# CITY AND COUNTY OF SAN FRANCISCO
## BOARD OF SUPERVISORS
### BUDGET AND LEGISLATIVE ANALYST

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April 3, 2020

**TO:** Budget and Finance Committee

**FROM:** Budget and Legislative Analyst

**SUBJECT:** April 8, 2020 Budget and Finance Committee Meeting

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**EXECUTIVE SUMMARY**

**Legislative Objectives**

- File 20-0296: The proposed ordinance would authorize the Treasurer to either (1) secure a short-term line of credit in an amount not to exceed $20,000,000, or (2) partner with financial institutions to provide short-term loans to small businesses in San Francisco.
- File 20-0297: The proposed ordinance would appropriate $20 million in short-term loan proceeds and $600,000 from the General Reserve, totaling $20.6 million. Section 4 of the proposed ordinance provides for an additional appropriation of $20 million from the General Reserve to provide for loan repayment in the event that the small business borrowers default on loan repayments. Section 4 further authorizes the Controller to reduce the $20 million General Reserve appropriation by June 30, 2021 based on the actual default experience.

**Key Points**

- File 20-0296 provides criteria for the proposed short-term loan program for which the City would (a) either borrow money or facilitate borrowing and (b) lend or facilitate lending to San Francisco small businesses that meet all three of the following requirements: (1) have a business registration issued by the Treasurer-Tax Collector, (2) no more than $2.5 million in annual gross receipts, and (3) the business is subject to a business license fee billed on the Unified License bill by the Treasurer-Tax Collector and has paid its annual business license fees in full.
- The loans would be unsecured and provided on a one-time and an interest-free basis at maximum of $15,000 per business and a term no longer than one year. The loans may be used to fund up to three months fixed operating costs. If borrowers default on loan repayment, the City would have to repay the lending institution that provided the funds for the program.

**Fiscal Impact**

- File 20-0297 would appropriate $20 million in loan proceeds for the proposed loan program. In addition, File 20-0297 would appropriate $20.6 million from the General Reserve to (a) pay for an estimated $300,000 in borrowing costs, (b) pay for an estimated $300,000 in Treasurer-Tax Collector administrative costs, which may include addition staff, and (c) fund a reserve account of $20 million to repay the City's short-term debt related to this program if borrowers default.

**Policy Consideration**

- According to the Controller's March 31, 2020 presentation to the Board of Supervisors, the General Reserve currently contains $150 million.

**Recommendation**

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

## MANDATE STATEMENT

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

City Charter Section 9.113(e) states that the Board of Supervisors may borrow money by short-term debt instruments in the manner provided by state law or City ordinance.

## BACKGROUND

The Corona Virus 2019 Disease (COVID-19) has prompted public authorities around the world to impose restrictions on travel and group gatherings to prevent the spread of the disease. On March 16, 2020, and in conjunction with five Bay Area County Health Officers, the San Francisco Health Officer issued Order C19-07, generally requiring, among other things, residents to remain at home. While necessary to maintain public health, these restrictions have imposed economic costs to businesses.

## DETAILS OF PROPOSED LEGISLATION

File 20-0296: The proposed ordinance would authorize the Treasurer to either (1) secure a short-term line of credit in an amount not to exceed $20,000,000 to fund a short-term loan program for San Francisco businesses, or (2) pursue opportunities with one or more financial institutions to provide short-term loans to small businesses in San Francisco. The details of the loan program are described below.

File 20-0297: The proposed ordinance would appropriate $20 million in short-term loan proceeds and $600,000 from the General Reserve, totaling $20.6 million. Section 4 of the proposed ordinance provides for an additional appropriation of $20 million from the General Reserve to provide for loan repayment in the event that the small business borrowers default on loan repayments. Section 4 further authorizes the Controller to reduce the $20 million General Reserve appropriation by June 30, 2021 based on the actual default experience.

**Short-term Loan Program for Small Businesses**

File 20-0296 provides criteria for the proposed short-term loan program for which the City would (a) either borrow money or facilitate borrowing and (b) lend or facilitate lending to San Francisco small businesses that meet all three of the following requirements:

1. The business has a business registration issued by the Treasurer-Tax Collector, as required by Article 12 of the Business and Tax Regulations Code
2. The business has no more than $2.5 million in gross receipts
3. The business has paid its annual business license fees, as required by Section 76.1 of Article 2 of the Business and Tax Regulations Code

File 20-0296 requires that the loans be unsecured and provided on a one-time and an interest-free basis. Each loan has a maximum amount of $15,000 per business and a term no longer than one year. The loans may be used to fund up to three months of “rent, mortgage, or other fixed operating costs.” The proposed ordinance allows the Treasurer to establish policies and procedures to prioritize applicants, including prioritizing businesses at risk of permanent closure.

