

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

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November 12, 2021

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst



SUBJECT: November 17, 2021 Budget and Finance Committee Meeting

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<p>Item 1 File 20-0370 <i>(Continued from November 10, 2021)</i></p>	<p>Department: Department of Public Health</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution approves Amendment No. 3 to the contract with the AIDS Foundation, increasing the not-too-exceed amount by \$6,507,312 from \$35,608,159 to \$42,115,471. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • San Francisco AIDS Foundation was awarded the contract in 2016 for an amount not to exceed \$4,976,830 for two years, July 1, 2016 - June 30, 2018, with the option to renew the contract annually for a period of one year through June 30, 2026. The contract has been modified twice, increasing the contract not to exceed amount to \$35,608,159 and extending the term through June 2026. • The San Francisco AIDS Foundation is the lead agency on the contract and partners with community organizations to provide syringe access and disposal services to help reduce syringe sharing and lower the risk of transmission of HIV and other communicable diseases. This includes providing sterile injection equipment, health education, HIV and hepatitis C testing, and collection of disposed needles. • The proposed resolution expands funding and services for syringe clean-up through the Syringe Sweeps Program across the city, focusing on priority neighborhoods, hot spots, and encampments, and a work order with the San Francisco War Memorial Veterans Building. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The Department has spent \$17,277,830 on services under the contract with the AIDS Foundation in FY 2016-17 through FY 2020-21. The Department projects new expenditures in FY 2020-21 through FY 2025-26 of \$24,837,641, including a contingency, for a total contract not-to-exceed amount of \$42,115,471 over ten years. • The \$6,865,202 increase in funding under this proposed amendment will primarily go toward the Syringe Sweeps Program (\$5,850,775), which started as a Mayoral Enhancement in FY 2019-20. The additional \$34,685 in increased funding reflects the work order with the War Memorial. <p style="text-align: center;">Recommendations</p> <ul style="list-style-type: none"> • Request that the Department of Public Health provide a written report to the Budget and Finance Committee with updated performance data through FY 2020-21 for all service components of the contract with the San Francisco AIDS Foundation once this information is available. • Approve the proposed resolution 	

MANDATE STATEMENT

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

BACKGROUND

The Department of Public Health (DPH) issued a Request for Proposals (RFP) for an HIV prevention program with citywide syringe access and disposal services in March 2016. The San Francisco AIDS Foundation was the only vendor to respond with a Letter of Intent to submit a proposal. DPH, per the terms of the RFP, directly negotiated with the AIDS Foundation rather than continue a formal solicitation process. The AIDS Foundation is the lead agency on the contract and partners with Homeless Youth Alliance, Drug Users Union, Glide, and St James Infirmary to provide services. As the lead agency, the AIDS Foundation is responsible for coordinating services, mapping locations, centralizing, and distributing supplies, and holding regular meetings with partners to coordinate and problem solve.

The initial contract authorized an amount not to exceed \$4,976,830 for two years, July 1, 2016 - June 30, 2018, with the option to renew the contract annually for a period of one year through June 30, 2026. The contract has been modified twice, increasing the contract not-to-exceed amount to \$35,608,159 and extending the term through June 2026, as shown in Table 1 below.

Exhibit 1: Previous Contract Amendments

No.	Date	Description	Not-to-Exceed Amount
1	10/1/2017	Extended the contract for an additional year: July 1, 2018 - June 30, 2019.	\$9,839,487
2	2/1/2019	Extended the contract for seven years: July 1, 2019 – June 30, 2026 for a total term of 10 years (July 1, 2016 – June 30, 2026). (File 19-0242)	\$35,608,159

In 2020, the Department of Public Health had sought Board of Supervisors approval for Amendment No. 3 to the contract with the AIDS Foundation, increasing the not-to-exceed amount of the contract by \$6,507,312, for a total not to exceed \$42,115,471. However, due to the onset of the COVID-19 pandemic and ensuing City budget deficit, the Mayor's Office raised concerns about funding availability and the Department of Public Health withdrew its request to approve Amendment No. 3. With an improved fiscal outlook, these concerns have been alleviated and the Department of Public Health is now seeking Board of Supervisors approval for Amendment No. 3 to the contract.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves Amendment No. 3 to the contract with the AIDS Foundation, increasing the not-too-exceed amount by \$6,507,312 from \$35,608,159 to \$42,115,471. This additional funding reflects add-back of General Fund support to address additional syringe clean-up and disposal services, target priority neighborhoods and hot spots, and a work order with the War Memorial.

