CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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April 16, 2021

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: April 21, 2021 Budget and Finance Committee Meeting

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EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution authorizes the establishment of a small business emergency financial relief program to be administered by the Office of Economic and Workforce Development (OEWD). Under the proposed ordinance, the Director of OEWD would be authorized to enter into one or more agreements in an amount not-to-exceed $7.3 million, including (a) $4.2 million allocated to the California Rebuilding Fund, LLC to facilitate the origination of loans to certain small businesses in the City; and (b) $3.1 million allocated to Kiva Capital Management, LLC to provide monies for an interest buy down fund for loans facilitated by the California Rebuilding Fund to certain small businesses in the City. According to the proposed resolution, the $4,200,000 allocated to the California Rebuilding Fund and $3,100,000 to Kiva Capital Management could vary, depending on available program terms and demand.

Key Points

- The Board of Supervisors approved an ordinance on second reading on April 6, 2021, appropriating $7.6 million in property tax revenues to OEWD for loans to support small businesses in San Francisco impacted by the COVID-19 pandemic.
- Governor Newsom implemented the California Rebuilding Fund in November 2020 as a public-private partnership, providing loans of up to $100,000 to small businesses. Initial funding for the loans came from a guarantee from the California Infrastructure and Economic Development Bank. The Fund is administered by Kiva Capital Management, and loans are distributed to small businesses through Community Development Financial Institutions.
- The $4.2 million allocation to the California Rebuilding Fund would be used to make loans to small businesses that are underserved by banks (and would leverage total available loan funds up to $12 million).
- The $3.1 million allocation to Kiva would be used to make monthly interest payments on the loans received by small businesses in order to reduce the interest rate from the California Rebuilding Fund's current fixed interest rate of 4.25 percent to approximately 0 percent.

Fiscal Impact

- The Board of Supervisors approved an ordinance on April 6, 2021, appropriating $7.6 million in property tax revenues to OEWD to provide small business COVID-19 relief loans, which is the source of funds for the proposed loan agreement with the California Rebuilding Fund and the proposed grant agreement with Kiva.

Recommendation

- Because the proposed loan program, including the associated loan agreement and grant agreement, is consistent with the Board of Supervisors' appropriation of $7.6 million, the Budget and Legislative Analyst recommends approval of the proposed resolution.

MANDATE STATEMENT

City Charter Section 1.101 states that all rights and powers of a City and County which are not vested in another officer or entity by this Charter shall be exercised by the Board of Supervisors.

BACKGROUND

The Board of Supervisors approved an ordinance on second reading at the April 6, 2021 Board of Supervisors meeting, appropriating $24.75 million in property tax revenues to the Office of Economic and Workforce Development (OEWD) for various programs to support small businesses in San Francisco impacted by the COVID-19 pandemic (File 21-0177). Of the $24.75 million, $7.6 million is allocated to loan programs.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution authorizes the establishment of a small business emergency financial relief program to be administered by the Office of Economic and Workforce Development (OEWD). Under the proposed ordinance, the Director of OEWD would be authorized to enter into one or more agreements in an amount not-to-exceed $7.3 million, including (a) $4.2 million allocated to the California Rebuilding Fund, LLC to facilitate the origination of loans to certain small businesses in the City; and (b) $3.1 million allocated to Kiva Capital Management, LLC to provide monies for an interest buy down fund for loans facilitated by the California Rebuilding Fund to certain small businesses in the City. According to the proposed resolution, the $4,200,000 allocated to the California Rebuilding Fund and $3,100,000 to Kiva Capital Management could vary, depending on available program terms and demand.

According to the proposed ordinance, the intent of the small business emergency financial relief program is to provide microloans to small low-income businesses across the City, and loans to other small business across the City. These loans are intended to complement and expand existing local, State, and Federal initiatives aimed at providing relief for small businesses struggling as a result of COVID-19.

California Rebuilding Fund

Governor Newsom implemented the California Rebuilding Fund in November 2020 as a public-private partnership, providing loans of up to $100,000 to small businesses. Initial funding for the loans came from a guarantee from the California Infrastructure and Economic Development Bank[1]. The Fund is administered by Kiva Capital Management, and loans are distributed to small businesses through Community Development Financial Institutions.[2] Loans provided to small businesses are to be paid back over three to five years at an annual interest rate of 4.25 percent.

[1] The California Infrastructure and Economic Development Bank (IBank) was created in 1994 to finance public infrastructure and private development. IBank has broad authority to issue tax-exempt and taxable revenue bonds, provide financing to public agencies, provide credit enhancements, acquire or lease facilities, and leverage State and Federal funds.

[2] Community Development Financial Institutions (CDFIs) are specialized community based financial institutions with a primary mission to promote economic development by providing financial products and services to people and

Kiva Capital Management

Kiva Capital Management (Kiva) is a 501(c)(3) organization, established in 2005 and based in San Francisco, that provides microloans to businesses by linking the loan applicant to lenders. Once Kiva has reviewed and approved the loan application, the loan is posted to the Kiva system, and lenders crowd fund the loan in increments of $25 or more.

Loan Agreement

The proposed loan agreement is between the City as lender and the California Rebuilding Fund, LLC, as borrower, which is a wholly owned subsidiary of Kiva Microfunds. Under the loan agreement, the City will lend $2 million to the California Rebuilding Fund at an interest rate of 1.5 percent per year, which will serve as a source of funds for loans to small businesses, defined by the California Rebuilding Fund as businesses with fewer than 50 employees and annual revenues of less than $2.5 million, that are located in historically underbanked and disadvantaged communities. The allocation of $2 million to the California Rebuilding Fund is expected to leverage an additional $12 million in loans to eligible small businesses in San Francisco. The loan agreement provides for the City to waive the California Rebuilding Fund's repayment of the $2 million loan. While the proposed loan agreement is for $2 million, the proposed resolution provides for an allocation of $4.2 million in order to increase availability of loan funds through the California Rebuilding Fund as needed. As noted above, the amount allocated to the loan agreement could vary depending on available program terms and demand.

