumbering $8,528,449 of the total current contract amount of $9,900,000, as shown in Exhibit 1 below.

Exhibit 1: Department Spending for Alameda Electrical Distributors, Inc. Contract

Department	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24*	Total
ADM		$1,089					$1,089
AIR	$2,025,302	$666,929	$390,043	$969,743	$973,744	$1,255,653	$6,281,414
DPH	$9,420	$43,799	$11,995		$48,630	$23,217	$137,061
DPW				$404,795		$262	$405,057
TIS	$92,166	$5,350				$12,219	$109,735
HOM		$325			$792	$7,365	$8,482
HSA	$3,274						$3,274
LIB		$7,838	$8,856	$5,943	$9,206	$9,205	$41,048
MTA		$6,593	$35,635	$8,664	$95,143	$73,372	$219,407
PRT		$109,545	$65,516	$9,324	$18,668	$9,813	$212,866
PUC		$9,408	$91,112	$443,532	$200,586	$321,471	$1,066,109
REC			$18,431	$24,476			$42,907
Total Amount	**$2,130,162**	**$850,876**	**$621,588**	**$1,866,477**	**$1,346,769**	**$1,712,577**	**$8,528,449**

Source: OCA
*FY 2023-24 shows spending and purchase orders open as of November 12, 2023.

The majority of total contract funds encumbered to date—73.7 percent, or approximately $6.3 million—has been made by the Airport, as shown above. According to OCA, items most frequently purchased under this contract include electrical hardware, wire, batteries, and electrical connectors.

FISCAL IMPACT

Not to Exceed Amount

The proposed third amendment increases the not to exceed amount of the contract with the vendor by $600,000 to a total of $10,500,000. Although the current contract term ends on April 30, 2024, OCA reports that the current $9,900,000 contract amount mostly spent or encumbered in mid-November 2023. OCA has also requested departments to close out old purchase orders on the contract so unencumbered funds can be reallocated.

Projected spending is shown in Exhibit 2 below.

Exhibit 2: Projected Spending

Spending through November 2023	$9,742,733
Projected Remaining Spending	$719,919
Contingency (15%)	$107,988
Projected Spending	$10,570,640
Proposed Not-to-Exceed (Rounded Down)	**$10,500,000**

Source: OCA

Funding Sources

Contract funding sources vary depending on the department making the purchase. As noted above, 73.7 percent of spending has been funded by the Airport.

RECOMMENDATION

Approve the proposed resolution.

Item 7 File 23-1247	Department: Sheriff

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize the Sheriff's Office to execute the fourth amendment to its contract with the Pretrial Diversion Project, increasing the contract's not-to-exceed amount from $19,263,772 to $19,763,114. The proposed amendment would not change the term of the contract, which ends June 30, 2024 but has two optional one-year extensions through June 2026.

Key Points

- In June 2021, the Board of Supervisors approved a $18,764,430 contract with the Pretrial Diversion Project. The contract has been amended three times to add funding in FY 2022-23 for additional case managers, higher rent and utility expenses, and higher wages and benefits. Together, the amendments have totaled $499,342, which is less than $500,000 trigger for Board of Supervisors approval.
- Under the proposed amendment, the San Francisco Pretrial Diversion Project will continue providing pretrial risk assessment, pretrial supervision (minimal and assertive case management) prior to case disposition, pretrial diversion to treatment, caregiving and/or community service, and facilitating group therapy and skill building.
- Although the contract has two options to extend, if the proposed resolution is approved, any amendments costing more than $500,000 would require Board of Supervisors approval.
- Our review found that the Pretrial Diversion Project has not completed an audited financial statement since June 2021 and that the Sheriff's Office does not do any formal program monitoring. Program data for 2023 shows that clients in assertive case management (the highest level of pretrial supervision) had appearance rates of 80 percent, on average. Clients in diversion and supervision programs had recidivism rates of 1 - 9 percent.

Fiscal Impact

- The original contract had an annual budget in FY 2021-22 of $6,254,810, which was increased to $6,754,152 for FY 2022-23 in the administratively approved amendments. The proposed $499,342 increase allows the Sheriff's Office to maintain the Pretrial Diversion Project's funding level at $6,754,152 for FY 2023-24. Costs would be funded by the General Fund.

Recommendations

- Request the Sheriff's Office and Controller's Office assess whether the Pretrial Diversion Project would benefit from technical assistance to ensure its financial condition and governance meet City guidance.
- Request the Sheriff's Office to undertake an annual program monitoring process for this contract, including compliance with contract requirements and overall program performance.
- Request the Sheriff's Office develop a plan to improve appearance rates for clients in assertive case management supervision.
- Approve the proposed resolution.

MANDATE STATEMENT

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

BACKGROUND

The Pretrial Diversion Project is a nonprofit that has provided pretrial services to the Sheriff's Department since the 1980s. The contract provides information to the Court for their consideration when determining whether arrested persons remain in custody or are released while their charges are pending. In addition, this contract provides supervision for released persons and progress reports for the Court on compliance with release conditions.

Vendor Selection and Contract History

On December 22, 2020, the Sherriff's Department issued a Request for Proposals for Pretrial Services. On April 1, 2021, the Sheriff's Department selected the one and only qualified scorer that responded, the San Francisco Pretrial Diversion Project, Inc (Pretrial Diversion Project). In June 2021, the Board of Supervisors approved a $18,764,430 contract with Pretrial, with a three-year term of July 2021 to June 2024 and two options to extend the term by one year through June 2026. The contract has been amended three times to add funding in FY 2022-23 for additional case managers, higher rent and utility expenses, and higher wages and benefits. Together, the amendments have totaled $499,342, which is less than $500,000 trigger for Board of Supervisors approval.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the Sheriff's Office to execute the fourth amendment to its contract with the Pretrial Diversion Project, increasing the contract's not to exceed amount from $19,263,772 to $19,763,114. The proposed amendment would not change the term of the contract, which ends June 30, 2024 but has two optional one-year extensions through June 2026.

Services

Under the proposed amendment, the San Francisco Pretrial Diversion Project will continue providing pretrial risk assessment, pretrial supervision (minimal and assertive case management) for clients released on own recognizance prior to case disposition, pretrial diversion to treatment, caregiving and/or community service, and facilitating group therapy and skill building. Pretrial releases, supervision levels, and diversion plans are court-ordered. Pretrial Diversion staff monitor clients within these programs and report their progress to the courts.

Performance Monitoring

Pretrial Risk Assessment and Pretrial Supervision

The current contract provides for quarterly reporting by the Pretrial Diversion Project to the Sheriff's Department on the number of pretrial risk assessments presented pre-arraignment and at arraignment, the number of pre-arraignment and at-arraignment releases, average daily count and number of new releases for each supervision level, appearance rate for each supervision level, safety rate (percentage of supervised defendants not arraigned on a new offense, or held on parole/probation violation), number of clients referred post-arraignment for release and number released, and average length of stay on pretrial supervision. Six-month and twelve-month reports include the appearance rate for each supervision level (percentage of supervised defendants who do not have a bench warrant for failure to appear) and recidivism rate (referred to as the "safety rate" in the contract.

Pretrial Diversion

The current contract provides for quarterly reporting by the Pretrial Diversion Project to the Sheriff's Department on the average daily count and a number of new client interviews, appearance rate, and safety rate, and the average length of stay. Twelve-month reports include appearance rate and safety rate.

Group Facilitation Services

The current contract provides for daily reports on attendance at groups (such as substance abuse groups, anger management or harm reduction groups, Latino support groups, and others) and quarterly reports on average group attendance for the quarter. The contract requires Pretrial to provide at least ten hours per week of group facilitation.

Actual Outcomes

To assess compliance with the contract's reporting requirements and recent performance data, we reviewed a summary of quarterly program data for the first three quarters of 2023 (the fourth quarter data was not yet available). The data indicates that Pretrial Diversion clients in diversion programs have appearance and safety (recidivism) rates above 95 percent. Clients under supervision also have safety rates above 90 percent. However, clients in assertive case management (the highest level of supervision) have an average appearance rate of 80 percent. According to the Sheriff's Office, clients experiencing homelessness are more likely to have lower appearance rates.

The Sheriff's Office does not complete an annual assessment of the Pretrial Diversion Project's performance and compliance with contract requirements. Instead, contract performance is monitored continuously but not formally documented. We recommend the Sheriff's Office consider an annual performance monitoring process for this contract and develop a plan to improve appearance rates for clients in assertive case management supervision.