Services Provided

Through this contract, the AIDS Foundation and its partners provide syringe access and disposal services to help reduce syringe sharing and lower the risk of transmission of HIV and other communicable diseases. This includes providing sterile injection equipment, health education, HIV and hepatitis C testing, and collection of disposed needles. The contract in total supports 26.295 full-time equivalent (FTE) positions annually.

Amendment No. 3 continues citywide syringe access and disposal services, including:

- **Syringe Access & Disposal Services**, which provides access to sterile syringes and safer injection supplies to help reduce the likelihood of syringe sharing and decrease the risk of HIV transmission. In addition, this work includes providing 24-hour access to 10 large disposal kiosks and nine smaller boxes, and services through the Syringe Pick-up crew that provides syringe collection and disposal services 7 days a week from 7am-7pm. Community members may also text the AIDS Foundation 415-810-1337 to report syringe litter or can contact the Department of Public Works via 311.
- **Homeless Youth Alliance (HYA) wrap around program**, which targets wraparound and syringe services to young adults.
- **Harm Reduction Center**, which provides a physical space for clients to drop in, receive education on overdose prevention, harm reduction counseling, crisis intervention, and link to HIV and hepatitis testing and care.
- **Syringe Sweeps**, a Citywide clean-up effort, focusing on priority neighborhoods, hot spots, and encampments.
- **The War Memorial Work Order**, which provides syringe clean-up services around the San Francisco War Memorial Veterans Building.
- **Drug Testing Support**, which was a one-time effort in FY 2020-21 to support mobile drug testing services that allow drug users to test their drugs prior to consumption.

As noted above, the proposed Amendment No. 3 outlines expanded funding and services for syringe clean-up through the Syringe Sweeps Program across the City and specifically at the San Francisco War Memorial Veterans Building. The additional funding for the Syringe Sweeps

Program and War Memorial Work Order will support a total of 9.775 FTEs¹ for syringe clean up and management services, focusing on priority neighborhoods, hot spots, and encampments. The work order with the War Memorial will including managing the syringe disposal boxes in the city building as well as performing clean-up outside around the building property.

Exhibit 2 below shows the units of service included in the proposed third amendment.

Exhibit 2: San Francisco AIDS Foundation Contract Units of Service

Service Component	Units of Service / Number of Contacts in Proposed Amendment #3 (FY 21-22 through FY 25-26)	Change from Amendment #2 (approved 2019)
Syringe Access and Disposal Services	-4,302 hours of syringe access and disposal services per year (~12.63 clients contacted per hour for an estimated 54,300 contacts per year) -12 months of syringe access and disposal coordination and bulk purchasing -3,710 hours of Citywide sweeps	Removes 67 Community-Based Sweeps Events, which involved coordinating residents and staff of agencies working in areas where sweeps are necessary.
Homeless Youth Alliance	-12 months of personnel, operation, and syringe disposal services per year	No Change
Harm Reduction Center	-1,888 hours of syringe access services per year (16.6 contacts per hour for an estimated 31,341 contacts) -2,550 hours of lounge services per year (6 clients contacted per hour for an estimated 15,300 contacts per year)	Increased the estimated number of client contacts per hour for lounge services from 3 per hour to 6 per hour for an additional 7,650 contacts per year
Syringe Sweeps	-4,368 hours of syringe disposal services per year (includes providing education to community about safe disposal options)	New
War Memorial	-52 weeks of syringe disposal services (no direct services provided to individuals)	New

Source: Department of Public Health Contract with San Francisco AIDS Foundation, Appendix A

Note: One full-time equivalent position is approximately 1,768 hours

Units of Service

As shown in Exhibit 3 below, the monitoring report indicates that the AIDS Foundation exceeded the contracted number of units for contacts related to syringe access and disposal services and syringe clean-up services (Syringe Sweeps). However, services provided through the Harm Reduction Lounge did not meet their contracted targets. According to DPH staff, this was likely to do changes in service because of shelter-in-place orders during the spring of 2020.

¹ An additional 9.775 FTE will be supported through the Syringe Sweeps Program (9.65 FTE) and War Memorial Work Order (0.125 FTE); however, the net increase in contract positions is 7.27 FTEs due to a reduction in the existing Syringe Sweeps program from 11.55 to 9.05 FTE. This reduction in FTEs was made to offset increased operating costs.