If borrowers default on their loans, the City would have to repay the lending institution that provided the funds for the program.

According to Ms. Tajel Shah, Chief Assistant Treasurer at the Treasurer-Tax Collector, the Department is still in the process of identifying a lender and developing an application process for potential borrowers.

## FISCAL IMPACT

Table 1 below shows the sources and uses of the proposed loan program.

**Table 1: Sources and Uses of Proposed Appropriation for the Loan Program**

| **Sources** | **Amount** |
|---|---:|
| Loan Proceeds | $20,000,000 |
| General Reserve | 20,600,000 |
| **Total Sources** | **$40,600,000** |
| **Uses** | **Amount** |
| Loan Program | $20,000,000 |
| Reserve for Borrower Default | 20,000,000 |
| Borrowing Costs | 300,000 |
| Administrative Costs | 300,000 |
| **Total Uses** | **$40,600,000** |

Source: File 20-0297

As shown above, the File 20-0297 would appropriate $20 million in loan proceeds for the proposed loan program. In addition, File 20-0297 would appropriate $20.6 million from the General Reserve to (a) pay for an estimated $300,000 in borrowing costs, (b) pay for an estimated $300,000 in Treasurer-Tax Collector administrative costs, which may include addition staff, and (c) fund a reserve account of $20 million to repay the City’s short-term debt related to this program if borrowers default.

*Interest Payments*

Under the proposed ordinance, eligible small businesses would be issued loans of up to $15,000 over one year at no interest. According to Ms. Shah, because the short-term line of credit to be obtained by the City under the proposed ordinance (File 20-0296) would accrue interest and have other borrowing costs, the City would be liable for interest payments and borrowing costs to be paid from the General Reserve appropriation.

*General Reserve Appropriation*

Under File 20-0297, the Controller is authorized, without further Board of Supervisors' approval, to reduce the $20 million reserve account by June 30, 2021, given the actual defaults in the program through that time.

## POLICY CONSIDERATION

Administrative Code Section 10.60 (b) provides for a General Reserve equal to 2.75 percent of budgeted General Fund revenues in FY 2019-20. If the General Reserve is drawn down, the Administrative Code provides for appropriation of sufficient funds in the Annual Appropriation Ordinance to restore the required funding level. However, the Board of Supervisors may suspend this provision following a declaration of an emergency due to a natural disaster.

According to the Controller's March 31, 2020 presentation to the Board of Supervisors, the General Reserve currently contains $150 million.

## RECOMMENDATION

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

| Item 3<br>File 20-0038 | Department:<br>Human Services Agency (HSA) |
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## EXECUTIVE SUMMARY

**Legislative Objectives**

- The proposed resolution would (1) approve a second modification to the grant between the Human Services Agency (HSA) and the Low Income Investment Fund (LIIF) for administration of the San Francisco Child Care Facilities Fund and provision of technical assistance to child care providers to increase the grant amount by $40,926,045 from $25,377,250 to an amount not to exceed $66,303,295; and (2) extend the term by two years, for a total agreement term of July 1, 2017 through June 30, 2022.

**Key Points**

- In 1998, the Low Income Investment Fund (LIIF) launched the Child Care Facilities Fund to provide technical assistance and capital support to early care and education providers. LIIF is administered by the Office of Early Care and Education (OECE) in the Human Services Agency.
- In September 2017, the Board of Supervisors retroactively approved a grant between HSA and the Low Income Investment Fund (LIIF) for administration of the San Francisco Child Care Facilities Fund and provision of technical assistance to child care providers for the period of July 1, 2017, to June 30, 2020, in the amount of $25,377,250 (File 17-0832). In July 2018, HSA approved a first modification to the grant with LIIF which did not change the grant's not to exceed amount, and therefore, did not require approval from the Board of Supervisors.