Fiscal & Compliance Monitoring

The Pretrial Diversion Project was not evaluated by the Citywide Non-Profit Monitoring and Capacity Building Program, which monitors the financial condition and governance of non-profits with which the City contracts, in FY 2021-22 or FY 2022-23 due to short staffing at the Sheriff's Office and turnover in Pretrial Diversion's Chief Financial Officer position.

The Sheriff's Office provided our office with Pretrial Diversion's audited financial statement for the period ending June 2021. The FY 2020-21 financial statement shows a decrease in net assets from $733,967 to $401,261. Because the audited financial statement is more than two years old, we cannot assess the organization's current financial condition. However, we also reviewed the organization's 2022 tax return (Form 990), which shows a decrease in net assets from $401,261 to $302,275 for the period ending June 2022, during a year when it had $9.4 million in expenses.

The Controller's Office recommends non-profits complete an annual audit of the finances within nine months of the close of the fiscal year, so the Pretrial Diversion Project appears to be out of conformance with that best practice and also the contract's requirement to have an annual financial audit within six months of the close of each fiscal year. According to David Mauroff, Chief Executive Officer of the Pretrial Diversion Project, the organization has contracted with an audit firm to complete the FY 2021-22 and FY 2022-23 financial statements and audit work is underway. Because the contractor is out of compliance with these financial reporting requirements and because it had two years of negative net income in FY 2020-21 and FY 2021-22, we recommend the Sheriff's Office and the Controller's Office assess whether the Pretrial Diversion Project would benefit from technical assistance to ensure its financial condition and governance meet City guidance.

FISCAL IMPACT

The proposed fourth amendment adds $499,342 to the contract's not-to-exceed amount, increasing it from $19,263,772 to $19,763,114.

The original contract had an annual budget in FY 2021-22 of $6,254,810, which was increased to $6,754,152 for FY 2022-23 in the administratively approved amendments. The proposed $499,342 increase allows the Sheriff's Office to maintain the Pretrial Diversion Project's funding level at $6,754,152 for FY 2023-24. However, the proposed amendment shifts programmatic spending in FY 2023-24 from non-personnel budget lines to personnel expenses, as shown below in Exhibit 1. Staffing costs are increasing due to higher wages and also due to the addition of one Continuum of Care Navigator and one Assistant Manager for Judicial Services; however, funding for the contract assumes 15 percent of all positions are vacant.

Exhibit 1: Pretrial Diversion Project Contract Budget

	FY 2021-22	FY 2022-23	FY 2023-24	Total
Salaries & Benefits	$4,565,755	$4,757,006	$5,038,784	$14,361,545
Operating Expenses	613,040	882,881	557,611	2,053,532
Subcontractors	155,614	155,614	150,000	461,228
Equipment	7,250	7,250	0	14,500
Overhead (20%)	913,151	951,401	1,007,757	2,872,309
Total	**$6,254,810**	**$6,754,152**	**$6,754,152**	**$19,763,114**
FTEs	57.25	65.12	67.27	

Source: Contract Documents

According to the Sheriff's Office and correspondence from the Pretrial Diversion Project, operating expenses are decreasing in the proposed amendment because a portion of them will be funded by other funding sources and because rent and utility expenses are projected to decrease following a planned consolidation of office space.

According to the Sheriff's Office, as of this writing, $17 million of the contract has been spent.

Although the contract has two options to extend, if the proposed resolution is approved, any amendments costing more than $500,000 would require Board of Supervisors approval.

Funding Source

According to the Sheriff's Department, the contract is funded by the General Fund and approximately $135,000 from a Community Policing (COPS) grant.

RECOMMENDATIONS

1. Request the Sheriff's Office and Controller's Office assess whether the Pretrial Diversion Project would benefit from technical assistance to ensure its financial condition and governance meet City guidance.
2. Request the Sheriff's Office to undertake an annual program monitoring process for this contract, including compliance with contract requirements and overall program performance.
3. Request the Sheriff's Office develop a plan to improve appearance rates for clients in assertive case management supervision.
4. Approve the proposed resolution.

Item 8 **File 24-0018**	**Department:** Port Commission (Port)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize the Port of San Francisco (Port) to accept and expend a grant in the amount of $9,607,500 from the United States Department of Transportation, Maritime Administration Port Infrastructure Development Program (MARAD) to fund the Amador Street Infrastructure Improvement Project, with a $3,202,500 required Port match, for a three-year term from March 2024 through February 2027, and authorize the Port Executive Director to enter further immaterial changes to the grant agreement.

Key Points

- The Port owns property along Amador Street near Islais Creek, which provides access to Piers 90-96. The Amador Street roadway and surrounding infrastructure has aged beyond its useful life, necessitating emergency maintenance and repairs. The street surface is in poor condition and the area is prone to flood risk due to inadequate drainage and an undersized sewer pump station. The Port has been awarded grants from the California State Transportation Agency (CalSTA) and MARAD to fund most of the Amador Street improvement project.
- The Amador Street project scope includes replacing the existing pump station to upgrade capacity, replacing the concrete foundation to support the new pump station layout, replacing the gravity sewer and force main sewer, reconstructing the roadway, replacing the potable water line, removing abandoned rail track and ties in the roadway, installing new landscaping with stormwater retention planters, and installing trash capture devices. The Port plans to advertise the project for bid in March 2024. Construction is anticipated to begin in August 2024, with final completion in June 2026.

Fiscal Impact

- The proposed resolution would authorize the Port to accept and expend $9,607,500 in grant funds from MARAD for the Amador Street project, with a required Port match of $3,202,500. Of the matching funds, $2,562,000 would be from the CalSTA grant, and $640,500 would be from the Port Harbor fund. The Port would use additional capital funds to cover any cost overruns.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(a) states that contracts entered into by a department, board, or commission that (i) have anticipated revenues of $1 million or more, or (ii) have anticipated revenues of $1 million or more and require modifications, are subject to Board of Supervisors approval.

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

BACKGROUND

The Port of San Francisco (Port) owns property along Amador Street near Islais Creek, which provides access to Piers 90-96. Amador Street is also a key corridor in the Port's Maritime Eco-Industrial Complex where Tesla automobiles are exported and sand and gravel are imported to support the City's construction industry. Amador Street is heavily used by trucks, and the road conditions impact the flow of goods in and out of the industrial complex. According to Port staff, the Amador Street roadway and surrounding infrastructure has aged beyond its useful life, necessitating emergency maintenance and repairs. The street surface is in poor condition and the area is prone to flood risk due to inadequate drainage and an undersized sewer pump station.

The Port began planning a project to improve the Amador Street roadway and infrastructure in 2010, but the project has not been funded because other life safety improvement projects took priority. Port staff has engaged with the Department of Public Works and the San Francisco Public Utilities Commission (SFPUC) on project design, which accelerated in 2016 and was completed in 2023. The project has an estimated cost of approximately $12.8 million. In 2023, the Port was awarded a grant from the California State Transportation Agency (CalSTA) in the amount of approximately $21.5 million, of which $2,562,000 was earmarked for the Amador Street project. In 2022, the Port applied for a grant in the amount of $9,607,500 from the U.S. Department of Transportation, Maritime Administration Port Infrastructure Development Program (MARAD), and was selected for an award. In December 2023, the Port Commission approved the acceptance and expenditure of the MARAD grant. The CalSTA grant can be used as part of the City's match to qualify for the MARAD grant.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the Port to accept and expend a grant in the amount of $9,607,500 from MARAD to fund the Amador Street Infrastructure Improvement Project, with a $3,202,500 required Port match, for a three-year term from March 2024 through February 2027, and authorize the Port Executive Director to enter into further immaterial changes to the grant agreement.

The Amador Street project scope includes replacing the existing pump station to upgrade capacity, replacing the concrete foundation to support the new pump station layout, replacing the gravity sewer and force main sewer, reconstructing the roadway, replacing the potable water line, removing abandoned rail track and ties in the roadway, installing new landscaping with stormwater retention planters, and installing trash capture devices.

The Port plans to advertise the project for bid in March 2024, with a bid awarded in May 2024. Construction is anticipated to begin in August 2024. Substantial completion is anticipated in April 2026, with final completion in June 2026, and the grant budget period ending in February 2027.

