

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: April 13, 2016 Budget and Finance Committee Meeting

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Item 1 File 16-0152 <i>(Continued from April 6, 2016)</i>	Departments: Office of Small Business Office of Economic and Workforce Development
EXECUTIVE SUMMARY	
Legislative Objectives	
<ul style="list-style-type: none"> • Ordinance appropriating \$343,359 of General Reserve for grants and administrative costs for the Legacy Business Registry and Historic Preservation Fund in the Office of Small Business under the Office of Economic and Workforce Development in FY 2015-16. 	
Key Points	
<ul style="list-style-type: none"> • On March 10, 2015, the Board of Supervisors established a Legacy Business Registry and set a one-time \$50 administrative fee for each Legacy Business. • On November 3, 2015, San Francisco voters approved an ordinance establishing a Legacy Business Historic Preservation Fund to provide grants to (a) Legacy Businesses and (b) building owners who lease space to Legacy Businesses for at least ten years. 	
Fiscal Impact	
<ul style="list-style-type: none"> • \$281,250 will provide 13 grants based on a maximum \$4.50 per square feet up to 5,000 square feet per site, or \$22,500 per year to each building owner who leases space for ten years to a Legacy Business. If 24 Legacy Business property owners qualify for a maximum grant, the cost is \$540,000 per year or a compounded \$29,700,000 over ten years. • \$37,109 will fund one new position in FY 2015-16, effective April 9, 2016. At the April 6, 2016 Budget and Finance Committee meeting, the Director of the Office of Small Business advised that there is sufficient salary savings in their FY 2015-16 budget to fund this position in the current fiscal year, without requiring these additional General Fund monies. This one new position will cost \$143,037 in General Fund costs in FY 2016-17. • \$25,000 will fund a consultant to develop brand identity, toolkit, marketing and a website. • The Office of Small Business is currently working with the Mayor's Office on the FY 2016-17 and FY 2017-18 budgets for the Legacy Business Program. Given (a) the lateness in FY 2015-16, (b) dedicated Legacy Business staff will not be hired until June 2016, (c) a RFP needs to be conducted, and (c) property owners need time to apply for grants, the requested \$343,359 supplemental appropriation in FY 2015-16 is not currently needed. 	
Recommendations	
<ul style="list-style-type: none"> • Amend the proposed supplemental appropriation to delete \$37,109 funding for salary and fringe benefits which are not required in FY 2015-16 and reduce the total supplemental appropriation from \$343,359 to \$306,250. • Approval of the proposed ordinance, as amended, is a policy decision for the Board of Supervisors. 	

MANDATE STATEMENT

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

BACKGROUND

Legacy Business Registry

On March 10, 2015, the Board of Supervisors approved an ordinance amending the City's Administrative Code to direct the Small Business Commission to establish a Legacy Business Registry and authorize an administrative fee not to exceed \$50 to be charged to each Legacy Business (File 14-1038; Ordinance No. 29-15). As specified in the Code, a Legacy Business is a business that has been nominated by a member of the Board of Supervisors or the Mayor and that the Small Business Commission determines, after public hearing, meets the following criteria:

- (1) has operated in San Francisco for 30 or more years, with no break in operations for more than two years and was founded or currently headquartered in San Francisco;
- (2) has contributed to the neighborhood's history and/or identity of a particular neighborhood or community; and
- (3) is committed to maintaining the physical features or traditions that define the business, including craft, culinary or art forms.

Under this previously approved ordinance, the Small Business Commission was also directed to survey San Francisco's Legacy Businesses and make substantive recommendations to the Board of Supervisors for the provision of Legacy Business programs no later than September 30, 2015. Such programs could include business and technical assistance, lease renewal and acquisition assistance, public education and commendation initiatives, financial incentives to encourage stability of businesses and business stabilization and neighborhood continuity initiatives. This survey of Legacy Businesses has not yet been conducted and submittal of recommendations to the Board of Supervisors regarding Legacy Business programs has not yet occurred.