Exhibit 3: San Francisco AIDS Foundation Contract Performance FY 2019-20

Units of Service	Contracted	Actual	Actual as Percentage of Contracted
Syringe Access and Disposal Contacts	54,300	68,310	125.8%
Harm Reduction Center, Hours	2,550	1,723	67.6%
Harm Reduction Center, Contacts	8,079	9,190	113.8%
Harm Reduction Center, Syringe Access Hours	1,888	1,480	78.4%
Syringe Sweeps Hours	4,368	5,336	122.2%

Source: Monitoring Report FY19-20, San Francisco AIDS Foundation HIV Syringe Access and Disposal Services
 Note: The contract monitoring report for Coordination & Bulk Purchasing and Syringe Access & Disposal Services Contacts have listed contracted numbers that are slightly higher than what is in the contract: 54,310 vs. 54,300 contacts for Coordination & Bulk Purchasing and 8,079 vs. 8,000 for Syringe Access & Disposal Services Contacts.

According to the Department of Public Health, the War Memorial Work Order began in July 2021 and have not yet been monitored for performance. The Drug Testing Support work was one-time funding for FY 2020-21 and not included in monitoring.

Homeless Youth Alliance

The Homeless Youth Alliance, a subcontractor of the AIDS Foundation, was separately monitored in FY 2018-19 but not in FY 2019-20. The Department of Public Health advises that staff that typically monitor contractor performance were re-assigned to pandemic tasks. Moving forward, this program will resume being monitored as a stand-alone program.

Syringe Collection

Syringe Sweeps Clean-up Team has a contracted objective of collecting 120,000 syringes annually. According to data provided by DPH, the Syringe Sweep Clean-up Team collected 173,598 syringes in calendar year 2020.

FISCAL IMPACT

Exhibit 5 provides an overview of changes between the existing agreement and the proposed amendment.

Exhibit 5: Proposed Funding Changes for San Francisco AIDS Foundation Contract (FY 2016-17 through FY 2025-26)

Program	Current Funding (Approved Under Amendment #2)	Proposed Funding (Amendment #3 Under Consideration)	Change	Explanation
Syringe Access & Disposal	\$21,870,049	\$22,650,163	\$390,707	Cost of Doing Business increase
HYA Wrap Around Program	1,664,821	1,696,126	31,232	Cost of Doing Business increase
Harm Reduction Center	9,228,000	9,543,092	315,092	Cost of Doing Business increase
Syringe Sweeps Program		5,850,775	5,850,775	New Services added in FY 2019-20; Cost of Doing Business increase
War Memorial Work Order		34,685	34,685	Work order added for FY 2021-22 through FY 2025-26
<i>Subtotal</i>	<i>\$32,762,870</i>	<i>\$39,773,841</i>	<i>\$7,010,971</i>	
Contingency Adjustment*	2,845,290	2,341,630	(503,660)	
Total	\$35,608,160	\$42,115,471	\$6,507,312	

Source: Department of Public Health

*The contingency adjustment in the proposed funding amount in Amendment #3 (under consideration) is determined based on projected expenditures for FY 2021-22 through FY 2025-26

**Total varies from the not-to-exceed amount due to rounding.

As shown above, the majority of the increased \$6,507,312 funding is being allocated to the Syringe Sweeps program. Of the increased amount, \$5,850,775 supports a total of 9.65 FTE in the Syringe Sweeps Program for syringe clean-up and management services. The \$34,685 work order with the War Memorial supports 0.125 FTE and includes managing the syringe disposal boxes in the City building as well as performing clean-up outside around the building property. Cost of Doing Business increases added to the contract are projected through FY 2025-26 and amounts beyond the current fiscal year are subject to future Board of Supervisors' approval.

The contract budget covers the units of service, as detailed above, and the health educator and administrative functions at the AIDS Foundation and its subcontractors. Contract expenditures are funded by the General Fund.

Actual and Projected Expenditures

The Department has spent \$17,277,830 on services under the contract with the AIDS Foundation in FY 2016-17 through FY 2020-21. The Department projects new expenditures in FY 2020-21 through FY 2025-26 of \$24,837,641, including a contingency, for a total contract not-to-exceed amount of \$42,115,471 over ten years.

POLICY CONSIDERATION**FY 2020-21 Performance Data**

The Department of Public Health is in the process of conducting its performance monitoring and updating its performance data for this contractor in FY 2020-21. We recommend that the Department of Public Health provide a written report to the Board of Supervisors on the performance of these services in FY 2020-21 upon completing performance monitoring of the program.

RECOMMENDATIONS

1. Request that the Department of Public Health provide a written report to the Budget and Finance Committee with updated performance data through FY 2020-21 for all service components of the contract with the San Francisco AIDS Foundation once this information is available.
2. Approve the proposed resolution.