FISCAL IMPACT

The proposed resolution would authorize the Port to accept and expend $9,607,500 in grant funds from MARAD for the Amador Street project, with a required Port match of $3,202,500. Of the matching funds, $2,562,000 would be from the CalSTA grant, and $640,500 would be from the Port Harbor fund. The sources and uses of funds are shown in Exhibit 1 below.

Exhibit 1: Sources and Uses of Grant Funds

Sources	Amount
MARAD Grant	$9,607,500
Port Matching Funds	3,202,500
CalSTA Grant	*2,562,000*
Port Harbor Fund	*640,500*
Total Sources	**$12,810,000**

Uses	Amount
Architectural and Engineering Fees	$1,794,000
Project Inspection Fees	100,000
Construction	9,923,000
Construction Contingency (10%)	993,000
Total Uses	**$12,810,000**

Source: Port

As mentioned above, the Port has not received bids, so the anticipated costs are based on engineers' estimates. According to Noel Aquino, Port Project Manager, the Port would use additional capital funds to cover any cost overruns.

According to the Notice of Funding Opportunity (NOFO) for the MARAD Port Infrastructure Development Program, the Federal share of costs, including MARAD grant funds, may not exceed 80 percent of project expenditures. The MARAD grant reflects 75 percent of project expenditures shown in Exhibit 1, which is less than the 80 percent maximum, with remaining funds from State and Local revenues.

RECOMMENDATION

Approve the proposed resolution.

Item 9 File 24-0024	Department: Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the First Amendment to the Amended and Restated Loan Agreement with San Cristina L.P. to increase the loan amount by $1,993,694 for a total loan amount not to exceed $12,781,730 to finance increased rehabilitation costs for the San Cristina affordable housing project.

Key Points

- The San Cristina is an existing affordable housing development, located at 1000 Market Street. The building includes 58 single room occupancy (SRO) units for formerly homeless adults and three commercial spaces. All residential units have Project Based Vouchers.
- In 2022, MOHCD provided a consolidated loan of $10,788,036 to San Cristina, L.P., (a limited partnership controlled by HomeRise) under an Amended and Restated Loan Agreement, including $8,671,530 to rehabilitate the project. Construction began in September 2022 and is expected to be completed by April 2024. The scope of work includes façade improvements, plumbing and HVAC system replacement, seismic strengthening, electrical upgrades, fire protection upgrades, and reflooring.
- The increased loan amount would fund: (a) greater than anticipated repair costs to the building's cornice; (b) increased costs for electrical equipment, including new electrical switchgear, which was impacted by supply chain issues; and (c) greater than anticipated insurance costs and construction loan interest due to market conditions and project delays.

Fiscal Impact

- The increased loan amount of $1,993,694 would be funded by Community Development Block Grant Funding. Existing Preservation and Seismic Safety (PASS) funding of $8,024,000 is from 2016 General Obligation Bonds for the PASS program. The remaining existing MOHCD gap loan is funded by Community Development Block Grant funding and 1996 General Obligation Bonds for affordable housing.

Policy Consideration

- Due to the City's historic preservation requirements, the building's cornice could not be removed, and the project scope includes $1,261,331 for new fiberglass decorative elements to replace deteriorated portions. The Board of Supervisors could consider exemptions from local historic preservation requirements for affordable housing projects as part of the City's overall strategy to deliver affordable units within a constrained revenue environment.

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

Acquisition and Rehabilitation of San Cristina

The San Cristina is an existing affordable housing development, located at 1000 Market Street, that is currently being rehabilitated. The building includes 58 single room occupancy (SRO) units for formerly homeless adults and three commercial spaces.

In 1991, HomeRise purchased and rehabilitated the building with City and State funding. In 1999 and 2011, additional rehabilitation was completed with City and other funding. In 2016, HomeRise responded to a MOHCD Notice of Funding availability for Existing Non-Profit Owned Rental Housing Capital Repairs, but was only provided $197,530 for reserves due to the project's financial condition. In 2017, HomeRise converted the building's Section 8 Moderate Rehabilitation operating subsidies to Section 8 Project Based Vouchers with a 20-year contract under the U.S. Department of Housing and Urban Development's (HUD) Rental Assistance Demonstration (RAD) program. This conversion increased the per unit operating subsidy for the project and also allowed the project to be competitive for additional State funding and MOHCD Preservation and Seismic Safety (PASS) program[1] funding to further rehabilitate the building. PASS funding is provided to projects that meet certain criteria and is awarded on a rolling, first-come, first-served basis.

Project Status

Construction for the current rehabilitation project began in September 2022 and is expected to be completed by April 2024, pending approval of additional financing. The scope of work includes façade improvements, plumbing and HVAC system replacement, seismic strengthening, electrical upgrades, fire protection upgrades, and reflooring. According to the December 2023 MOHCD loan evaluation for the Affordable Housing Loan Committee for the proposed additional loan (MOHCD loan evaluation), improvements to building systems and major interior work have been completed. Tenants were relocated for up to 11 months, and all tenants returned to the building

[1] The PASS program was authorized by voters in 2016 and provides low-cost financing to fund the acquisition and preservation of affordable housing and seismic retrofits to existing buildings. The program is funded by $260.7 million in general obligation bonds, including $156.0 million for market rate loans and $104.7 million for below market rate interest or deferred interest loans. Unlike other MOHCD permanent loans for affordable housing which are structured as soft debt and repaid through residual receipts, PASS program loans are structured as hard debt, which means they must be repaid every year for the duration of the lending period.

in September 2023. However, the building's cornice, which is decorative molding along the top of the building, requires more repair work than previously anticipated, resulting in increased costs and project delays.

Existing MOHCD Loan

In 2022, MOHCD provided a consolidated loan of $10,788,036 to San Cristina, L.P., (a limited partnership controlled by HomeRise) to finance the rehabilitation of the project under an Amended and Restated Loan Agreement. The Amended and Restated Loan Agreement: (a) consolidated three previous loans under separate loan agreements, including a $2,116,506 loan for the initial rehabilitation projects in the 1990s, a $197,530 loan to replenish the project's operating reserves in 2017 since the project operated at a deficit prior to conversion to Project Based Vouchers, and a $450,000 predevelopment loan in 2018 for the current rehabilitation project; and (b) provided $8,024,000 in new PASS funding, which was included in the loan documents but was not disbursed at construction loan closing. According to MOHCD staff, MOHCD did not seek Board of Supervisors' approval for the 2022 consolidated loan because excluding the $2,116,506 loan for the initial rehabilitation projects in the 1990s, the loan amount for the current rehabilitation project was $8,671,530, which is less than the $10 million threshold requiring Board of Supervisors approval. The proposed loan increase of $1,993,694 increases the recent loans from $8,671,530 to $10,665,224 (excluding the $2,116,506 loans from the 1990s) and therefore requires Board of Supervisors approval.

MOHCD is proposing to increase the existing loan to address increased costs as discussed below.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the First Amendment to the Amended and Restated Loan Agreement with San Cristina L.P. to increase the loan amount by $1,993,694 for a total loan amount not to exceed $12,781,730 to finance increased rehabilitation costs for the San Cristina affordable housing project.

Increased Construction Costs

The increased loan amount would fund increased construction costs due to: (a) greater than anticipated repair costs to the building's cornice for the project; (b) increased costs for electrical equipment, including new electrical switchgear, which was impacted by supply chain issues; and (c) greater than anticipated insurance costs and construction loan interest due to market conditions and project delays.

Cornice Repairs

According to the MOHCD loan evaluation, the initial project scope included $174,534 for minor repairs to the building's cornice. However, when the General Contractor began to remove the paint from the cornice to complete minor repairs, the General Contractor discovered that portions of the cornice were totally deteriorated and needed to be replaced. Because the project is located in the City's Market Street Theatre and Loft Historic District, the cornice could not be removed, and decorative elements had to be replaced. The current project scope includes

$1,261,331 for new fiberglass decorative elements to replace deteriorated portions and to repair a larger portion of the cornice than previously anticipated. According to MOHCD staff, repair work is continuing on the building's cornice although additional financing has not yet been approved to prevent further delays that would increase project costs and to prevent water damage to the building.

Loan Agreement and Repayment

The proposed Amended and Restated Loan Agreement would increase the loan amount by $1,993,694 in Community Development Block Grant funding for a total loan amount not to exceed $12,781,730. Existing PASS loan amounts totaling $8,024,000 are unchanged.