Grant Agreement

The proposed grant agreement in the amount of $2.5 million is between the City and Kiva Microfunds,[3] in which Kiva Microfunds will administer a small business loan program to provide loans to small businesses impacted by COVID. The grant agreement is in effect from April 1, 2021 through June 30, 2027.

Funds allocated to Kiva Microfunds by the City through the grant agreement are to be used to pay monthly interest payments for up to five years on loans made to small businesses by the California Rebuilding Fund up to $12 million, including $2 million allocated by the City under the proposed loan agreement and $10 million from other funds allocated by the California Rebuilding Fund. The intent is to reduce the interest owed by small businesses on loans obtained from the California Rebuilding Fund, which current carry a fixed interest rate of 4.25 percent. The more than six-year term of the proposed grant agreement is to correspond to the term of the loans obtained by small businesses from the California Rebuilding Fund, which are generally for five years

While the proposed grant agreement is for $2.5 million, the proposed resolution provides for an allocation of $3.1 million, which could vary depending on available program terms and demand.

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communities underserved by traditional financial institutions, particularly in low income communities. Community Development Financial Institutions in San Francisco include the Northern California Loan Fund, Pacific Community Ventures Investment Partners III, Pacific Community Ventures, Inc., TMC Development Working Solutions, and HomeBricks, Inc.

[3] Kiva Capital Management LLC is a wholly owned subsidiary of Kiva Microfunds, acting as an "impact-first asset manager, managing institutional-quality impact funds in underserved sectors."

Reporting Requirements

The proposed resolution provides for the OEWD Director to submit report(s)to this Board as and when such reports are available regarding loans made to small businesses located in the City, as provided by either the Rebuilding Fund or Kiva, including the aggregate amount of loans made for each loan type and average loan amount for each loan type.

FISCAL IMPACT

The Board of Supervisors approved an ordinance on April 6, 2021, appropriating $7.6 million in property tax revenues to OEWD to provide small business COVID-19 relief loans, which is the source of funds for the proposed loan agreement with the California Rebuilding Fund and the proposed grant agreement with Kiva.

Because the proposed loan program, including the associated loan agreement and grant agreement, is consistent with the Board of Supervisors' appropriation of $7.6 million, the Budget and Legislative Analyst recommends approval of the proposed resolution.

RECOMMENDATION

Approve the proposed resolution.

Item 9 File 21-0363	Department: Mayor Office of Housing & Community Development (MOHCD)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves a loan of $14,538,982, funded by Proposition A General Obligation Bond proceeds, to the Tenderloin Neighborhood Development Corporation (TNDC) to acquire 4200 Geary Boulevard for affordable housing development and ancillary commercial use, and pay for predevelopment costs.

Key Points

- The Mayor's Office of Housing and Community Development (MOHCD) issued a Notice of Funding Availability (NOFA) in December 2019 for $30 million in Proposition A funding for acquisition and predevelopment financing of affordable housing in Districts 1, 2, 4, 7, and 8. Of the $30 million, $15 million was allocated to projects serving low-income seniors. In response to the NOFA, MOHCD awarded financing to a senior housing project sponsored by TNDC at 4200 Geary Boulevard. The project will develop 98 units of housing for formerly homeless, extremely low-income, and low-income seniors.
- $11,064,396 is allocated to the purchase costs of 4200 Geary Boulevard. TNDC acquired 4200 Geary Boulevard in May 2020, using an acquisition loan from the Housing Accelerator Fund. The proposed loan refunds the initial loan from the Housing Accelerator Fund and other costs of purchase.
- $3,474,613 will pay for architectural design expenses, entitlement and permit fees, property taxes, geotechnical, environmental and historic studies, community outreach needs and organizational costs.

Fiscal Impact

- City loans to the 4200 Geary Boulevard project, estimated to be $42,330,606 including the acquisition, predevelopment, and permanent gap loan, comprise 47 percent of total estimated project funding of $90,374,412. Other funding sources are expected to be Low Income Housing Tax Credits, California Department of Housing and Community Development Multi-Family Housing Program loan, Federal Housing Loan Bank Affordable Housing Program grant funds, and developer equity.
- Repayment of the City loan to TNDC for the 4200 Geary Boulevard project will conform to MOHCD's Residual Receipts Policy. According to the policy, the TNDC will pay the City a portion of the project's residual receipts (net operating income after expenses.

Recommendations

- Amend the proposed resolution to state that it is the, the City's intent is to enter into a purchase and sale agreement in the future at the closing of the closing of the construction loan, in which the City will take ownership of the land at 4200 Geary Boulevard, and enter into a ground lease for the land with TNDC.
- 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

San Francisco voters approved Proposition A in November 2019, authorizing the issuance of up to $600 million in General Obligation Bonds to finance affordable housing development. The $600 million bond allocation included: $150 million for public housing, $220 million for low-income housing, $60 million for middle-income housing and preservation, $150 million for senior housing, and $20 million for educator housing.

The Mayor's Office of Housing and Community Development (MOHCD) issued a Notice of Funding Availability (NOFA) in December 2019 for $30 million in Proposition A funding for acquisition and predevelopment financing of affordable housing in Districts 1, 2, 4, 7, and 8. Of the $30 million, $15 million was allocated to projects serving low-income seniors and $15 million was allocated to projects serving low- and moderate-income families. In response to the NOFA, MOHCD awarded financing to two projects sponsored by Tenderloin Neighborhood Development Corporation, 4200 Geary Boulevard (subject of the proposed resolution) and 2550 Irving Street.[1]

The Controller's Office of Public Finance sold $254.6 million in Proposition A bonds in March 2021, which are the source of funding for the $30 million in loans to be granted in response to the December 2019 NOFA.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves a loan of $14,538,982, funded by Proposition A General Obligation Bond proceeds, to the Tenderloin Neighborhood Development Corporation (TNDC) to acquire 4200 Geary Boulevard for affordable housing development and ancillary commercial use, and pay for predevelopment costs. The proposed resolution also (1) approves the form of the loan agreement and ancillary documents; (2) ratifies and approves actions previously taken in connection to the project; (3) authorizes actions to be taken to implement the proposed resolution; and (4) finds that the loan is consistent the City's General Plan and the priority policies of Planning Code Section 101.1.[2]

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[1] According to MOHCD staff, 2550 Irving Street is a proposed family housing development that will be located in the Sunset and will be brought to the Board of Supervisors for approval at a future date.