<p>Item 2 File 21-0538</p>	<p>Department: Mayor’s Office of Housing and Community Development (MOHCD)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed ordinance would appropriate \$128,300,000 from the Fiscal Cliff Reserve to MOHCD, of which (a) \$64,150,000 would be appropriated for rent relief under the Rent Resolution and Relief Fund; and (b) \$64,150,000 would be appropriated for the acquisition, creation and operation of affordable, social housing under the Housing Stability Fund in FY 2021-22. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • Funds in the Rent Resolution and Relief Fund may be used to provide grants to landlords to cover up to 50 percent of unpaid rent (and up to 65 percent for landlords with 10 or fewer units) related to COVID-19. Funds in the Housing Stability Fund would be used for the acquisition, preservation, and development of affordable social housing. MOHCD has not determined which projects would be funded by the Housing Stability Fund. • In April 2021, the Board of Supervisors approved an ordinance appropriating \$20,100,000 from property tax revenues to MOHCD, of which \$10,050,000 was appropriated for rent relief under the Rent Resolution and Relief Fund, and \$10,050,000 was appropriated for the acquisition, creation, and operation of affordable, social housing under the Housing Stability Fund (File 20-1364). According to Benjamin McCloskey, MOHCD Deputy Director of Finance and Administration, none of this appropriation has been spent to date. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The proposed ordinance would appropriate \$128,300,000 from the Fiscal Cliff Reserve to MOHCD, of which \$64,150,000 would be appropriated for rent relief under the Rent Resolution and Relief Fund and \$64,150,000 would be appropriated for the acquisition, creation and operation of affordable, social housing under the Housing Stability Fund. <p style="text-align: center;">Policy Consideration</p> <ul style="list-style-type: none"> • The proposed ordinance appropriates \$128.3 million of the \$293.9 million assigned to the Fiscal Cliff Reserve, leaving a reserve balance of \$165.6 million. Appropriation from the Fiscal Cliff Reserve could result in future budget shortfalls, but whether such shortfalls will occur or the extent of such shortfalls is not yet known. The proposed ordinance is consistent with prior Board policy actions, but because the appropriation could require future budget adjustments, the Budget and Legislative Analyst considers approval to be a policy matter for the Board of Supervisors. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approval of the proposed ordinance 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.

BACKGROUND

Proposition I

San Francisco voters approved Proposition I in November 2020, increasing the real estate transfer tax to 5.5 percent on transactions of \$10 million to \$25 million and to 6 percent on transactions of \$25 million or more. The tax is a General Fund revenue. According to the Controller’s FY 2021-22 – FY 2022-23 Revenue Letter, Proposition I is projected to generate \$101.6 million of General Fund revenues net of baseline transfers in FY 2021-22 and \$108.5 million of General Fund revenues net of baseline transfers in FY 2022-23.

In August 2020, the Board of Supervisors approved a resolution stating the Board’s intention to appropriate revenue generated by Proposition I to the COVID-19 Rent Resolution and Relief Fund and a Social Housing Program Fund (File 20-0708).¹ In October 2020, the Board of Supervisors approved two ordinances, amending the Administrative Code to establish two funds, the COVID-19 Rent Resolution and Relief Fund (File 20-0611) and the Housing Stability Fund (File 20-1183), with the intent to deposit a portion of the revenues generated by the increase in the real estate transfer tax to each fund. According to File 20-0611, 50 percent of the increased real property transfer tax revenues in calendar year (CY) 2021 and CY 2022 would be appropriated to the COVID-19 Rent Resolution and Relief Fund for the Mayor’s Office of Housing and Community Development (MOHCD) to award grants until March 2023, and according to File 20-1183, increased real property transfer tax revenues would be appropriated to the Housing Stability Fund. Neither ordinance required the appropriation of increased real estate transfer tax revenues to the COVID-19 Rent Resolution and Relief Fund or the Housing Stability Fund.

Fiscal Cliff Reserve

Administrative Provision 32.1 of the FY 2021-22 – FY 2022-23 Appropriation Ordinance created a \$293.9 million Fiscal Cliff Reserve. According to the Controller’s Office, the reserve has not been used as of the writing of this report. The purpose of the Fiscal Cliff Reserve is to provide funding for potential shortfalls in budgeted spending in FY 2022-23 and beyond after the exhaustion of federal and state stimulus funding.

¹ In File 20-1183, the Housing Stability Fund was originally titled the Social Housing Program Fund.

Prior Appropriation

In April 2021, the Board of Supervisors approved an ordinance appropriating \$20,100,000 from property tax revenues to MOHCD, of which \$10,050,000 was appropriated for rent relief under the Rent Resolution and Relief Fund, and \$10,050,000 was appropriated for the acquisition, creation, and operation of affordable, social housing under the Housing Stability Fund (File 20-1364). According to Benjamin McCloskey, MOHCD Deputy Director of Finance and Administration, none of this appropriation has been spent to date.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would appropriate \$128,300,000 from the Fiscal Cliff Reserve to MOHCD, of which (a) \$64,150,000 would be appropriated for rent relief under the Rent Resolution and Relief Fund; and (b) \$64,150,000 would be appropriated for the acquisition, creation, and operation of affordable, social housing under the Housing Stability Fund.