The PASS loan includes three components: (1) a market rate loan; (2) below market rate loan; and (3) a deferred loan. MOHCD combines PASS market rate loans with PASS affordable loans (below market rate and deferred) to create a blended interest rate and maximize total bond proceeds available for affordable housing preservation projects. According to the MOHCD loan evaluation, the Project is requesting a waiver to MOHCD's PASS guidelines to allow the PASS below market rate loan and PASS deferred loan proceeds to be made available during construction instead of at permanent loan conversion. The PASS market rate loan, which has a higher interest rate than the other two PASS loans, would still be disbursed at permanent loan conversion under the proposed amended agreement.

The interest rates and repayment terms for the loans are provided in Exhibit 1 below based on the terms in four separate promissory notes (one for each type of PASS loan and one for the remaining MOHCD loan amount). Repayment terms for the PASS below market rate loan are changing to provide for interest-only payments through permanent loan conversion, reflecting disbursement of loan proceeds during construction. After permanent loan conversion, the project sponsor must make monthly principal and interest payments.

The PASS loans mature either 40 years after permanent financing conversion or 44 years after the recordings of the deeds of trust, whichever is earlier. This reflects a change from the existing loan agreement which states that the PASS loans mature 40 years after the recordings of the deeds of trust, resulting in an estimated six additional months before loan maturity. The remaining MOHCD loan amount matures on August 1, 2077.

Exhibit 1: Loan Summary for San Cristina

Loan	Amount	Annual Interest Rate	Interest Type	Repayment
PASS Market Rate	$4,886,616	3.87%	Compound	Monthly payments, equal to $240,461
PASS Below Market Rate	2,696,064	0.96%	Compound	Interest-only payments through permanent loan conversion; After conversion: monthly payments, equal to $81,159
PASS Deferred	441,320	0.96%	Compound	Repayment at Maturity Date, no monthly or annual payments
CDBG Program & Affordable Housing Bond Program Loan	4,757,730	3.00%	Simple	Annual Payments, equal to 32.47% of Residual Receipts
Total	**$12,781,730**			

Source: Master Promissory Notes, MOHCD Proforma

Required Rents and Option to Purchase

An existing Declaration of Restrictions, which covers all loan products, outlines required rents for all units for existing tenants. Rents for all units are restricted at 50 percent AMI, and all units have Project Based Vouchers.

The loan agreement does not include a City Option to Purchase Provision. However, according to Article 19 of the 2022 loan agreement, if the borrower does not make loan payments to the City or other lenders, transfers ownership of the loan without the City's permission, goes bankrupt, or is unable to fund the project's operating costs, the City may take possession of the project.

Deeds of Trust

Two deeds of trust (one for the PASS funding and one for the remaining MOHCD loan amount) secure the loans. According to the current loan agreement, the Declaration of Restrictions and the PASS Deed of Trust are subordinate to HCD's deeds of trust and regulatory agreements, as permitted under the City's Administrative Code.

FISCAL IMPACT

The proposed resolution would increase the City's loan amount by $1,993,694 for a total loan amount not to exceed $12,781,730 to finance increased rehabilitation costs for the San Cristina affordable housing project. Other project sources include loans from the California Department of Housing and Community Development (HCD), Affordable Housing Program (AHP) funding, deferred interest, and other project and developer sources, as shown in Exhibit 2 below.

The increased loan amount would be funded by Community Development Block Grant Funding. Existing PASS funding is from 2016 General Obligation Bonds for the PASS program. The remaining existing MOHCD gap loan is funded by Community Development Block Grant funding and 1996 General Obligation Bonds for affordable housing.

Exhibit 2: Proposed Sources and Uses Compared to Existing

Sources and Uses	Existing (Jun 2022)	Proposed (Dec 2023)	Change	Percent Change
Permanent Sources				
MOHCD Loans	$10,788,036	$12,781,730	$1,993,694	18%
MOHCD Gap Loan	*2,764,036*	*4,757,730*	*1,993,694*	*72%*
PASS Loans	*8,024,000*	*8,024,000*	*0*	*0%*
State Loans from HCD	35,485,692	35,517,941	32,249	0%
Restructured Existing Loan	*3,099,739*	*3,131,988*	*32,249*	*1%*
Housing Accelerator Program	*24,242,000*	*24,242,000*	*0*	*0%*
Multifamily Housing Program	*8,143,953*	*8,143,953*	*0*	*0%*
AHP	750,000	750,000	0	0%
Income from Operations	0	407,394	407,394	
Deferred Interest	168,921	319,567	150,646	89%
Existing Reserves	271,297	263,406	(7,891)	-3%
Deferred Developer Fee	200,000	200,000	0	0%
Total	**$47,663,946**	**$50,240,038**	**$2,576,092**	**5%**
Permanent Uses				
Acquisition	6,905,184	5,956,931	(948,253)	-14%
Hard Costs	26,615,134	27,891,237	1,276,103	5%
Soft Costs	7,355,423	11,960,614	4,605,191	63%
Reserves	4,560,705	2,231,256	(2,329,449)	-51%
Developer Costs	2,227,500	2,200,000	(27,500)	-1%
Total	**$47,663,946**	**$50,240,038**	**$2,576,092**	**5%**

Source: MOHCD Loan Evaluation

Expenditure Changes

Total expenditures for the project are increasing by $2.6 million (five percent) compared to the June 2022 project budget. Changes are driven by increases in hard costs and soft costs and partially offset by reductions in reserves and acquisition costs, as described below.

Acquisition

Acquisition costs declined by $948,253 (14 percent) due to changes in interest calculations for an existing loan from HCD and changes in assumptions regarding transfer taxes. Previous budgets assumed the project would receive Low-Income Housing Tax Credits (LIHTC) and would pay transfer taxes when the property was transferred to a new limited partnership that included the tax credit investor. However, because the project did not receive tax credits, the ownership structure will not need to be changed and transfer taxes will not be due to the City.

Hard Costs

Hard costs are increasing by $1.3 million (five percent) due to increased costs associated with repairing the cornice as described above as well as increased costs for the electrical switchgear.

Soft Costs

Soft costs are increasing by $4.6 million (63 percent) due to increases in:

- construction loan interest due to increases in interest rates and the project delay ($1.5 million);
- relocation costs due to payment of insurance, taxes, storage, and clean-up at the relocation site which were greater than anticipated ($1.0 million);
- soft cost contingency due to cost overruns being allocated to the contingency line ($795,466);
- interest costs from a third-party predevelopment loan ($449,633);
- developer consultant fees for contracted development staff ($303,464);
- legal costs; and
- construction management costs due to the project delay.

The soft cost contingency of $1,650,000 is equal to 16 percent of soft costs and exceeds MOHCD's underwriting guidelines of five to 10 percent of soft costs. According to MOHCD staff, the contingency exceeds guidelines because cost overruns have been allocated to the contingency line.

HomeRise has contracted out all development staff for the project. The revised budget includes $448,525 for developer consultant fees, up from $145,061 in the prior budget in addition to the $2.2 million developer fee for HomeRise. According to MOHCD staff, the developer consultant fees are increasing because of delays to the project resulting in additional project management costs.

Reserves

Reserves are declining by $2.3 million (51 percent) due to changes in HCD program rules that resulted in a reduction in the Transition Reserve, which is required by HCD for projects with Project Based Voucher contracts to cover operating expenses in the event that the 20-year contract with HUD is not renewed, which is unlikely according to MOHCD staff.

Developer Costs

Developer costs are declining by $27,500 due to a reduction in the budget for community outreach. The developer fee of $2.2 million is unchanged.

City Subsidy

The total City loan amount of $12,781,730 is equal to $220,375 per unit, including PASS funding of $138,345 per unit and other City funding of $82,030 per unit. Total development costs of $50.2 million are equal to $866,208 per unit.

Operating Revenues and Expenses

According to the 20-year cash flow analysis for the project, the project's revenues together with commercial revenues are sufficient to cover operating expenses, replacement reserves, and management fees. Project revenues consist of rental subsidies from Project Based Vouchers.

PASS loans must be repaid according to the terms discussed above. A portion of net income after operating expenses (residual receipts) will be used to repay the non-PASS MOHCD loan and California Department of Housing and Community Development loans.

Vacancy Levels and Assumptions

The operating budget assumes annual rental income loss of five percent for residential units and 20 percent for commercial space. According to MOHCD staff, the residential vacancy assumption of five percent is lower than the current standard of 10 percent for SRO buildings without Project Based Vouchers. MOHCD anticipates greater demand for Project Based Voucher supported units compared to units that are not supported by vouchers because tenants pay lower rent for units supported by vouchers.