[2] The eight priorities defined in Planning Code Section 101.2 states are that (1) existing neighborhood-serving retail uses will be preserved and enhanced and future opportunities for resident employment in and ownership of such businesses enhanced; (2) existing housing and neighborhood character will be conserved and protected in order to preserve the cultural and economic diversity of our neighborhoods; (3) the City's supply of affordable housing will be preserved and enhanced; (4) commuter traffic will not impede Muni transit service or overburden our streets or neighborhood parking; (5) a diverse economic base will be maintained by protecting our industrial and service

The proposed project will construct 98 units of rental housing affordable to formerly homeless, extremely-low income, and low-income seniors, as shown in Exhibit 1 below.

Exhibit 1: Unit Mix and Income Levels

Unit Type	Proposed Number of Units
Formerly Homeless [a]	
Studio	8
One Bedroom	12
Subtotal Formerly Homeless	20
Extremely Low Income [b]	
Studio	15
One Bedroom	15
Subtotal Extremely Low Income	30
Low Income [c]	
Studio	18
One Bedroom	29
Subtotal Low Income	44
One Bedroom (manager's unit)	1
Total Units	**98**

Source: Proposed Loan Agreement

[a] Operating expenses for the 20 units available to formerly homeless or at-risk to be homeless adults are subsidized by the Local Operating Subsidy Program (LOSP), which is a General Fund subsidy.

[b] Extremely low-income households have income up to 15 percent of the Area Median Income (AMI), defined by the federal Department of Housing and Urban Development (HUD) for the metropolitan area, including San Francisco. In 2020, 15 percent of AMI for a two-person household was less than $20,000. Operating expenses for these units are subsidized by the City's Senior Operating Subsidy program.

[c] Low-income households have income up to 60 percent of AMI, as defined by HUD, which in 2020 was $61,500 for a two-person household.

According to the proposed loan agreement, 20 units must be available to seniors who are homeless or at risk to be homeless during the time in which the units are subsidized by the Local Operating Subsidy Program, and 30 units must be available to extremely low-income seniors during the time in which the units are subsidized by the Senior Operating Subsidy program. If the Local Operating Subsidy Program subsidy to the project ends, then the 20 units may be rented to eligible seniors with household income at no more than 50 percent of AMI.[3] However, according

sectors from displacement due to commercial office development, and that future opportunities for resident employment and ownership in these sectors be enhanced; (6) the City will achieve the greatest possible preparedness to protect against injury and loss of life in an earthquake; (7) landmarks and historic buildings will be preserved; and (8) parks and open space and their access to sunlight and vistas will be protected from development.

[3] The proposed loan agreement does not specifically define the impact of ending the Senior Operating Subsidy program, which is a pilot program funded through one-time appropriations ($5 million for FY19-20 and in $1.9 million for FY21-22). According to MOHCD staff, the Senior Operating Subsidy is included in the projects as a five-year

to the proposed loan agreement, the maximum initial occupancy income level restrictions when averaged for all residential units may not exceed 60 percent of AMI. The proposed loan agreement further sets a goal that TNDC will work with MOHCD staff to revise unit mix so that the project will include a higher number of units serving households at 50 percent AMI.

Specific Loan Conditions

The proposed loan agreement specifies conditions that must be met by TNDC, including:

- Marketing plan and community outreach updates on marketing to the City's preference program participants (displaced tenants, neighborhood residents, African American residents, other) and meeting racial equity goals;
- Operating and development budgets that meet MOHCD underwriting guidelines and Commercial Space Policy requirements;
- Services plan and proposed staffing levels that meet MOHCD underwriting standards prior to gap/construction loan approval; and
- Cost containment strategies to maximize efficiency of MOHCD gap loans, and value engineering, setting a goal of $600 per square foot construction costs, including contingencies and escalation.

The loan agreement also provides for TNDC to provide information to MOHCD on the proposed use of commercial space and selection of commercial tenants; financial partners and selection of equity investors; and other financial and cash flow data.

Loan Documents

The proposed resolution also approves the following associated loan documents:

- Declaration of Restrictions and Affordable Housing Covenants, which requires TNDC to maintain the housing affordability levels defined in the loan agreement for the life of the project, even after the loan is paid in full or otherwise satisfied;
- The predevelopment and acquisition promissory notes for the loans; and
- The Deed of Trust between 4200 Geary Associates, LP (a limited partnership formed by TNDC for the acquisition and development of the 4200 Geary Boulevard project) and Old Republic Title Company, on behalf of the City as lender.

FISCAL IMPACT

The proposed loan to TNDC of $14,538,982 includes (a) $11,064,369 for property acquisition, and (b) $3,474,613 for predevelopment costs. The loan is for 57 years at 3 percent simple interest per year, although the loan agreement states that the MOHCD Director can reduce the interest rate to 0. The outstanding principal and any loan interest is due at the 57-year maturity date.

contract with one-year transition reserve. If the subsidy is not made permanent through an ongoing funding source, the contract will expire at the end of the term without renewal.

Acquisition, Predevelopment, and Permanent Loan

According to the proposed loan agreement, the loan is for 57 years, as noted above. However, according to MOHCD's loan evaluation documents, the initial loan is for three years. MOHCD will amend the loan agreement at a future date, subject to Board of Supervisors approval, to add an estimated $27,791,624 in a permanent gap loan, which will have a term of 57 years.

City loans to the 4200 Geary Boulevard project, estimated to be $42,330,606 including the acquisition, predevelopment, and permanent gap loan, comprise 47 percent of total estimated project funding of $90,374,412. Other funding sources are expected to be Low Income Housing Tax Credits, California Department of Housing and Community Development Multi-Family Housing Program loan, Federal Housing Loan Bank Affordable Housing Program grant funds, and developer equity.