Funds in the Rent Resolution and Relief Fund may be used to provide grants to landlords who agree to waive unpaid rent related to COVID-19. Such grants may cover up to 50 percent of unpaid rent (and up to 65 percent for landlords with 10 or fewer units) up to \$3,000 per unit per month. Landlords must waive all unpaid rent for the period covered by the grant. As stated above, the previous \$10,500,000 appropriation to the Rent Resolution and Relief Fund has not been expended yet. Additionally, federal funding has provided \$120.1 million for rent relief programs administered by the City and by the State for San Francisco residents, of which \$68.1 million has been disbursed.²

Funds in the Housing Stability Fund would be used for the acquisition, preservation, and development of affordable social housing. Administrative Code Section 10.100-78 defines social housing developments as restricted for households up to 80 percent of the median income in a zip code where the project is located, with the restriction lasting for the useful life of the property or at least 99 years. MOHCD has not determined which projects would be funded by the Housing Stability Fund.

FISCAL IMPACT

The proposed ordinance would appropriate \$128,300,000 from the Fiscal Cliff Reserve to MOHCD, of which (a) \$64,150,000 would be appropriated for rent relief under the Rent Resolution and Relief Fund; and (b) \$64,150,000 would be appropriated for the acquisition, creation and operation of affordable, social housing under the Housing Stability Fund in FY 2021-22. The specific uses of funds have not been determined.

² According to MOHCD, \$14.3 million of rent relief funds have been disbursed from the City program funded by federal funds. According to State Department of Housing & Community Development, \$53.8 million of State rent relief funds have been disbursed in San Francisco. Both spending amounts are as of November 9, 2021.

POLICY CONSIDERATION**Fiscal Cliff Reserve**

The proposed ordinance appropriates \$128.3 million of the \$293.9 million assigned to the Fiscal Cliff Reserve, leaving a reserve balance of \$165.6 million. According to the Annual Appropriation Ordinance, this budget contingency reserve is for the purpose of managing projected budget shortfalls following the spend down of federal and state stimulus funds and other one-time sources used to balance the FY 2021-22 and FY 2022-23 budget. According to the March 2021 Update to the Five-Year Financial Plan, prepared jointly by the Controller, Mayor's Budget Office, and Budget and Legislative Analyst's Office, the projected budget deficit will increase in FY 2023-24, for a total projected budget deficit of \$499.3 million through FY 2025-26. According to the Controller's Revenue Letter for FY 2021-22 and FY 2022-23, "while these projected future year shortfalls are modestly mitigated by actions proposed in the Mayor's proposed budget, significant gaps are likely to remain in fiscal years beyond the two-year budget period."

Appropriation of \$128.3 million from the Fiscal Cliff Reserve could result in future budget shortfalls, but whether such shortfalls will occur or the extent of such shortfalls (including whether such shortfalls exceed the remaining balance of \$165.6 million) is not yet known. The proposed ordinance is consistent with prior Board policy actions, but because the appropriation could require future budget adjustments, the Budget and Legislative Analyst considers approval to be a policy matter for the Board of Supervisors.

RECOMMENDATION

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

Item 8 File 21-1154	Department: Controller's Office of Public Finance
EXECUTIVE SUMMARY	
<p>Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution authorizes the San Francisco Unified School District to issue, and for the City to sell on behalf of the District, the Series C School District General Obligation Bonds in an aggregate principal amount not to exceed \$284,250,000. The proposed resolution also approves a form of Bond Purchase Agreement, authorizes the execution and delivery of the Bond Purchase Agreement by the City's Director of Public Finance, and authorizes various City officers, to conduct the sale of the School District bonds. <p>Key Points</p> <ul style="list-style-type: none"> • The School District has issued two series of bonds totaling \$460 million under Proposition A. The District issued \$180 million in Series A bonds in April 2017 and \$280 million in Series B bonds in August 2020. The proposed resolution would authorize an additional \$284.25 million in Series C bonds. The District also plans to issue up to \$145 million of refunding bonds to reduce the debt service of the District's outstanding general obligation bonds. • The City will not be liable for the School District debt. The role of the City will be to issue the general obligation bonds, set property taxes rates sufficient to cover the debt service, collect those taxes, and pay debt service from such taxes on the bonds <p>Fiscal Impact</p> <ul style="list-style-type: none"> • The expected debt service on the proposed Series C bonds is \$275.6 million over 20 years. The proposed refunding bonds are expected to reduce debt service by \$14.3 million, reducing the total incremental increase in the School District's debt service from \$275.6 million to \$261.3 million. • The FY 2021-22 property tax rate includes collections sufficient for debt service on the proposed bonds. <p>Policy Consideration</p> <ul style="list-style-type: none"> • The School District's most recent interim budget report, approved in March 2021, was submitted with a qualified certification because the School District was still in the process of balancing its budget for FY 2022-23. More recently, the State's examination of the District's budget has triggered additional State oversight. In addition, the District's bonds have been subject to various negative rating actions in recent years. As noted above, the City will issue the bonds, and set property tax rates, collect taxes, and pay debt service from such taxes on the bonds on behalf of the District but is not liable for the School District debt. <p>Recommendations</p> <ul style="list-style-type: none"> • Amend the proposed resolution to request the School District to present the annual Proposition A performance audit of the Bond Program to the Government Audit & Oversight Committee upon request of the Committee Chair. • Approve the proposed resolution as amended. 	