According to Ms. Regina Dick-Endrizzi, the Executive Director of the Office of Small Business, to date, 12 applications from businesses requesting inclusion in the Legacy Business Registry have been submitted for processing and approval. Based on these 12 applications, to date, the Office of Small Business has collected a total of \$600 in administrative fees (12 x \$50). In addition, 20 other businesses have been nominated for inclusion in the Legacy Business Registry and are currently completing applications to be part of the Legacy Business Registry.

Legacy Business Historic Preservation Fund

On November 3, 2015, San Francisco voters approved Proposition J, which is an ordinance that established a Legacy Business Historic Preservation Fund to provide grants to (a) Legacy

Businesses and (b) building owners who lease space to Legacy Businesses for at least ten years. To receive such grants, Legacy Businesses would be required to be listed on the Legacy Business Registry. Under Proposition J, Legacy Businesses can receive annual grants of up to \$500 per full-time equivalent employee in San Francisco and building owners who lease space to Legacy Businesses for at least ten years can receive annual grants of \$4.50 per square foot of leased space up to 5,000 square feet per location, with cost of living annual adjustments. Proposition J also expanded the definition of Legacy Business to include businesses and nonprofits that have operated in San Francisco for more than 20 years (instead of 30 or more years)¹, have significantly contributed to the history or identity of a neighborhood, and, if not included in the Registry, would face a significant risk of displacement because of increased rents or lease termination. All of the funds to implement Proposition J are subject to Board of Supervisors appropriation approval.

Proposition J limits the Legacy Business Registry to 300 additional businesses each fiscal year, although there is no limit on the total number of Legacy Businesses that may ultimately qualify for funds. The Small Business Commission may adopt rules and regulations to implement Proposition J, which must be provided as written notice to the Clerk of the Board of Supervisors. If a member of the Board of Supervisors does not introduce an ordinance to disapprove such rules and regulations within 30 days or enact such ordinance within 90 days, the Small Business Commission regulations become effective.

Previous Budget and Finance Committee Meeting

On April 6, 2016, the Budget and Finance Committee approved and referred to the full Board of Supervisors an ordinance amending the FY 2015-16 and FY 2016-17 Annual Salary Ordinance to add one new 9774 Senior Community Development Specialist for the equivalent of seven pay periods in FY 2015-16 in the Office of Small Business under the Office of Economic and Workforce Development to administer the Legacy Business Registry and Historic Preservation Fund (File 16-0151). At the April 6, 2016 Budget and Finance Committee meeting, Ms. Dick-Endrizzi reported that she has sufficient surplus funds in the FY 2015-16 budget to fund this position in the current year. On April 6, 2016, the Budget and Finance Committee continued the subject supplemental appropriation ordinance (File 16-0152) to the Call of the Chair.

DETAILS OF PROPOSED LEGISLATION

Ordinance appropriating \$343,359 from the General Fund Reserve for grants for a rent stabilization program, professional services and related administrative costs for the Legacy Business Registry and Historic Preservation Fund in the Office of Small Business under the Office of Economic and Workforce Development.

The requested 9774 Senior Community Development Specialist would be a new full-time permanent position in the Office of Small Business to:

¹ Ms. Dick-Endrizzi advises that businesses that have been in business for 30+ years is the primary criteria, however, nominators can use a special consideration for including businesses with 20-29 years of longevity, which will be subject to the Small Business Commission's final determination.

- 1- Facilitate the estimated 300 annual Legacy Business Registry applications;
- 2- Manage the Legacy Business Registry;
- 3- Conduct the above-noted survey of Legacy Businesses and develop recommendations for Legacy Business programs for the Board of Supervisors;
- 4- Manage the Legacy Business promotional assistance program;
- 5- Facilitate and support educational programs for Legacy Businesses;
- 6- Administer the Legacy Business Historic Preservation Fund; and
- 7- Maintain data and produce annual reports and budget requests as necessary.

FISCAL IMPACT

The requested \$343,359 of General Fund Reserve monies would be appropriated as shown in Table 1 below.