Repayment of the City loan to TNDC for the 4200 Geary Boulevard project will conform to MOHCD's Residual Receipts Policy. According to the policy, the TNDC will pay the City a portion of the project's residual receipts (net operating income after expenses).

Property Acquisition ($11,064,369)

TNDC acquired 4200 Geary Boulevard, formerly a funeral home, on May 13, 2020, funded by a loan of $13,065,000 from the Housing Accelerator Fund, which included the purchase price of $10,675,930,[4] which is more than the appraised market value of $10,050,000 from December 2019. Total acquisition costs of $11,064,369 include closing and other costs of purchase.

Predevelopment Loan ($3,474,613)

The predevelopment loan to TNDC of $3,474,613 will pay for architectural design expenses, entitlement and permit fees, property taxes, geotechnical, environmental and historic studies, community outreach needs and organizational costs.

Developer Fee

The proposed loan agreement provides for payment of a developer fee to TNDC of $550,000. The developer fee is intended to compensate TNDC for (a) organizational capacity building and maintenance programs; (b) working capital; (c) housing development production and related programs; (d) physical improvements to existing housing owned or sponsored by TNDC; (e) increasing housing operations and asset management activities; (d) improving tenant improvements or commercial space in existing housing owned or sponsored by TNDC; (f) funding community facilities associated with existing housing owned or sponsored by TNDC; (g) providing supplemental tenant rental assistance for existing housing owned or sponsored by TNDC; or (h) programs supporting the welfare of residents residing in existing housing owned or sponsored by TNDC. The developer fee can also be used to pay predevelopment, preconstruction and

[4] The purchase amount of $11,675,930 was funded by a loan from the Housing Accelerator Fund to TNDC of $11,175,930 and TNDC equity of $500,000. The purchase price of $11,675,930 included extension fees due to the delay in closing the purchase caused by the pandemic.

construction costs, including reasonable administrative expenses, of future affordable housing development sponsored by TNDC in San Francisco.

According to MOHCD, the developer fee will be paid as follows:

Developer Fee Distribution

Milestone	% Fee	Amount
Acquisition/ close of predevelopment financing	15%	$165,000
Approval of schematic design/site plan	15%	165,000
Preliminary gap loan approval prior to submission of California Department of Housing & Community Development funding application	10%	110,000
Submission of joint California Debt Limit Allocation Committee and Tax Credit Allocation Committee application	10%	110,000
Total	**100%**	**$550,000**

Source: MOHCD, Developer Fee Policy

Land Banking

According to Section 3.8 of the proposed loan agreement, if the City determines by December 31, 2024 that the 4200 Geary Boulevard project is unlikely to be developed within a reasonable time period for any reason, including TNDC inability to obtain necessary financing, the City may require either that: (i) TNDC transfer the fee title to the property to another nonprofit corporation, limited partnership or limited liability company designated by the City with the intention that the property be developed for affordable housing; or (ii) that TNDC convey the fee title to City for an amount equal to the outstanding principal balance of the Loan, plus accrued and unpaid interest.

POLICY CONSIDERATION

Future Purchase and Sale Agreement

According to MOHCD staff, the City's intent is to enter into a purchase and sale agreement at the closing of the closing of the construction loan, in which the City will take ownership of the land at 4200 Geary Boulevard, and enter into a ground lease with TNDC. The Budget and Legislative Analyst recommends amending the proposed resolution to state that this is the City's intent.

RECOMMENDATIONS

1. Amend the proposed resolution to state that it is the, the City's intent is to enter into a purchase and sale agreement in the future at the closing of the closing of the construction loan, in which the City will take ownership of the land at 4200 Geary Boulevard, and enter into a ground lease for the land with TNDC.
2. Approve the proposed resolution as amended.

Item 10 File 21-0338	Department: Municipal Transportation Agency (MTA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve Modification No. 3 to San Francisco Municipal Transportation Agency's (SFMTA) Advanced Train Control System (ATCS) contract for the Central Subway Project with Thales Transport & Security Inc. (Thales), increasing contract amount by $12,831,744, from $14,898,557 to $27,730,300, and extending the substantial completion of the ATCS through April 29, 2022, and extending the warranty period to April 29, 2025.

Key Points

- The Central Subway ATCS contract with Thales ended on June 28, 2020. SFMTA administratively extended the contract term, which was not subject to Board of Supervisors approval because the contract amount had not been exceeded.
- The proposed Modification No. 3 includes design changes to conform to national fire codes; address changes to trackway design, stationing of installed wayside equipment, and placement of ATCS equipment in the Chinatown Station Train Control Room; make other technical changes; and accelerate ATCS implementation to be full certified and ready for revenue service by April 29, 2022.

Fiscal Impact

- The Central Subway budget was recently increased from an original budget of $1.578 billion to $1.891 billion on March 2, 2021 at the SFMTA Board, with most of the increased funding coming from the SFMTA operating budget. Funds for the proposed Thales contract modification are included in the Central Subway budget.

Policy Consideration

- The proposed Modification No. 3 includes a payment of $2,491,394 to compensate Thales for costs incurred due to construction changes and delays in the Central Subway project. SFMTA is paying Thales' delay claims to prevent further delay to completion of ATCS work and Central Subway revenue service. Because SFMTA recently reached a settlement with the general contractor regarding construction delays, SFMTA will not attempt to recover the amount of the payment to Thales.

Recommendation

- Because of the payment to compensate Thales, approval of the proposed resolution, as amended, is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

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

BACKGROUND

The San Francisco Municipal Transportation Agency's (SFMTA) Central Subway project will extend the Muni Metro's T-line 1.7 miles from the 4th Street Caltrain Station to Chinatown, mostly underground. The project, totaling approximately $1.9 billion, includes construction of a street-level station at 4th and Brannan Streets and three underground stations at Yerba Buena/Moscone Center, Union Square, and Chinatown Station. The project has incurred significant delays and cost increases, with anticipated revenue service delayed from December 2018 to Summer 2022.