MANDATE STATEMENT

California Education Code Section 15140(a) provides that bonds of a school district shall be offered for sale by the board of supervisors as soon as possible following the receipt of a duly adopted by the governing board of such school district.

BACKGROUND

Proposition 39, approved by California voters in 2000, allows voters to approve general obligation bonds for schools with a 55 percent majority rather than the two-thirds majority required for other general obligation bonds. In 2016, San Francisco voters approved Proposition A authorizing \$744.25 million of general obligation bonds for San Francisco Unified School District (SFUSD) with 79.8 percent majority.

The School District originally intended to use the bonds to fund seismic upgrades, accessibility projects, repairs to damaged properties and removal of hazardous materials, repairs or replacement of major building systems, modification of building interiors and exteriors, renovation of administrative and other buildings, expansion of classrooms, construction of new classrooms and new schools, technology upgrades, and replacement of temporary classrooms with permanent structures. Proposition A provided for the District to use up to \$100 million for classroom, rehearsal, and performance spaces for the District Arts Center, and up to \$5 million to construct below market rate housing for teachers and other school staff. The District was to create an independent citizens' oversight committee to report on use of bond funds, and the Board of Education was to conduct annual independent audits.

The \$744.25 million in general obligation bonds are currently allocated to the following programs:

Table 1: Bond Funded Programs (\$ millions)

Modernization Program	
<i>Modernization projects</i>	
Bond administration and operation	\$30.00
Bond construction contingency	20
Bond program management	9.75
Bond planning	1.5
Sustainability	5
Green schoolyard	5
School modernization projects	<u>349.5</u>
<i>Modernization projects subtotal</i>	<i>\$420.75</i>
Teacher's housing	3.5
New schools	100
Ruth Asawa School of the Arts	<u>100</u>
Modernization Program Subtotal	\$624.25
Technology Improvements	100
Kitchen and Dining Facilities	<u>20</u>
Total	\$744.25

Source: Proposition A (2016)

DETAILS OF PROPOSED LEGISLATION

The proposed resolution authorizes the San Francisco Unified School District to issue, and for the City and County of San Francisco to sell on behalf of the District, the San Francisco Unified School District General Obligation Bonds, Election of 2016, Series C in an aggregate principal amount not to exceed \$284,250,000. The proposed resolution also approves a form of Bond Purchase Agreement, authorizes the execution and delivery of the Bond Purchase Agreement by the Director of Public Finance, and authorizes various City officers, including the Director of Public Finance, to conduct the sale of the School District bonds.

District Responsibilities

According to the proposed resolution, the District will provide notice to the Controller's Office of Public Finance of its intent to issue bonds at least 45 days prior to the planned issuance of the bond as well as a copy of the debt service schedule, and all minutes approved by the independent citizens' oversight committee.

City Responsibilities

The City is responsible for issuing the proposed bonds on behalf of the School District, setting the property tax rate to cover debt service on the bonds, levying and collecting property taxes, and paying principal and interest on the bonds from the collected property taxes. Although the City is the paying agent for the proposed bonds, the bonds are not considered a debt of the City and

the City is not responsible for the use of bond proceeds. The proposed resolution states that the City has not reviewed information pertaining to the School District in the Official Statement for the proposed bonds.

Bond Issuances

The School District has issued two series of bonds totaling \$460 million under Proposition A (2016). The District issued \$180 million in Series A bonds in April 2017 and \$280 million in Series B bonds in August 2020. The proposed resolution would authorize an additional \$284.25 million in Series C bonds, totaling \$744.25 million in general obligation bonds, as authorized by the voters.