According to the MOHCD loan evaluation, 23 out of 58 residential units (40 percent) were vacant as of December 1, 2023, up from 17 percent of residential units vacant in June 2022. MOHCD staff report that the project sponsor did not fill vacant units while tenants were being relocated during construction to reduce relocation costs. The loan evaluation report states that the project sponsor must provide monthly updates on efforts to lease vacant units and show progress of at least five units per month before MOHCD releases the proposed funds, however that provision is not included in the proposed loan amendment.

Commercial revenues are assumed over the 20-year period for the three commercial spaces, which include HomeRise office space, restaurant space, and a cell-phone tower with assumed increases of 3.0 percent, 3.0 percent, and 2.5 percent respectively. The restaurant space, which is currently vacant, is anticipated to generate annual rental revenue of $101,760 starting in Year 1. In addition, the project sponsor is searching for a new tenant for the cell phone tower. According to MOHCD staff, the project sponsor has a commercial leasing plan and is working with a broker to identify a tenant for the restaurant space. The loan evaluation report states that the project sponsor must provide signed leases for all three commercial spaces prior to permanent loan conversion and market analysis supporting the rent for the restaurant space. In addition to an assumed annual commercial rental income loss of 20 percent, the permanent budget includes a two-year commercial rent reserve to ensure sufficient cash in the event of leasing challenges.

POLICY CONSIDERATION

As noted above, the City's historic preservation requirements have resulted in greater costs for the project. Because the project is located in the City's Market Street Theatre and Loft Historic District, the cornice could not be removed, and the current project scope includes $1,261,331 for new fiberglass decorative elements to replace deteriorated portions. The Board of Supervisors could consider exemptions from local historic preservation requirements for affordable housing projects to reduce costs as part of the City's overall strategy to deliver affordable units within a constrained revenue environment.

RECOMMENDATION

Approve the proposed resolution.

Item 13 **File 23-1270**	**Department:** Various Departments

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would place $48,403,840 in various departments' budget appropriations specified in the Mayor's FY 2023-24 mid-year budget reduction plan on Budget and Finance Committee Reserve in FY 2023-24.

Key Points

- The FY 2024-25 – FY 2027-28 Joint Report prepared by the Controller's Office, Mayor's Office, and Budget & Legislative Analyst Office, issued in December 2023, noted that expenditure growth has outpaced the City's General Fund revenues, resulting in projected deficits of approximately $245 million in FY 2023-24 and $554 million in FY 2025-26. To address the projected deficits, the Mayor's Office has proposed approximately $75.3 million in savings to the current FY 2023-24 budget, including approximately $48.4 million in expenditure reductions. To formalize this proposal, Supervisor Connie Chan has proposed placing the $48.4 million in expenditure reductions on Budget and Finance Committee reserve.
- The proposed ordinance would place $48,403,840 across 30 departments' budgets on Budget and Finance Committee reserve. If the proposed ordinance is approved, Budget and Finance Committee approval would be required to spend any of the reserved funds. If the funds are not spent by the end of FY 2023-24, the Controller may de-appropriate the expenditures and return funds to the General Fund balance.

Fiscal Impact

- The proposed ordinance would place $48,403,840 in various departments' budget appropriations specified in the Mayor's FY 2023-24 mid-year budget reduction plan on Budget and Finance Committee Reserve in FY 2023-24. In addition to these appropriations proposed to be placed on reserve, the Mayor's Office has proposed reducing FY 2023-24 General Fund expenditures by shifting currently budgeted General Fund expenses to other revenues by $26,445,092 and deferring $475,483 in information technology and capital project expenditures to FY 2024-25, for total FY 2023-24 General Fund savings of $75,324,416.

Recommendation

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

MANDATE STATEMENT

City Administrative Code Section 3.3(j) states that the Budget and Finance Committee of the Board of Supervisors has jurisdiction over the City's budget and may reserve proposed expenditures to be released at a later date subject to Board of Supervisors approval.

BACKGROUND

The FY 2024-25 – FY 2027-28 Joint Report prepared by the Controller's Office, Mayor's Office, and Budget & Legislative Analyst Office, issued in December 2023, noted that expenditure growth has outpaced the City's General Fund revenues, resulting in projected deficits of approximately $245 million in FY 2023-24 and $554 million in FY 2025-26. The projected deficits are largely due to reduced revenues in transfer tax, hotel tax, and sales tax compared to original projections, anticipated nine percent health care costs in FY 2024-25, and multi-year inflationary growth in City grant programs.

To address the projected deficits, the Mayor's Office has instructed City departments to reduce General Fund support by 10 percent in FY 2024-25 and FY 2025-26 and proposed approximately $75.3 million in savings to the current FY 2023-24 budget. The savings include approximately $48.4 million in expenditure reductions, $26.4 million in non-General Fund revenue increases, and $0.5 million in expenditures deferred to FY 2024-25. To formalize this proposal, Supervisor Connie Chan has proposed placing the $48.4 million in expenditure reductions on Budget and Finance Committee reserve.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would place $48,403,840 in various departments' budget appropriations specified in the Mayor's FY 2023-24 mid-year budget reduction plan on Budget and Finance Committee Reserve in FY 2023-24.

The amount placed on reserve in each department is shown in Exhibit 1 below.

Exhibit 1: Proposed FY 2023-24 General Fund Expenditures on Reserve by Department

Department	Amount
Asian Art Museum (AAM)	$212,865
General Services Agency - Administrative Services (ADM)	2,665,000
Adult Probation (ADP)	711,000
Arts Commission (ART)	433,796
Children, Youth & Their Families (CHF)	1,600,000
Controller (CON)	380,000
Civil Service Commission (CSC)	42,903
Emergency Communications (DEM)	3,250,000
Department of Public Health (DPH)	7,955,188
General Services Agency - Public Works (DPW)	3,081,566
Economic & Workforce Development (ECN)	2,755,000
Environment (ENV)	50,000
Ethics Commission (ETH)	210,000
Fine Arts Museum (FAM)	215,648
Fire Department (FIR)	202,931
Homelessness and Supportive Housing (HOM)	3,442,379
Human Rights Commission (HRC)	2,500,893
Human Resources (HRD)	460,000
Human Services Agency (HSA)	5,260,000
Health Service System (HSS)	228,334
Juvenile Probation (JUV)	500,000
Mayor (MYR)	8,281,444
Recreation and Park (REC)	861,707
Elections (REG)	169,450
Academy of Sciences (SCI)	224,929
Sheriff's Department Office of Inspector General (SDA)	340,000
General Services Agency – Technology (TIS)	180,000
Treasurer / Tax Collector (TTX)	746,107
War Memorial (WAR)	192,701
Department on the Status of Women (WOM)	1,250,000
Total	**$48,403,841**

Source: Proposed Ordinance

A detailed line-item list of these expenditures proposed to be placed on Budget and Finance Committee reserve is included within the legislative file. If the proposed ordinance is approved, Budget and Finance Committee approval would be required to spend any of the reserved funds. If the funds are not spent by the end of FY 2023-24, the Controller may de-appropriate the expenditures and return funds to the General Fund balance.

FISCAL IMPACT

The proposed ordinance would place $48,403,840 in various departments' budget appropriations specified in the Mayor's FY 2023-24 mid-year budget reduction plan on Budget and Finance Committee Reserve in FY 2023-24. In addition to these appropriations proposed to be placed on reserve, the Mayor's Office has proposed reducing FY 2023-24 General Fund expenditures by shifting currently budgeted General Fund expenses to other revenues by $26,445,092 and deferring $475,483 in information technology and capital project expenditures to FY 2024-25, for total FY 2023-24 General Fund savings of $75,324,416.

RECOMMENDATION

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

Item 15 **File 24-0032**	**Department:** Mayor's Office

EXECUTIVE SUMMARY

Legislative Objectives

- The requested release of reserves authorizes $6,523,707 in spending from General City Responsibility funds reserved for Asia-Pacific Economic Cooperation conference (APEC) expenditures. The funding would be transferred to the Police, Sheriff, and Department of Emergency Management.