Table 1: Supplemental Appropriation Request

City Grants for Rent Stabilization	\$281,250
Other Professional Services	25,000
9774 Senior Community Development Specialist salary and benefits	<u>37,109</u>
Total	\$343,359

City Grants for Rent Stabilization

The City Grants expenditure request for \$281,250 would fund a Legacy Business rent stabilization program under Proposition J, to provide annual grants to building owners who lease space for at least ten years to Legacy Businesses. Each annual grant would provide \$4.50 per square foot of leased space up to 5,000 square feet per location, or a maximum of \$22,500 per rent stabilization grant in the first year, with potential cost of living annual adjustments. Based on the maximum grant of \$22,500, the requested \$281,250 in this supplemental appropriation would fund up to 13 property owners for one year.

Ms. Dick-Endrizzi estimates that 8% of the 300 Legacy Businesses each year, or 24 Legacy Businesses, may have property owners who apply for these rent stabilization grants each year. If 24 Legacy Business property owners apply for rent stabilization grant funds each year, and each qualifies for the maximum grant award, the estimated cost would be \$540,000 annually (\$22,500 x 24). Once awarded, the annual rent stabilization grant could continue for the ten year term of the lease. Therefore, if an additional 24 Legacy Business property owners apply each year, this could result in at least an additional \$540,000 each year², or a compounded \$29,700,000 over a ten-year term.

Ms. Dick-Endrizzi also cautions that it is not currently known how many Legacy Businesses will actually enter into ten year leases with property owners who will request these rent

² As specified in Proposition J, the annual rent stabilization grant amount could be increased based on cost of living adjustments.

stabilization grants. In addition, Ms. Dick-Endrizzi advises that the Small Business Commission will be identifying criteria for awarding such rent stabilization funding. Once criteria are established, Ms. Dick-Endrizzi reports that these grants would then be awarded on a first-come, first served basis.

As noted above, Proposition J provides that Legacy Businesses can also receive annual grants of up to \$500 per full-time equivalent employee. The proposed supplemental appropriation would not fund grants for this purpose.

Other Professional Services

The Other Professional Services expenditure request for \$25,000 would fund a consultant, selected through a Request for Proposal (RFP) process, to develop (a) a logo and brand identity for the Legacy Business Registry Program, (b) toolkit for businesses, (c) marketing program and website to integrate with the Office of Small Businesses' website. This would be a one-time expenditure. Ms. Dick-Endrizzi also estimates approximately \$7,500 General Fund expenditures in FY 2016-17 for translation and printing of Legacy Business materials.

Senior Community Development Specialist Position

The 9774 Senior Community Development Specialist expenditure request for \$37,109 would fund one new permanent position for seven pay periods in FY 2015-16, based on an anticipated start date of April 9, 2016, as shown in Table 2 below.

Table 2: New Senior Community Development Specialist Position in FY 2015-16

<u>FY 2015-16</u>	Effective <u>4/9/16</u>	Effective <u>6/6/16</u>	<u>Difference</u>
9774 Senior Community Development Specialist Salary	\$26,516	\$7,576	\$18,940
Fringe Benefits	<u>10,593</u>	<u>3,027</u>	<u>7,566</u>
Total FY 2015-16	\$37,109	\$10,603	\$26,506

However, the earliest that such a new position could begin would be June 6, 2016, reflecting two pay periods in FY 2015-16, which would result in an estimated costs of \$7,576 for salary and \$3,027 for fringe benefits, or a total cost of \$10,603 in FY 2015-16 as shown in Table 2 above. At the April 6, 2016 Budget and Finance Committee meeting, Ms. Dick-Endrizzi advised that there is sufficient salary savings in their FY 2015-16 budget to fund this position in the current fiscal year, without requiring these additional General Fund monies. Therefore, the requested supplemental appropriation should be reduced by \$37,109 for salary and fringe benefits costs that do not require funding in FY 2015-16.