The District also plans to issue up to \$145 million of refunding bonds to reduce the debt service of the District's general obligation bonds (Proposition A, Election of 2011), Series B (2014), as approved by the Board of Education in October 2021.

Finally, the proposed resolution allows for the bonds to be sold through a negotiated process. The School District is pursuing a negotiated rather than competitive sale because of the complexity of the proposed new money and refunding bonds.

Bond Program Spending

The Bond Program consists of general obligation bond proceeds and other funds. According to a School District October 2021 presentation to the Board of Education, the Bond Program has spent or encumbered \$409.54 million of \$466.85 million in bond proceeds, with a balance of \$57.31 million, as shown in Exhibit 2 below.

Exhibit 2: Bond Program Spending as of October 2021 (\$ millions)

Program	Budget	Proceeds	Spent/Encum.	Balance of Issued Funds	Remaining Budget
Bond Administration	40.50	28.68	21.68	7.01	11.82
Modernization Program	378.75	310.20	296.00	14.21	68.54
Educator Housing	5.00	0.08	0.00	0.08	4.90
135 Arts Center	100.00	0.00	0.00	0.00	100.00
New Schools	100.00	15.00	5.12	9.88	85.00
Department of Technology	100.00	92.88	74.49	18.39	7.11
Student Nutrition Services	20.00	20.00	12.25	7.74	0.00
Total	744.25	466.85	409.54	57.31	277.37

Source: SFUSD Staff Presentation to October 6, 2021 Board of Education Budget & Business Services Committee

The proceeds from proposed new money bonds would be allocated to the remaining budgets for the programs noted above. The \$466.84 million of proceeds of previously issued bonds exceeds the \$460 million amount previously approved by the Board of Supervisors because of \$6.85 million in interest earnings on those proceeds.

FISCAL IMPACT**Change in Bond Debt Service**

According to SFUSD Municipal Advisor, expected annual debt service on the proposed Series C bonds is \$13.8 million and total debt service is \$275.6 million over 20 years based on an estimated market interest rate of up to 3.5 percent. These figures assume a \$200 million issuance, which is less than the requested not to exceed amount of \$284.25 million. We requested information on the bond projects that would not be fully funded by the proposed issuances but did not receive information. The proposed refunding bonds are expected to reduce debt service by \$14.3 million, reducing the total incremental increase in the School District's debt service from \$275.6 million to \$261.3 million.

As noted above, the City is responsible for paying principal and interest on the bonds from property tax revenues. The School District's general obligation bond debt does not count against the City Charter's general obligation bond debt limit of 3 percent of assessed valuation.

While the City's Capital Plan constrains the increase in property taxes from issuance of general obligation bond debt to \$0.1201 per \$100 of assessed value, the property tax constraint does not apply to general obligation bonds issued by SFUSD.

The FY 2021-22 property tax rate includes collections sufficient for debt service on the proposed bonds.

Appendix I shows the change in debt service.

POLICY CONSIDERATION**Interim Report**

When the Board of Supervisors approved the second issuance of general obligation bonds in July 2020 (File 20-0707), it did so under Education Code Section 15140(b), which authorizes a county board of supervisors to allow school districts to issue and sell general obligation bonds directly if the school district has not received a qualified or negative certification in its most recent interim budget report.¹ However, the School District's most recent interim budget report, approved in March 2021, was submitted with a qualified certification because the School District was still in

¹ Education Code Section 42130 requires that the superintendent of each school district submit two interim budget reports to the school district's governing body each year. The State Department of Education certifies SFUSD's interim reports as follows: (1) a positive certification when the District will be able to meet its financial obligations for the current and two subsequent fiscal years; (2) a qualified certification when the District may not be able to meet its financial obligations for the current or two subsequent fiscal years; or, (3) a negative certification when the District will not be able to meet its financial obligations for the remainder of the current year or for the subsequent fiscal year.

the process of balancing its budget for FY 2022-23. More recently, the State's examination of the District's budget has triggered additional State oversight. Therefore, the proposed debt issuance relies on Education Code Section 15140(a), which provides for the Board of Supervisors to issue bonds on behalf of the School District. Such a sale requires the City to authorize the District's debt issuance as it would one of the City's own debt issuances, governed by the Bond Purchase Agreements described above.

As noted above, the City will not be liable for the School District debt. The role of the City will be to issue the general obligation bonds, set property taxes rates sufficient to cover the debt service, collect those taxes, and pay debt service from such taxes on the bonds.