**Fiscal Impact**

- The proposed resolution would increase the not-to-exceed amount of the contract by $40,926,045, for a total not to exceed $66,303,295. The City has added $9 million of excess revenue from the Education Revenue Augmentation Fund (ERAF) to augment services provided to support child care and early education facility development. The one-time additional funding of $9 million for the LIIF grant is available to be awarded to child care and early education providers for FY 2019-20, FY 2020-21, and FY 2021-22 with $3 million for each fiscal year. The two-year contract extension will accommodate the influx of this new facility funding.
- In addition to ERAF, funding for the LIIF grant will come from Child Care Capital Fund citywide child care development impact fees and IPIC neighborhood area plan child care development impact fees, as well as the General Fund, subject to Board of Supervisors appropriation approval. Funding will also come from CalWORKS, which is federally-funded under the Temporary Assistance for Needy Families (TANF) program.

**Recommendations**

- Amend the proposed resolution to clarify that the total increase is $40,926,045, from $25,377,250 under the first modification to a not to exceed amount of $66,303,295 under the second modification.
- Approve the proposed resolution as amended.

## MANDATE STATEMENT

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

## BACKGROUND

In 1998, the Low Income Investment Fund (LIIF) launched the Child Care Facilities Fund to provide technical assistance and capital support to early care and education providers. LIIF is administered by the Office of Early Care and Education (OECE) in the Human Services Agency.

In September 2017, the Board of Supervisors retroactively approved a grant between HSA and the Low Income Investment Fund (LIIF)[1] for administration of the San Francisco Child Care Facilities Fund and provision of technical assistance to child care providers for the period of July 1, 2017, to June 30, 2020, in the amount of $25,377,250 (File 17-0832). In July 2018, HSA approved a first modification[2] to the grant with LIIF which did not change the grant's not to exceed amount, and therefore, did not require approval from the Board of Supervisors.

**Competitive Process**

OECE selected LIIF after issuing a competitive request for proposals (RFP) in November 2016 to provide administration services to the San Francisco Child Care Facilities Fund and technical assistance to child care providers. LIIF was the only vendor who submitted a proposal. The RFP selection panel consisted of individuals knowledgeable on the subject matter and included staff from HSA, OECE, and the Office of Community Investment and Infrastructure (OCII). LIIF scored 91 points out of a total of 100. The contract term specified in the RFP is July 1, 2017 to June 30, 2020 with an option to extend for two additional years.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would (1) approve a second modification to the grant between the Human Services Agency (HSA) and the Low Income Investment Fund (LIIF) for administration of the San Francisco Child Care Facilities Fund and provision of technical assistance to child care providers to increase the grant amount by $40,926,045 from $25,377,250 to an amount not to exceed $66,303,295; and (2) extend the term by two years, for a total agreement term of July 1, 2017 through June 30, 2022.

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[1] The Low Income Investment Fund is a non-profit Community Development Financial Institution, a designation given by the U.S. Treasury Department to organizations that provide financial services in low-income communities.

[2] The first modification added a subcontract/consultancy service that was not part of the original scope of services. This new service included One-on-One Business Technical Assistance & Coaching, Family Child Care Business Workshop, Technology Trainings, and Financial Coaching workshops, which is being provided by Mission Economic Development Agency for FY 2018-19 and FY 2019-20 only. This service totals $112,331, which is within the contingency amount of $2,307,023 of the original grant.

Under the proposed grant, LIIF will continue to provide services in the following areas:

- Administration of facility grants (pre-development, capital development, start-up, move-in and renovation and repair grants) that increase and maintain licensed early care and education center and family child care capacity by developing new and improving existing facilities;
- Administration of financial assistance for licensed early learning settings such as: development, marketing, underwriting, financial grants and loans, monitoring, and repayment;
- Administration of the Child Development Capital Fund;
- Trainings and technical assistance related to the facilities' development process, including feasibility analysis, capital planning, architecture and design, construction development, permit process, start-up, and facility maintenance;
- Project management to ensure early childhood and education sites maintain a reasonable phase of construction and sign-off in larger, more complex projects;
- Individual technical assistance on capital campaigning, project financing, financial projections and board development;
- Data collection of facility development and expansion for reporting and evaluation purposes;
- Consultation and assistance regarding fiscal and operating issues to licensed early care and education centers serving low/moderate income children.
- Administration of the Interagency Plan Implementation Committee (IPIC)[3] capital new development grants to increase access to early childhood education services within specific neighborhood area plans, and track fund expenditures and total project expenditures by project.

In addition, as part of the proposed second modification, LIIF will conduct a San Francisco Early Care and Education Facility Needs Assessment for FY 2019-20 with a detailed analysis of the citywide supply and demand by neighborhood, with bi-yearly updates.