Thales Transport & Security (Thales) has provided an Advanced Train Control System (ATCS) to Muni light rail since 1992. The ATCS enhances rail system performance and safety by controlling train speed, braking, routing, and headways more efficiently and accurately than possible under a manually operated fixed block system. It also provides real-time train location and arrival information for other external information systems used by SFMTA central control operations and passengers. The system, which has been in revenue service since 1998, has a 30-year expected useful life and will be in service until at least 2028.

In 2014, the Board of Supervisors retroactively approved a separate contract with Thales for the design review, software, and implementation and testing services for the ATCS system for the Central Subway, for a term of approximately six years and seven months from December 3, 2013 to June 28, 2020 and an amount not to exceed $21,363,292 (File 14-0474). SFMTA awarded the contract to Thales on a sole-source basis because ATCS is a proprietary system already in use by Muni and the Central Subway's ATCS must be interoperable with the existing ATCS.

In July 2014, SFMTA assigned the Thales contract to Tutor Perini, the Central Subway general contractor, to install ATCS equipment as subcontractor. In December 2019, the SFMTA Executive Director approved Modification No. 1 to the Thales contract, reassigning the contract back to SFMTA and reducing the not-to-exceed amount to $14,309,214, to reflect $7,054,078 in ATCS design expenditures paid through Tutor Perini's contract. In February 2021, the SFMTA Executive Director approved Modification No. 2, modifying ATCS designs concerning emergency stop equipment, station controllers, the location of wayside equipment installation, and increasing the not-to-exceed amount by $589,343, for a total not to exceed $14,898,557.[1] In April 2021, the SFMTA Board approved Modification No. 3, increasing the not-to-exceed amount by $12,831,744, for a total not to exceed $27,730,300, extending the contract term by

[1] SFMTA did not consider the increase in the contract amount to be subject to Board of Supervisors approval in accordance with Charter Section 9.118 because the new contract amount of $14,898,557 was less than the amount of $21,363,292 previously approved by the Board of Supervisors.

approximately one year and 10 months through April 29, 2022, and extending the warranty period through April 29, 2025.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Modification No. 3 to the Central Subway ATCS contract with Thales, increasing the not-to-exceed amount by $12,831,744, for a total not to exceed $27,730,300, extending the contract term by approximately one year and 10 months, for a total term of approximately eight years and five months from December 3, 2013 through April 29, 2022, and extending the warranty period through April 29, 2025.

The Central Subway ATCS contract with Thales ended on June 28, 2020. SFMTA administratively extended the contract term, which was not subject to Board of Supervisors approval because the contract amount had not been exceeded.

The proposed Modification No. 3 includes seven design changes: (i) modify designs to conform with national fire codes; (ii) modify ATCS track speed limits to accord with changes to trackway designs; (iii) modify ATCS design documents to reflect final changes in the final stationing of installed wayside equipment; (iv) reduce the number of Portal Intrusion Devices to accord with final designs; (v) provide two independent circuits for Platform Emergency Stop Buttons; (vi) modify ATCS design documents to reflect final changes in the placement of ATCS equipment in the Chinatown Station Train Control Room to accommodate separate Local System Management Center (LSMC) and Axle Counter Evaluator (ACE) racks; and (vii) accelerate ATCS implementation to be full certified and ready for revenue service by April 29, 2022.

The proposed Modification No. 3 also includes a payment of $2,491,394 to compensate Thales for costs incurred from delays to the Central Subway project. Delay costs include labor and materials cost escalation, lost labor hours, inefficiency, warranty and license extensions, overhead, and schedule impacts. The amount was negotiated based on labor rates from a separate as-needed ATCS service contract between SFMTA and Thales. According to SFMTA management, Thales was unable to access Central Subway work sites due to construction delays. SFMTA provided Thales with seven different testing start dates from March 2019 to September 2020, but rescinded them because the infrastructure to be tested was not complete or Tutor Perini was performing other work at the sites that would conflict with Thales' work. Thales was finally able to commence testing in January 2021, two years and 10 months after the original date. According to Ms. Lisa Walton, SFMTA Chief Technology Officer, these delays were caused by Tutor Perini, but SFMTA will not attempt to recover this amount because the SFMTA Board recently approved a settlement with Tutor Perini over project delay claims.[2]

[2] In December 2020, the SFMTA Board of Directors approved compensation to Tutor Perini for change orders, totaling $48.8 million. This amount was to compensate Tutor Perini for work performed under 671 change orders between 2013 and 2020, of which 286 were submitted by Tutor Perini claiming compensation for additional work and 385 were issued by SFMTA due to differing site conditions and design changes. According to the SFMTA staff report to the Board of Directors, the Change Order Work was necessary to complete the Project, but Tutor and the SFMTA did not agree as to the value and necessary scope of that Change Order Work. The Board of Directors approved an additional change order, totaling $6.9 million, in January 2021 to resolve Tutor Perini claims for costs

FISCAL IMPACT

The proposed Modification No. 3 would increase the not-to-exceed amount of the Thales contract by $12,831,744, for a total not to exceed $27,730,300. A breakdown of contract costs is shown in Table 1 below.

Table 1: Thales Contract Costs

Prior Contract Modifications	
Original Not-to-Exceed Amount	$21,363,292
Work Completed under Tutor Perini Contract	(7,054,078)
Modification No. 1 Not-to-Exceed Amount	*$14,309,214*
Modification No. 2 Increase	589,343
Current Not-to-Exceed Amount	*$14,898,557*
Proposed Modification No. 3	
ATCS Consolidated Changes and Acceleration	9,942,260
Task 10.10 Portal Intrusion Device	264,011
Task 10.20 Platform Emergency Stop Button	118,779
Task 50 CTS Equipment Room Layout Placement	15,299
Delay Claim	2,491,394
Proposed Modification No. 3 Subtotal	*$12,831,744*
Total Not-to-Exceed Amount	**$27,730,300**

The $9,942,260 amount for consolidated changes and acceleration would be paid in five increments at various milestones in the project. This amount includes approximately $8,873,740 in labor costs and approximately $1,047,569 in equipment costs, accounting for project escalation and contractor profit. According to Ms. Kelly Zhou, SFMTA Business Operations Manager, the project must be accelerated to complete work prior to the revenue service date due to delays in starting the work. The acceleration cost reflects the additional staffing needed to deliver the work prior to the revenue service date. If Thales is unable to meet the accelerated schedule for reasons within its control, it would pay SFMTA liquidated damages of $15,000 per day after April 29, 2022 and $50,000 per day after July 31, 2022.