Key Points

- APEC took place in over a week in November 2023. Event costs totaled $14.2 million and were funded by private donations to the San Francisco Special Events Committee, a non-profit responsible for arranging large civic events in the City. The Committee raised $20.5 million, therefore a sum of $6.3 million remains as a gift available to the City. A companion resolution (File 24-0025) would authorize the Police Department to accept and expend those funds.
- Net costs incurred by City Departments totaled $25.4 million, of which $21 million was primarily funded by the General Fund. The FY 2023-24 budget set aside $10 million in General Fund monies, of which $6.5 million is being requested for release to reimburse costs incurred by the Police, Sheriff, and Emergency Management.

Fiscal Impact

- The Mayor's Office has determined that the Sheriff, Police, and Department of Emergency Management incurred expenditures beyond typical operations, totaling $12,810,000, of which $6,523,707 would be compensated by the requested release reserves and the remaining $6,286,293 will be funded by funds donated by the Special Events Committee.

Policy Consideration

- Three City Departments generated revenue from APEC: the Port and Moscone Center generated rental income, and the Airport estimates that incremental revenue from APEC visitors partially covered the associated increase in Airport costs. Our review did not uncover any Citywide agreements for reimbursing City costs. The federal grant program that reimbursed other cities that hosted similar events is no longer available.
- If the requested $6,523,707 release of reserved funds is approved, there will be a remaining reserve balance in the General City Responsibility Fund of $3,476,293. The Board could consider budgeting the funds in next year's budget, increasing reimbursements to City Departments, or providing funds to businesses that can demonstrate financial losses due to APEC.

Recommendation

- Approve the requested release of reserves.

MANDATE STATEMENT

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

BACKGROUND

In November 2022, San Francisco was selected to be the host city for the 30th Asia-Pacific Economic Cooperation (APEC) Economic Leaders' Summit. The summit was anticipated to be the most high-profile diplomatic event in San Francisco in nearly 80 years, drawing leaders from 21 economies surrounding the Pacific Rim.

Preparation

In the year leading up to APEC, the San Francisco Special Events Committee[1] and the Mayor's Office of Protocol worked closely with the United States Secret Service, State Department, and select City departments to arrange APEC events for the week of the summit. In June 2023, the Mayor's Office anticipated potential costs to City departments at $29 million. Given APEC 2023's designation as a National Special Security Event (NSSE), half of the anticipated costs to host were attributed to security and incident management. The $29 million in anticipated costs included $12 million to cover the food, lodging, and overtime of an additional 2,000 law enforcement personnel in addition to the $4 million in overtime expenditure estimates for San Francisco Police and Sheriff.

To cover these costs, the FY 2023-24 – FY 2024-25 budget proposed to the Board of Supervisors included a $10 million set aside General City Responsibility funds to reimburse departments for costs incurred above and beyond typical operations. The appropriation was subsequently approved and placed on Budget & Finance Committee Reserve. Furthermore, the Board of Supervisors approved a resolution in May 2023 (File 23-0507) to provide a Behested Payment Waiver for the Mayor, Chief of Protocol, and officers from the Mayor's Office and Office of Economic and Workforce Development to solicit private donations for APEC costs. By the time APEC occurred, the Special Events Committee had raised $20.4 million in private funds.

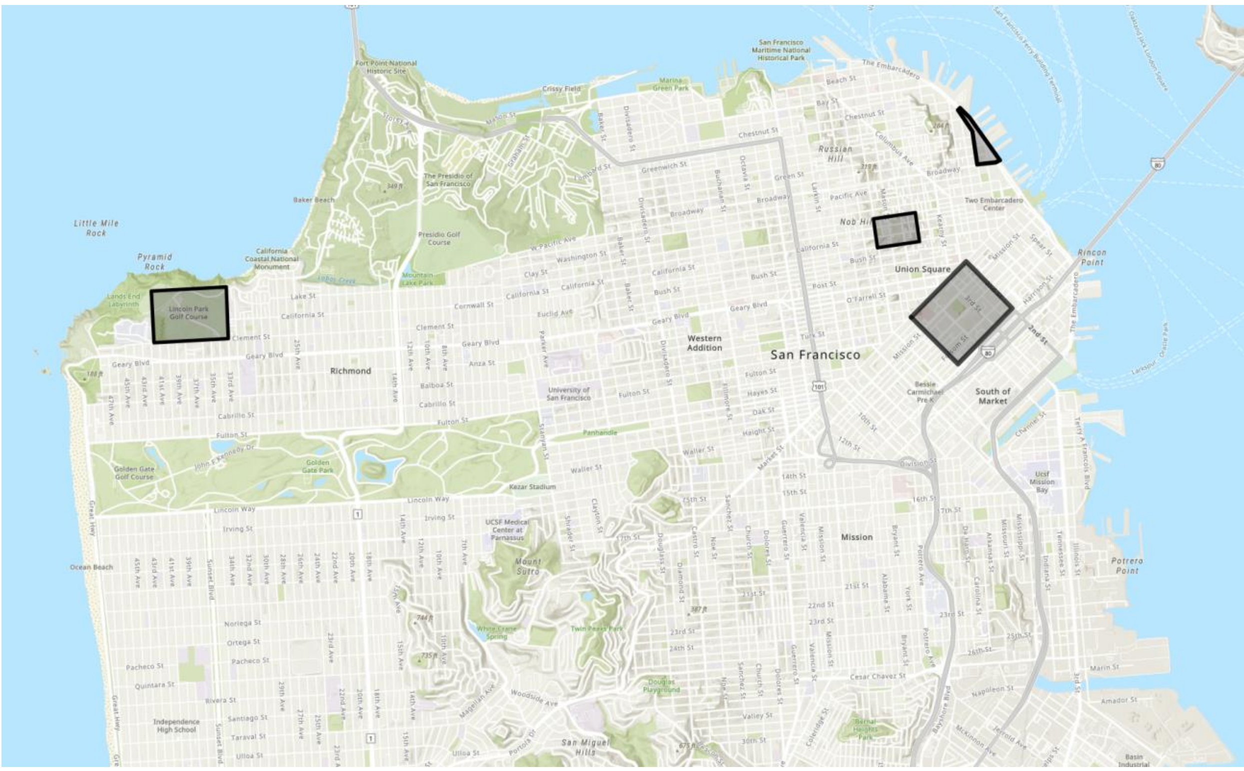
APEC Events

APEC took place from November 11 through November 17, 2023, with events sponsored by the Host Committee throughout the week. Gatherings between guest foreign dignitaries were the

[1] The San Francisco Special Events Committee is a 501(c)(3) nonprofit public benefit corporation that oversees planning, support, and implementation of San Francisco special events of civic or cultural importance. The SEC is a separate entity from the honorary APEC Host Committee.

most impactful to the City, given the amount of planning, security, and resources required to host events in compliance with U.S. Secret Service and State Department mandates. As pictured in Exhibit 1 below, the City implemented security zones throughout San Francisco to establish secure perimeters for special events. The Moscone Center served as the nexus for most APEC-sponsored gatherings over the week at the Legion of Honor, Pier 29, and City Hall hosted supplementary meetings and events for APEC officials. The Fairmont Hotel, which lodged several high-profile guests throughout the week, also maintained an established security perimeter for the summit.

Exhibit 1: APEC Security Zones



Source: BLA
Notes: Security zones are marked in black and grey.

As shown in Exhibit 2 below, the San Francisco Special Events Committee spent $14,173,707 on APEC-related expenditures in preparation for and during the November 2023 summit. The expenses were funded by privately-raised funds, which totaled $20,460,000, therefore a sum of $6,286,293 remains as a gift available to the City.[2]

[2] Per the Mayor's Office, up to $6.5 million could be made available pending final invoices.

Exhibit 2: Actual APEC Expenditures

Cost	Amount
Hotels for First Responders	$949,062
State Department Advance Trip	77,689
Events	8,350,112
Consulting	785,800
Marketing & Printing	1,374,268
Delegate Hospitality	743,753
Project Management	405,440
Volunteer Support	112,133
Administrative Support	150,000
CEO Summit Tickets	300,000
APEC Community Building Events	100,000
Moscone Leaders Summit Meals	300,000
Contingency	525,450
Total	**$14,173,707**
Total Fundraised	**$20,460,000**
Total Available Gift to City	**$6,286,293**

Source: Mayor's Office

A companion resolution (File 24-0025) would authorize the Police Department to accept and expend a grant in two payment installations in the sum of up to $6.5 million from the San Francisco Special Events Committee to partially reimburse Police overtime expenses. The proposal outlines an initial payment of $5 million would be paid to the Police Department shortly following the resolution, and up to $1.5 million would be made available once final invoices have been paid for by the Special Events Committee.