### Contractor Performance

According to the March 2019 Program Monitoring Report, LIIF was on target to achieve or exceed service and outcome objectives with the exception of three, in which HSA staff recommended reducing two service and outcome objectives to match actual performance.[4]

### Facility Selection

According to Mr. Graham Dobson, Senior Policy Analyst at OECE, the following priority criteria are used to award new facility funding:

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[3] The Interagency Plan Implementation Committee (IPIC) is coordinated by the San Francisco Planning Department and is responsible for prioritizing projects and funding, and coordinating ongoing planning efforts for designated neighborhood area plans.

[4] According to the Program Monitoring Report, the goal for (1) expansion childcare spaces funded through the Family Child Care Expansion grant should be reduced from 10 to 3, and (2) pre-development and startup grants should be reduced from 15 to 6.

- Facilities located in residential developments wholly or partially funded by the City and County of San Francisco (e.g. HOPE SF communities, alignment with the City's affordable housing plan, and public/private partnerships);
- Applicants serving a greater number of low to moderate income and/or CalWORKS, homeless or at-risk families, and/or enrollment of City-subsidized children;
- Early care and education spaces to be created and/or preserved will serve infants and/or toddlers;
- Early care and education spaces to be created and/or preserved will provide specialized services for children with special physical health or mental health needs;
- Acquisition of property for child care facility serving children under the age of 5;
- Nonprofit, 501(c)3 centers.

Additional funding criteria for facility grants include the following:

- The applicant must increase the number of child care spaces;
- The applicant must demonstrate financial and organizational viability for the child care operations for the term of the grant;
- The applicant must demonstrate that the grant funds are necessary to undertake or complete the project;
- The applicant must provide evidence that it has control of the designated child care site for the term of the grant (e.g., a lease with a minimum remaining term of five years for grants under $100,000; a lease with minimum term of 10 years for grants $100,000 to less than $200,000; a lease with minimum term of 15 years for grants $200,000 to less than $500,000, a lease with minimum term of 20 years for grants $500,000 to less than $700,000, a lease with minimum term of 25 years for grants $700,000 to less than $1,000,000) or a lease with a minimum term of 30 years for grants greater than $1,000,000).

In terms of how provider sites are selected for capital repair, a child care program must demonstrate the following:

- Without the grant funds their program will be closed; or
- Without repairs or equipment to be paid for with grant funds, the health and safety of children in care will be at risk; or
- The grant will be used to increase the accessibility of their program to children, families, or staff with special needs;
- Agency must demonstrate long-term sustainability beyond the term of the grant;
- The facility is located in a neighborhood where there is a demonstrated shortage of licensed early care and education serving low to moderate income families.

## FISCAL IMPACT

The proposed resolution would increase the not-to-exceed amount of the contract by $40,926,045, for a total not to exceed $66,303,295. According to Mr. Dobson, changes to the scope of services include the following:

- Alignment and coordination with citywide training and technical assistance systems of support for early childhood education providers to access (e.g. First 5 San Francisco, Children's Council of San Francisco, Wu Yee Children's Services);
- Alignment with First 5 San Francisco on resources for the purpose of facility and open space development and design to improve the quality of classrooms and outdoor play areas;
- Conduct a San Francisco Early Care and Education Facility Needs Assessment for FY 2019-20 with a detailed analysis of the citywide supply and demand by neighborhood, with bi-yearly updates.

Mr. Dobson states that the City has added $9 million of excess revenue from the Education Revenue Augmentation Fund (ERAF)[5] to augment services provided to support child care and early education facility development. The one-time additional funding of $9 million for the LIIF grant is available to be awarded to child care and early education providers for FY 2019-20, FY 2020-21, and FY 2021-22 with $3 million for each fiscal year. According to Mr. Dobson, the two-year contract extension will accommodate the influx of this new facility funding.

In addition to ERAF, funding for the LIIF grant will come from Child Care Capital Fund citywide child care development impact fees and IPIC neighborhood area plan child care development impact fees[6], as well as the General Fund, subject to Board of Supervisors appropriation approval. Funding will also come from CalWORKS, which is federally-funded under the Temporary Assistance for Needy Families (TANF) program. Table 1 below details the sources and uses of funds for the proposed grant from FY 2017-18 through FY 2021-22.

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[5] The Educational Revenue Augmentation Fund, or ERAF, is a state program that shifts a portion of local property taxes to public school systems in each county. If county auditors determine the fund has enough money to meet the minimum state funding requirements for its public schools and community colleges, the remaining funds are returned to the local governments.