According to Ms. Zhou, the contract prior to Modification No. 3 was funded by the allocated budget to date. The Central Subway budget was recently increased from an original budget of $1.578 billion to $1.891 billion on March 2, 2021 at the SFMTA Board as shown in Table 2 below. Funding for the Central Subway project is pooled in an unallocated (UNA) line item and is not applied directly to any particular charge. Instead, charges are pooled in one account and are applied to the pooled UNA account. The funding for Modification No. 3 was included in the increased budget to $1.891 billion as described above.

of additional work resulting from design changes to the Fire Alarm and Deluge Systems at all three underground stations. The contract between SFMTA and Tutor Perini now totals $996.7 million.

Table 2: Central Subway Funding Plan

	Original Budget	Current Budget
Federal Transportation Administration New Starts	$942,200,000	$965,335,633
California Proposition 1B (2006) Public Transportation Modernization, Improvement, and Service Enhancement Account Program (**PTMISEA)**	307,792,000	307,897,568
San Francisco County Transportation Authority Proposition K Sales Tax	137,727,000	143,691,968
California Proposition 1A High Speed Passenger Train Bond	61,308,000	61,308,000
Federal Congestion Mitigation and Air Quality Improvement (**CMAQ**) Program	41,025,000	41,025,000
State SB 1 Traffic Congestion Relief Program	14,000,000	9,000,000
SFMTA Operating*		276,221,806
SFMTA Proposition B*		54,102,025
Federal Transportation Administration One Bay Area Grant (Metropolitan Transportation Commission)*	74,248,000	15,980,000
Federal Transportation Administration Statewide * Transportation Improvement Program *		12,498,000
State Low Carbon Transit Operations Program *		4,000,000
Total	**$1,578,300,000**	**$1,891,060,000**

Source: SFMTA

*Note: $74,248,000 was previously categorized as RIP-SF/Other

POLICY CONSIDERATION

Payment to Compensate Thales

The proposed Modification No. 3 includes a payment of $2,491,394 to compensate Thales for costs incurred from delays to the Central Subway project that Thales is not responsible for. According to SFMTA management, denying Thales' delay claims would likely result in further delay to completion of ATCS work, which would likely delay Central Subway revenue service. Denying Thales' claims may also cause Thales to litigate its claims, transfer personnel off the project, and/or refuse to provide further services to SFMTA.

As mentioned above, the delays were caused by Central Subway general contractor Tutor Perini. SFMTA will not attempt to recover this amount because the SFMTA Board recently approved a settlement with Tutor Perini over project delay claims. Because of the payment to compensate Thales, the Budget and Legislative Analyst considers approval of the proposed resolution, as amended, to be a policy matter for the Board of Supervisors.

RECOMMENDATION

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

Item 11 File 20-1187	**Department:** Homelessness and Supportive Housing

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would establish the Safe Sleeping Sites Program, to be administered by the Department of Homelessness & Supportive Housing (HSH), to provide a sufficient number of outdoor sites to offer outdoor accommodation to people experiencing homelessness desiring access to dedicated Safe Sleeping Sites.

Key Points

- The COVID Command Center currently operates six Safe Sleeping Villages, which in addition to the above services, provide clients with meals and access to medical and social services. The average cost of operating a Safe Sleeping Village is $193 per person per night.
- Unlike Safe Sleeping Villages currently operated by the COVID Command Center, the proposed ordinance does not require provision of on-site clinical, medical, or social services. We estimate the average cost of operating a limited-service Safe Sleeping Site is $93 per person per night.
- HSH has stated the potential number of persons that could need accommodations at these sites could be as low as 500, and as high as 5,000 based on available data.

Fiscal Impact

- The estimated annual cost of operating limited-service Safe Sleeping Sites for 500 people would be $16.9 million. The estimated annual cost of operating a full-service Safe Sleeping Village for 500 people is $34.7 million. One-time costs for site preparation of existing Safe Sleeping Villages were $50,000 to $299,124 per site.
- The cost estimates do not include transportation to sites, which is required by the proposed legislation, or departmental staffing requirements.

Policy Consideration

- According to COVID-19 Command Center (CCC) staff, the Safe Sleep Village model is an effective model that meets program goals of providing safe places for occupants and neighborhoods. However, CCC staff expressed concerns regarding the limited-service model discussed above for Safe Sleeping Sites, noting that one limited-service site was closed, and another, on Jones Street, has been converted to a hybrid Safe Sleeping Village/Site service model due to neighborhood concern.

Recommendations

- Request the Department of Homelessness and Supportive Housing and the COVID Command Center provide details to the Board of Supervisors within sixty days on Safe Sleeping Program costs and a process to control costs.
- Approval of the proposed ordinance is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

City Charter Section 2.105 states that all legislative acts shall be by ordinance, approved by a majority of the members of the Board of Supervisors.

BACKGROUND

According to the 2019 San Francisco Point-in-Time Count, the City had 8,035 persons experiencing homelessness in 2019, of which 5,180 were unsheltered. In response to the COVID-19 pandemic, the City has reduced shelter capacities and established the COVID-19 Alternative Shelter Program including the Shelter in Place (SIP) program (hotels and a trailer site), congregate shelter and Safe Sleep. There are currently six active Safe Sleep Programs operated by the COVID Command Center.