DETAILS OF PROPOSED LEGISLATION

The requested release of reserves authorizes $6,523,707 in spending from General City Responsibility funds reserved for APEC expenditures. The Mayor's Office plans to work order the funding to City departments with APEC-related expenditures above and beyond their expected operating obligations.

Departmental Expenditures and Activities

Estimated actual expenditures incurred by the City for services in support of hosting APEC total $26.3 million, as shown in Exhibit 3 below. Consistent with cost estimates from the preparation phase of the summit, the majority of City APEC expenditures fall under law enforcement and emergency preparedness. Cost estimates may not include all planning activities.

Exhibit 3: Summary of City Department APEC Spending and Revenues

Department	Spending	Revenue	Net Costs
Administrative Services*	$1,214,101	$2,059,817	($845,716)
Airport*	$464,187	$350,000	$114,187
Emergency Management	$1,018,925	$0	$1,018,925
Public Health	$115,360	$0	$115,360
Public Works	$2,609,170	$0	$2,609,170
Economic & Workforce Dev.	$134,552	$0	$134,552
Fire	$927,679	$0	$927,679
Police	$13,853,085	$0	$13,853,085
Police – Airport*	$1,298,072	$0	$1,298,072
Port*	$175,891	$528,255	($352,364)
Recreation & Parks	$3,178	$0	$3,178
Sheriff	$1,983,519	$0	$1,983,519
Technology	$279,814	$0	$279,814
MTA*	$2,248,556	($1,963,553)	$4,212,110
Total	**$26,326,089**	**$974,519**	**$25,351,571**

Source: BLA survey of City departments
Notes: Departments with a "*" indicates primarily non-General Fund spending. The Port and City Administrator (the Moscone Center operator) received more revenue than they spent, indicated by negative net expenditures.

As shown above, Citywide net costs incurred by City Departments total $25.4 million, of which $21 million was primarily funded by the General Fund.

Details regarding department spending and revenues are included in an Appendix to this report.

Citywide Revenue

A full understanding of Citywide revenue from hosting APEC will not be available until at least March 2024, once sales tax data for November 2023 has been confirmed and reported by the Controller's Office. However, according to the San Francisco Travel Association, hotel revenue from the week of APEC totaled $54 million, representing a 46 percent revenue increase from the same week in November 2022. The incremental hotel tax revenue generated and directed to the General Fund is $2.4 million. Furthermore, additional visitors and movement within the city during the time in which APEC took place is expected to have an impact on tax revenue. Crossing data from the Bay Bridge revealed a 3.3 percent decrease (or 114,000 fewer trips) in car traffic into the city during November 2023 versus November 2022. BART daily station exit data for San Francisco showed an 8.1 percent increase in trips (31,000 more trips) for November 11 through 17, 2023, relative to the same week in 2022. Additionally, the Airport reported an additional 30,000 increase in visitors relative to the week prior to APEC.

FISCAL IMPACT

The Mayor's Office has determined that the Sheriff, Police, and Department of Emergency Management incurred expenditures beyond typical operations, totaling $12,810,000, of which $6,523,707 would be compensated by the requested release reserves and the remaining $6,286,293 will be funded by funds donated by the Special Events Committee.

Exhibit 4: Proposed Sources for Departmental APEC Reimbursement

Source	Amount
Sources	
Special Events Committee (File 24-0025)	$6,286,293
Requested Release of Reserved Funds (File 24-0032)	$6,523,707
Total Sources	**$12,810,000**

Source: Mayor's Office

Exhibit 5 below shows the planned allocation of the departmental reimbursements.

Exhibit 5: Proposed Reimbursements for Departmental APEC Spending

Department	Net Expenditures	Proposed Reimbursement	Unreimbursed Costs
Airport*	$114,187		$114,187
Emergency Management	$1,018,925	$415,000	$603,925
Public Health	$115,360		$115,360
Public Works	$2,609,170		$2,609,170
Economic & Workforce Dev	$134,552		$134,552
Fire	$927,679		$927,679
Police	$13,853,085	$10,455,000	$3,398,085
Police – Airport*	$1,298,072		$1,298,072
Recreation & Parks	$3,178		$3,178
Sheriff	$1,983,519	$1,940,000	$43,519
Technology	$279,814		$279,814
MTA*	$4,212,110		$4,212,110
Total	**$26,549,651**	**$12,810,000**	**$13,739,651**

Source: Mayor's Office, BLA Survey of Department Spending

Notes: Departments with a "*" indicates primarily non-General Fund spending. The City Administrator and Port are excluded from this table because they did not have unreimbursed costs.

Of the $13.7 million in unreimbursed costs, we estimate that approximately $8.1 million was funded by the General Fund. Including the $6.5 million intrafund transfer from the City's General Fund APEC Reserve, APEC events cost the City $14.6 million in General Fund costs.

POLICY CONSIDERATION

No Citywide Reimbursement Agreements

Three City Departments generated revenue from APEC: the Port and Moscone Center generated rental income, and the Airport estimates that incremental revenue from APEC visitors partially covered the associated increase in Airport costs. The remaining City Department net expenditures total $26.6 million, which will be reduced to $20.3 million following the $6.3 million donation from the Special Events Committee. Our review did not uncover any Citywide agreements for reimbursing City costs. Instead, the FY 2023-24 budget set aside $10 million in General Fund monies, of which $6.5 million is being requested to reimburse costs incurred by the Police, Sheriff, and Emergency Management.

Other Municipalities

The Budget and Legislative Analyst conducted a review of major diplomatic international events hosted by U.S. cities to compare how other municipalities structured their funding sources and uses. The most recent relevant examples include APEC 2011 in Honolulu, Hawaii, and NATO 2012 in Chicago, Illinois. Following their respective events, both municipalities received between $7-$15 million in federal reimbursement for costs associated with directing city resources to provide labor and security for the event. However, it appears that the relevant grant program is no longer funded in the federal budget.

Remaining Reserve Funds

If the requested $6,523,707 release of reserved funds is approved and directed to the Police Department, the Sheriff's Office, and the Department of Emergency Management as intended, there will be a remaining reserve balance in the General City Responsibility Fund of $3,476,293. The Board of Supervisors may consider the following actions related to that reserve balance: (1) do not spend the remaining $3.4 million funds and allow them to be carried over to the following fiscal year; (2) increase departmental reimbursements to cover a greater proportion of the unreimbursed costs incurred by APEC that are not included in the Mayor's reimbursement plan; and (3) allocate funding to small businesses in the APEC security zones that can demonstrate reduced revenues due to security challenges and fewer patrons.

RECOMMENDATION

Approve the requested release of reserved funds.

Appendix: City Department Spending Detail

Exhibit 6: Actual Expenditures for the Sheriff's Office

Dept.	Cost	Offset Amount	Offset Description	Activities
Sheriff	$1,983,519	$1,940,000	* Reimbursement from reserve fund	* Event staffing * Overtime

Source: BLA survey of City departments

APEC-related expenses incurred by the Sheriff's Office (SHF) total $1,983,519. Ninety-seven percent of these expenditures were allocated to salaries and mandatory fringe benefits, and a total of $929,022 was spent on overtime hours. SHF Chief Financial Officer Patrick Leung reported that Sheriff Deputies were deployed to staff APEC-sponsored events, provide security detail for guest dignitaries, and facilitate crowd control throughout the city, as needed. The remaining 3 percent of SHF expenditures include costs for electrical maintenance, food, and garage rentals.

All SHF APEC expenditures were sourced from the department's General Fund account. The Mayor's Office intends to reimburse SHF for $1,940,000, effectively decreasing APEC costs to the Sheriff to $43,519.

Exhibit 7: Actual Expenditures for the Police Department

Dept.	Cost	Offset Amount	Offset Description	Activities
Police	$13,853,085	$10,455,000	* Up to $6.5 million SEC reimbursement * 4.2 million from reserve fund	* Event staffing * Overtime

Source: Mayor's Office

SFPD did not submit APEC expenditures to the Budget and Legislative Analyst or provide the requested mutual aid agreements with other law enforcement agencies. The $13.8 million in incurred costs shown above represent data from the City's financial system and include overtime ($7.8 million), other wage and benefits ($4.3 million), and non-personnel costs ($1.7 million) for meals for San Francisco and mutual aid law enforcement officers and preparation of staging areas for crowd control. According to the Police Department, the City's mutual aid agreements with the California Highway Patrol, which provided 1,100 officers, and other law enforcement agencies, as well as its labor agreement with the San Francisco Police Officers Association, all required meals and/or pier diem benefits for officers working this special event.