Ms. Dick-Endrizzi advises that she is requesting this position be included in her proposed FY 2016-17 budget for the Office of Small Business. If the proposed one new 9774 Senior Community Development Specialist position is hired, as shown in Table 3 below, this position is estimated to cost approximately \$143,037 in General Fund costs in FY 2016-17, with annual cost of living adjustments in the future.

Table 3: Annual Cost for Senior Community Development Specialist Position in FY 2016-17

<u>FY 2016-17</u>	
9774 Senior Community Development Specialist Salary	\$101,689
Fringe Benefits	<u>41,348</u>
Total FY 2016-17	\$143,037

Ms. Dick-Endrizzi does not currently anticipate requesting additional positions to manage the Legacy Business Registry and Legacy Business Preservation Fund. However, additional positions may be requested for supportive and educational programs depending on the response and need of Legacy Businesses in the future.

Revenues Anticipated

As noted above, to date, the Office of Small Business has collected \$600 in administrative fees based on the \$50 one-time administrative fee and 12 applications submitted. Proposition J limits the Legacy Business Registry to 300 additional businesses each fiscal year. Therefore, based on the \$50 one-time administrative fee, total revenues of \$15,000 per year would be realized (300 x \$50).

General Fund Reserve Balance

The City’s General Fund Reserve balance is currently \$73,391,443. If the Board of Supervisors approves the requested \$343,359 supplemental appropriation ordinance, the General Fund Reserve would be reduced to \$73,048,084.

POLICY CONSIDERATION

Projected Costs and Funding for Proposition J

The Controller indicated in the November 2015 Voter Information Pamphlet that Proposition J would result in significant costs to government if the Mayor and Board of Supervisors chose to fully fund the Legacy Business programs. According to the Controller’s estimates, the cost of these programs could grow by approximately \$2.1 million to \$3.7 million annually beginning in FY 2015-16, ultimately reaching a potential cost of between \$51 million and \$94 million annually once all qualifying legacy businesses and leased spaces are enrolled in 25 years. However, the Controller noted that these costs will depend on decisions made through the budget process, as an ordinance such as Proposition J cannot bind future Mayors and Board of Supervisors to provide funding for this or any other purposes. All such expenditures would be subject to appropriation approval by the Board of Supervisors.

Rules and Regulations to Award Grants for Legacy Businesses

As noted above, the Small Business Commission will be developing rules and regulations, including identifying criteria for awarding rent stabilization and Legacy Business grant funding. Such regulations could provide broader or more restrictive criteria, such as proving financial need or restricted to specific types or sizes of businesses, which could potentially limit or

expand the number of Legacy Businesses and property owners that would qualify to receive General Fund revenues appropriated for this purpose. As also noted above, the Small Business Commission must provide written notice to the Clerk of the Board of Supervisors regarding future Legacy Business rules and regulations. If a member of the Board of Supervisors does not introduce an ordinance to disapprove such rules and regulations within 30 days or enact such ordinance within 90 days, the Small Business Commission regulations become effective.

FY 2016-17 and FY 2017-18 Budgets for Legacy Business Program

Ms. Dick-Endrizzi advises she is currently working with the Mayor's Office on the FY 2016-17 and FY 2017-18 budget requests for the Legacy Business Program. Ms. Dick-Endrizzi further notes that, given (a) the lateness in FY 2015-16, (b) a dedicated Legacy Business staff person will not be hired until June of 2016, (c) hiring a consultant will require that a RFP process be conducted, and (c) property owners will still need time to apply for rent stabilization grants, the entire \$25,000 professional services and \$281,250 for rent stabilization grants may not be needed until FY 2016-17. As noted above, the requested \$37,109 for salary and fringe benefits is not required as surplus salary funds are available in FY 2015-16.

RECOMMENDATIONS

1. Amend the proposed supplemental appropriation to delete \$37,109 funding for salary and fringe benefits which are not required in FY 2015-16 and reduce the total supplemental appropriation from \$343,359 to \$306,250.
2. Approval of the proposed ordinance, as amended, is a policy decision for the Board of Supervisors.