Existing Safe Sleeping Program

In response to the need for social distancing to limit the spread of COVID-19, the Department of Emergency Management (DEM) (as part of the Emergency Operations Center) set up the Safe Sleeping Program, consisting of *Safe Sleep Sites* and *Safe Sleeping Villages*. *Safe Sleep Sites* were smaller sites that provided 24/7 security, a port-a-potty, a washing station, and garbage removal services. In contrast to Safe Sleeping Villages, Safe Sleeping Sites were not staffed by a services provider, and had no on-site food services, or access to clinical and social services. Safe Sleep Sites typically included less than 20 marked tent spaces separated by at least six feet, in accordance with CDC recommendations to reduce risk of COVID transmission. The COVID-19 Command Center has closed one Safe Sleep Site and has converted the Jones site into a hybrid Site/Village type model due to safety issues and opposition from neighborhood residents.

Safe Sleeping Villages provide 24/7 staffing by a service provider with experience working with people experiencing homelessness. Staff ensures a safe environment, monitor and record entrances and exits of all site residents, and conduct regular check-ins with site occupants. Residents are provided with behavioral health and harm reduction services, access to medical attention, food and water, as well on on-site bathrooms, showers, charging stations, and garbage service.

The COVID-19 Command Center has been able to sustain six Safe Sleeping Village locations noted below in Table 1.

Table 1: Annualized Operating Cost of Existing Safe Sleeping Villages

	Jones	Fulton	Stanyan	South Van Ness	Jennings	Gough	Total
CBOs	$1,086,906	$4,033,867	$842,070	$2,981,209	$1,251,757	$3,179,855	$12,288,758
Meal	n/a	$1,496,413	$607,803	Incl. above	Incl. above	$725,571	$2,829,788
Shower/Toilet	n/a	$305,781	$256,211	$139,512	$30,421	$396,300	$1,128,225
Utilities/Other	$16,140	$355,188	$202,877	$176,352	$33,372	$58,332	$842,261
Total	**$1,103,046**	**$6,191,249**	**$1,908,961**	**$3,297,073**	**$1,315,550**	**$4,360,058**	**$18,175,937**
Tent Capacity	15	108	40	33	22	44	**262**
Cost per tent per night	**$201**	**$157**	**$131**	**$274**	**$164**	**$271**	**$190**

Source: HSH

Note: Utilities/Other includes trash collection. CBO refers to non-profit social service providers. Meal costs are included at South Van Ness and Jennings site through the CBO provider. Total costs do not include one-time set-up or demobilization costs or CCC/HSH administrative costs.

As shown above, the annualized cost of the six Safe Sleeping Programs is approximately $18.2 million, or $190 per night per tent. According to Ms. Emily Cohen, HSH Interim Director of Strategy and External Affairs and Ms. Dylan Schneider, HSH Manager of Policy and Legislative Affairs, the existing Safe Sleep contracts were negotiated by the Emergency Operations Center, and then by the COVID Command Center. As of this writing, Safe Sleep Villages have been operating for more than nine months. According to HSH, start-up costs for each site ranged from $50,000 to $299,124 per site. These costs are for construction work usually done by Department of Public Works.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend the Administrative Code to make it City policy that all persons experiencing homelessness have a safe place to sleep. The proposed ordinance would establish the Safe Sleeping Sites Program, to be administered by the Department of Homelessness & Supportive Housing (HSH), to provide a sufficient number of outdoor sites to offer outdoor accommodation to people experiencing homelessness desiring access to dedicated Safe Sleeping Sites.

Transportation will be offered from the sleeping sites to HSH shelter reservation sites, Access Points, and “other pickup/drop off locations.”

Projected Need

HSH will need to provide forward-looking estimates of the number of persons who are likely to become homeless in the coming year. The results of the bi-annual Point in Time Counts of homeless persons are typically available in June of the same year. This data would be used along with other data sources including the quarterly tent and vehicle count conducted by the Healthy Streets Operations Center (HSOC). Additional analysis would need to be conducted to develop a metric to inform the rate of acceptance of these sites as required in the proposed legislation. However, the Department currently estimates the proposed program could require outdoor accommodation to be provided to as low as 500 and to upwards to 5,000 individuals based on the 2019 count of unsheltered count.

To determine the number of outdoor lots that must be procured, HSH and the Controller's Office are required to prepare, within 60 days following passage of the proposed ordinance and annually, an estimate of the number of people experiencing homelessness that would be willing to accept a referral to a Safe Sleeping Site.

Site Procurement

The Department of Real Estate will oversee site identification and acquisition, which may be publicly or privately owned. To assist in meeting the capacity mandate, the Department of Real Estate is directed to conduct a survey of real property in the City, and report to the Board of Supervisors within three months the number of actual or potentially feasible sites, and estimates of site procurement costs. The survey of property would be updated annually. Utilization of any land or sites with improvements owned by Municipal Transportation Agency, San Francisco Public Utilities Commission, and the Port will require approval by the governing commissions for these entities.

No information is presently available as the availability of locations that could provide appropriate sites for setting up these Safe Sleeping Sites, or the cost of site procurement.

Operating Requirements

Section 118.7 of the proposed ordinance requires all Safe Sleeping Sites accommodate up to 150 persons, provide access to bathrooms, ensure safety, as well as intake and exit planning, and to be open 8pm to 8am. The proposed ordinance also requires HSH to provide transportation between shelter reservation sites, access points, and other designated pick-up/drop-off locations.

Unlike Safe Sleeping Villages currently operated by the COVID Command Center, the proposed ordinance does not require provision of on-site clinical, medical, or social services.

Implementation

Within sixty days, HSH shall submit a plan to the Mayor and to the Board of Supervisors for opening Safe Sleeping Sites to accommodate 500 people within nine months and a plan to open sufficient sites to be able to accept all persons that HSH estimates would desire to relocate into Safe Sleeping Sites with an appropriate tent space within two years. The legislation requires the plan to include cost estimates.

Reporting

The proposed ordinance would require HSH to report on the effectiveness of the program within two years and then annually thereafter.