Exhibit 8: Actual Expenditures for the Department of Emergency Management

Dept.	Cost	Offset Amount	Offset Description	Activities
Em. Mgmt.	$1,098,462	$415,000	* Reimbursement from reserve fund	* Providing additional ambulance units * Staffing and overtime

Source: BLA survey of City departments

As shown above, the Department of Emergency Management (DEM) incurred APEC-specific costs totaling $1,018,925. Approximately half of these expenses are attributed to the Memorandum of Understanding (MOU) between DEM and the State of California Emergency Medical Services Authority, which provided DEM with additional emergency services personnel and ambulances. The final invoice from EMSA has not yet been calculated and shared with the BLA. However, the MOU indicates the final amount incurred by DEM is not to exceed $550,000. The remaining expenditures include costs of labor, non-personnel services, and materials for additional DEM administration, emergency services, and communication that took place during the week of APEC.

A total of $1,018,925 in expenditures and encumbrances were charged to the department's General Fund, and an additional $79,537 was sourced from DEM's Homeland Security special revenue fund. DEM expects to receive $415,000 in reimbursements from the APEC reserve fund.

Exhibit 9: Actual Expenditures for the Department of Public Works

Dept.	Cost	Offset Amount	Offset Description	Activities
Public Works	$2,609,170	None	None	* Building maintenance * Street cleaning and inspection * Landscaping and beautification

Source: BLA survey of City departments

The Department of Public Works (DPW) reported APEC-related incurred costs totaling $2,609,170. Estimates shared by Deputy Director Bruce Robertson indicate expenses are attributed to labor and materials for street cleaning ($777,626), street inspection ($2,872), the emergency operations center ($14,253), greening and landscaping ($316,716), building maintenance (268,691), and graffiti removal/beautification ($306,084). Mr. Robertson further reported to the BLA that DPW continues to process all non-labor invoices, so the estimates are subject to revision. 74 percent of reported actual expenditures were funded from General Fund accounts with the remaining 26 percent funded by a state grant. DPW did not share how these costs will be absorbed into the budget but notes that the street cleaning expenditures given include typical cleaning crew expenses.[3]

[3] In a phone conversation with the BLA, Deputy Director Robertson clarified that while additional street cleaning services were provided in preparation for and during APEC, street cleaning expenses shown are for Zone B, where main APEC activities occurred, and where cleaning services would be performed regardless.

Exhibit 10: Actual Expenditures for the Office of the City Administrator

Dept.	Cost	Offset Amount	Offset Description	Activities
Administration	$1,214,101	$2,059,817	* Moscone Center revenue	* Staffing Moscone

Source: BLA survey of City departments

As shown above, the City Administrator (ADM) incurred a total of $1,214,101 in APEC-related expenses. Deputy City Administrator Katharine Petrucione informed the BLA that ADM spent a total of $211,907 in staff time on APEC-related activities and, additionally, reimbursed the Moscone Convention Center Operator for $1,002,194 in costs. ADM did not provide a detailed accounting of these reimbursed expenses. ADM reported $2,059,817 in revenue from the Moscone Convention Center following the summit and generated a net revenue of $845,716.

Ms. Petrucione further indicated that ADM's FY 2023-24 budget included $414,676 in costs and $957,800 in revenue.

Exhibit 11: Actual Expenditures for the Department of Public Health

Dept.	Cost	Offset Amount	Offset Description	Activities
Public Health	$115,360	None	None	* Additional staffing * Extended service hours

Source: BLA survey of City departments

The Department of Public Health (DPH) incurred a total of $115,360 in APEC-related costs. According to DPH manager Emily Gibbs, 100 percent of these expenses are attributed to additional program and project staffing. In preparation for and during APEC, DPH: (1) extended hours at the Maria X Martinez Health Resource Center;[4] (2) coordinated additional staff hours to support the Departmental Operations Center and Emergency Operations Center; (3) employed additional street teams hours to provide direct support for people experiencing homelessness in APEC areas; and (4) designated additional public health inspectors to ensure safety of food and street vendors at and around APEC. There was no pre-approved budget for APEC and DPH plans to absorb all costs into their overall budget.

Exhibit 12: Actual Expenditures for the Department of Technology

Dept.	Cost	Offset Amount	Offset Description	Activities
Technology	$279,814	$21,224	* Pending SFPD reimbursement	* Staffing

Source: BLA survey of City departments

As shown above, the Department of Technology (DT) incurred $279,814 in costs associated with APEC. According to DT Budget Manager Karina Yip, all of the department's expenditures are from

[4] The Maria X Martinez Health Resource Center provides low-barrier urgent care and transitional primary care for individuals experiencing homelessness. The program is part of DPH's Whole Person Care Initiative.

salaries and mandatory fringe benefits required to staff APEC-specific projects. Of these expenses, $258,590 in work order hours were charged to the department's annual authority control. An additional $21,224 in work hours were attributed to labor costs for the Police Department. Ms. Yip reported that these costs are expected to be reimbursed by SFPD depending on available funds. If SFPD is unable to issue a fund transfer, DT will absorb the costs under their General Fund continuing authority control account.

Exhibit 13: Actual Expenditures for the Office of Economic & Workforce Development

Dept.	Cost	Offset Amount	Offset Description	Activities
Economic & Workforce Dev	$134,552	None	* 95,000 reimbursement from SF Port	* Staffing * Ambassador services

Source: BLA survey of City departments

The Office of Economic and Workforce Development (OEWD) incurred a total of $134,552 in APEC-related costs. Additional department staffing comprises $35,552 of these expenditures while the remaining $95,000 was spent to provide ambassador services to support large-scale downtown events and bring foot traffic to the waterfront. OEWD reports they will receive full reimbursement from the Port for these ambassador services and will absorb the remaining expenses into their operating budget.

Exhibit 14: Actual Expenditures for Non-General Fund Departments

Dept.	Cost	Offset Amount	Offset Description	Activities
Airport	$464,187	$350,000 [1]	* Revenue from APEC visitors	* Staffing * Additional security * Signage and marketing
Police – Airport	$1,298,427	$0	None	* Overtime
Port	$175,891	$528,255	* Pier 29 rent revenue	* Staffing * Additional security
MTA	$4,212,110	None	None	* Staffing, maintenance, foregone garage and parking citation revenue

Source: BLA survey of City departments
Notes: [1] Projected estimate.

As shown above, the Airport and San Francisco Port incurred costs of $464,187 and $175,891, respectively during the week of APEC. Salaries and mandatory fringe benefits represented 85 percent of APEC-related expenditures for the Airport, which include labor and overtime attributed to additional staffing. Remaining expenditures are reported to come from costs for AirTrain wraps, marketing materials, signage for clear wayfinding, and additional safety and security set-up. In their response to the BLA, the Airport expects to generate $350,000 in marginal revenue, based on an approximate 30,000 increase in passengers from the week prior to the summit. Incurred costs not covered by additional revenue will be absorbed by the Airport's operating annual control fund. In addition, the Airport Police spent $1.3 million, primarily on overtime.

Labor costs for event coordination, oversight, and cleanup make up 71 percent of the Port's APEC expenses. Remaining expenditures include $20,000 in additional security for Fisherman's Wharf, $11,000 in materials and supplies, and $20,000 in communications infrastructure costs, all of which were paid from the Port's operating fund. Additionally, the U.S. Secret Service entered into a lease with the Port to host a reception at Pier 29 for President Biden and other distinguished guests. The event generated nearly $530,000 in revenue for the department.

The Municipal Transportation Agency reported $1.8 million in staffing costs, $0.5 million in community ambassadors and towing costs, $0.4 million in foregone garage revenue, and $1.6 million in foregone parking citation revenue related to APEC.

Other Departments

We also requested information from Recreation and Parks Department (RPD) and Fine Arts Museum (FAM) regarding their APEC spending, but they did not respond to our inquiries. We consulted information from the financial system, which we included in the body of our report and which indicates that RPD spent $3,178 in staffing costs. FAM did not track any APEC spending despite holding an event at the Legion of Honor.