[6] Impact fees are imposed by San Francisco Planning Code Sections 414 and 414A on new or proposed development projects to generate funding for the additional public infrastructure and facilities needed to serve new development.

**Table 1. Sources and Uses of Funds for Proposed LIIF Grant**

| Sources of Funds | FY 2017-18 (Actual) | FY 2018-19 (Actual) | FY 2019-20 (Budget) | Existing Agreement | FY 2020-21 (Proposed) | FY 2021-22 (Proposed) | Proposed Modification | Total |
|---|---|---|---|---|---|---|---|---|
| CalWorks | $427,871 | $185,635 | $651,051 | $1,264,557 | $651,051 | $651,051 | $1,302,102 | $2,566,659 |
| Child Care Capital Fund | $1,390,375 | $3,193,465 | $8,486,530 | $13,070,370 | $12,561,049 | $5,500,000 | $18,061,049 | $31,131,419 |
| IPIC Fees | $1,262,643 | $108,571 | $3,199,797 | $4,571,011 | $5,783,401 | $4,848,000 | $10,631,401 | $15,202,412 |
| General Fund | $322,848 | $274,308 | $605,472 | $1,202,628 | $605,472 | $605,472 | $1,210,944 | $2,413,572 |
| ERAF | $0 | $0 | $3,000,000 | $3,000,000 | $3,000,000 | $3,000,000 | $6,000,000 | $9,000,000 |
| ***Subtotal*** | ***$3,403,737*** | ***$3,761,978*** | ***$15,942,850*** | ***$23,108,566*** | ***$22,600,973*** | ***$14,604,523*** | ***$37,205,496*** | ***$60,314,061*** |
| Contingency | | | **$2,268,684** | **$2,268,684** | | **$3,720,550** | **$3,720,550** | **$5,989,234** |
| **Total Sources** | **$3,403,737** | **$3,761,978** | **$18,211,534** | **$25,377,250** | **$22,600,973** | **$18,325,073** | **$40,926,046** | **$66,303,295** |

| Uses of Funds | FY 2017-18 (Actual) | FY 2018-19 (Actual) | FY 2019-20 (Budget) | Existing Agreement | FY 2020-21 (Proposed) | FY 2021-22 (Proposed) | Proposed Modification | Total |
|---|---|---|---|---|---|---|---|---|
| Salaries & Benefits | $476,853 | $526,831 | $686,504 | $1,690,188 | $717,519 | $749,775 | $1,467,294 | $3,157,482 |
| Operating Expense | $2,823,770 | $228,680 | $449,356 | $3,501,806 | $418,182 | $429,182 | $847,364 | $4,349,170 |
| Indirect Cost (15%) | $103,114 | $113,327 | $170,379 | $386,820 | $170,355 | $176,844 | $347,199 | $734,019 |
| Consultancy Detail | $0 | $27,736 | $84,595 | $112,331 | $0 | $0 | $0 | $112,331 |
| Capital Detail | $0 | $2,865,404 | $14,552,016 | $17,417,420 | $21,294,917 | $13,248,722 | $34,543,639 | $51,961,059 |
| ***Subtotal*** | ***$3,403,737*** | ***$3,761,978*** | ***$15,942,850*** | ***$23,108,565*** | ***$22,600,973*** | ***$14,604,523*** | ***$37,205,496*** | ***$60,314,061*** |
| Contingency (10%) | | | | **$2,268,684** | | | **$3,720,550** | **$5,989,234** |
| **Total Uses** | **$3,403,737** | **$3,761,978** | **$18,211,534** | **$25,377,250**[7] | **$22,600,973** | **$18,325,073** | **$40,926,046** | **$66,303,295** |

Source: Appendix B-2 to Proposed Second Modification

Note: According to HSA, in FY 2017-18, expenditures that belonged to the Capital Detail category were erroneously included in the Operating Expense category. This was corrected for FY 2018-19 onwards.

The proposed expenditures during the two-year extension include cost of living increase for six full-time LIIF program staff, which are partially funded through this agreement. Operating expenditures in the proposed two-year term extension are lower than the current fiscal year because of lower rent. The "capital detail" account include grants for all phases of capital improvements for and development of early child care facilities.

[7] Figure may not add due to rounding.

## RECOMMENDATIONS

1. Amend the proposed resolution to clarify that the total increase is $40,926,045, from $25,377,250 under the first modification to a not to exceed amount of $66,303,295 under the second modification.
2. Approve the proposed resolution as amended.