Pending Amendments

We have reviewed amendments to the legislation that may be proposed at the April 21, 2021 Budget & Finance Committee. The primary modifications introduced into the operating requirements include the provision of a disability access plan, access to harm reduction services, and provision of on-site personal protective equipment and disinfection of common surfaces. In addition, the sites would have to provide access electricity, garbage services, and showers.

The amendments also lengthen the time by which HSH must prepare and submit the implementation plan from 60 to 120 days subsequent to the passage of the proposed ordinance. HSH will be mandated to conduct an analysis to determine which models appear most effective, clarify and standardized CBO contracting procedures, develop a geographical plan for site location and community outreach strategies.

FISCAL IMPACT

As noted in Table 1 above, the average cost of a Safe Sleeping Village is $190 per tent per night, excluding one-time capital costs. Table 2 presents an estimate the more scaled down Safe Sleeping Site model required by the proposed ordinance. To create the estimate, we have removed CBO expense, and included a separate line estimate for private security services.

Estimates in Table 2 below do not include transportation costs or harm reduction and other possible on-site support required by the amendments to the legislation, noted above, and which would increase total costs. Based on these assumptions, the estimated cost of the more stripped-down implementation would be $93 per tent per night (or $2,778 per person per month).

Table 2: Estimates Safe Sleeping Site model

	Jones	Fulton	Stanyan	South Van Ness	Jennings	Gough	Total
Security*	$394,200	$2,838,240	$1,051,200	$867,240	$578,160	$1,156,320	$6,885,360
Harm Reduction**	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Shower/Toilet	n/a	$305,781	$256,211	$139,512	$30,421	$396,300	$1,128,225
Utilities/Other	16,140	$355,188	$202,877	$176,352	$33,372	$58,332	$842,261
Total	**$410,340**	**$3,499,209**	**$1,510,288**	**$1,183,104**	**$641,953**	**$1,610,952**	**$8,855,845**
Tent Capacity	15	108	40	33	22	44	262
Cost per tent per night	**$75**	**$89**	**$103**	**$98**	**$80**	**$100**	**$93**

Source: BLA based on HSH input.

Notes: Security assumes one guard per 15 tents, at a billing rate of $45 per hour, based on an existing HSH security guard contract. Estimates above do not include harm-reduction, required by a pending amendment to the legislation, or transportation.

The total annual cost of operating Safe Sleeping Sites according to the minimal requirement of the proposed ordinance (not including transportation, harm reduction and other on-site support) would range from approximately $16.9 million and $169 million annually, depending on the number of persons served, as shown in Table 3. This is approximately one-half of the cost of the current operational models at Safe Sleeping Villages, although the actual numbers could be higher if we were to include transportation, harm reduction, and other limited support services. As noted above, one-time costs for site preparation of existing Safe Sleeping Villages were $50,000 to $299,124 per site.

Table 3: Estimate of Annual Operating Costs

Capacity	Safe Sleeping Village (HSH Model)	Safe Sleeping Site (File 20-1187)
500 persons	$34,686,903	$16,900,468
5,000 persons	$346,869,029	$169,004,680

Source: BLA

Note: Safe Sleeping Villages assumes $190 per person per night, based on existing sites and the Safe Sleeping Site, with fewer services, is based on $93 per person per night, as discussed above

Departmental Staffing Requirements

HSH estimates that implementing and operating Safe Sleeping Sites for 5,000 individuals and complying with the ordinance's reporting requirements could require hiring nine additional staff. Based on the FY 2020-21 salary schedules, the total annual cost of these positions is $1,395,245. In addition, the actual staffing needs including additional staff at other City Departments such as Real Estate and others are not yet known. The creation of nine new positions that was estimated by HSH in the HSH's budget to support the Safe Sleeping Sites program would be subject to Board of Supervisors future appropriation approval.

Funding Source

According to HSH, under current federal policy, Safe Sleep Program Sites are classified as congregate shelter, and as such are not eligible for Federal Emergency Management Agency (FEMA) reimbursements. In addition, FEMA funding is likely to be eliminated, or significantly reduced, in FY 2021-22, assuming the U.S. has emerged from the COVID-19 pandemic. Hence the HSH budget will need to absorb the full cost of setting up and operating these Safe Sleeping Sites. Additionally, FEMA funds are only available to safely shelter COVID-vulnerable individuals and not an ongoing source of revenue.

The Board of Supervisors has previously authorized the release of $49.3 million in Proposition C funds from Budget and Finance Committee reserve to HSH, of which $25.9 million was designated to fund congregate shelter, Safe Sleep Sites, and shelter provider compensation (File 20-1378). $232.4 million of Proposition C monies remain on Budget & Finance Committee reserve in FY 2020-21.

POLICY CONSIDERATION

Limited-Service Model

According to COVID-19 Command Center (CCC) staff, the Safe Sleep Village model is an effective model that meets program goals of providing safe places for occupants and neighborhoods. However, CCC staff expressed concerns regarding the limited-service model discussed above for Safe Sleeping Sites, noting that one limited-service site was closed, and another, on Jones Street, has been converted to a hybrid Safe Sleeping Village/Site service model due to neighborhood concerns. For this reason, the Board may wish to consider implementing a hybrid, reduced service model as an alternative. However, to date, HSH and CCC have not developed a specific hybrid model proposal.

Variance in Operating Costs

As shown in Table 1, operating costs for Safe Sleeping Villages vary from $131 to $271 per person per night. In an effort to standardize costs, HSH stated it has started to collect and analyze budget and spending information in the interests of finding means to reduce total spending without compromising the provision of on-site services.

New Program

Because this is a new program for which a funding source has not yet been identified but would likely include General Fund sources, we consider approval of the proposed ordinance to be a policy matter for the Board of Supervisors.

RECOMMENDATIONS

1. Request the Department of Homelessness and Supportive Housing and the COVID Command Center provide details to the Board of Supervisors within sixty days on Safe Sleeping Program costs and a process to control costs.
2. Approval of the proposed ordinance is a policy matter for the Board of Supervisors.