Credit Rating

Due largely to financial performance issues, the District's bonds have been subject to various negative rating actions in recent years. Moody's has downgraded the District's bonds and placed the rating on negative outlook. S&P Global Ratings has placed the District's rating on negative outlook. Fitch Ratings has downgraded the District's bonds. The proposed issues will be sold with ratings of "Aa3" from Moody's and "AA-" from S&P both with negative outlook. According to the School District's municipal debt advisors, the credit rating downgrades may require the interest rate on the proposed bonds to be 0.05% higher than they would have otherwise been. On a \$200 million bond issue with an exactly 20-year term and level debt service that would translate into an additional \$1,250,000 in interest costs over time (\$925,000 in present value).

Board of Supervisors Oversight

Because the proposed general obligation bond issuance is consistent with Proposition A, the Budget and Legislative Analyst recommends approval of the proposed resolution. We recommend amending the proposed resolution to request the School District to present the annual Proposition A performance audit of the Bond Program to the Government Audit & Oversight Committee upon request of the Committee Chair.

RECOMMENDATIONS

1. Amend the proposed resolution to request the School District to present the annual Proposition A performance audit of the Bond Program to the Government Audit & Oversight Committee upon request of the Committee Chair.
2. Approve the proposed resolution as amended.

Appendix I: Change in SFUSD General Obligation Bond Debt Service

Year Ending	Current Debt Service	Series C Debt Service	Refunding Debt Service Savings	New Debt Service
6/15/22	124,308,589	15,406,667	0	139,715,256
6/15/23	115,646,039	15,447,350	(1,300,000)	129,793,389
6/15/24	115,937,689	13,597,250	(1,300,000)	128,234,939
6/15/25	100,103,034	13,596,050	(1,300,000)	112,399,084
6/15/26	91,707,495	13,595,925	(1,300,000)	104,003,420
6/15/27	88,758,281	13,596,525	(1,300,000)	101,054,806
6/15/28	80,277,126	13,597,500	(1,300,000)	92,574,626
6/15/29	79,627,899	13,598,500	(1,300,000)	91,926,399
6/15/30	79,366,370	13,599,175	(1,300,000)	91,665,545
6/15/31	65,418,700	13,599,175	(1,300,000)	77,717,875
6/15/32	65,407,650	13,598,150	(1,300,000)	77,705,800
6/15/33	59,345,913	13,595,750	(1,300,000)	71,641,663
6/15/34	45,690,150	13,596,625	0	59,286,775
6/15/35	45,644,750	13,600,250	0	59,245,000
6/15/36	28,969,600	13,596,100	0	42,565,700
6/15/37	28,988,200	13,599,000	0	42,587,200
6/15/38	15,992,050	13,598,250	0	29,590,300
6/15/39	15,993,000	13,598,500	0	29,591,500
6/15/40	15,990,750	13,599,225	0	29,589,975
6/15/41	0	13,599,900	0	13,599,900
Total	1,263,173,283	275,615,867	(14,300,000)	1,524,489,150

Source: SFUSD Municipal Advisor

Note: The above figures assume a \$200 million general obligation bond issuance.

Item 10 File 21-1150	Department: Treasurer-Tax Collector
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed ordinance amends Section 3003 of the Business and Tax Regulations Code to further suspend the imposition of the Cannabis tax until January 2023. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • In November 2020, the Board of Supervisors approved an ordinance that delayed the imposition of the tax through December 2021. No tax revenue is expected to be collected in FY 2021-22. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • According to the Controller’s Office, the Cannabis tax is expected to generate \$8.8 million per fiscal year. If the tax becomes effective starting January 1, 2023, then collections would commence in 2024. Therefore, the estimated revenue loss resulting from the proposed ordinance would be \$8.8 million in FY 2022-23. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Because this reduces General Fund revenues, approval of the proposed ordinance is a policy matter for the Board of Supervisors. 	

MANDATE STATEMENT

According to City Charter Section 2.105, all legislative acts shall be by ordinance and require the affirmative vote of at least a majority of the members of the Board of Supervisors.

BACKGROUND

In November 2018, approximately 66 percent of San Francisco voters approved Proposition D, the Cannabis Business Tax effective January 1, 2021. The proposition levies a gross receipts tax of 1 percent to 5 percent on recreational cannabis businesses. In November 2020, the Board of Supervisors approved an ordinance that delayed the imposition of the tax through December 2021. Because the Treasurer-Tax Collector is not collecting prepayments on this tax, no tax cannabis tax revenues are expected to be collected during FY 2021-22.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance amends Section 3003 of the Business and Tax Regulations Code to suspend the imposition of the Cannabis tax by one additional year through 2022.

FISCAL IMPACT

According to the Controller's Office, the Cannabis tax is expected to generate \$8.8 million per fiscal year. Under the proposed ordinance, the tax would go into effect on January 1, 2023 and the tax would be due February 2024. Therefore, the revenue loss resulting from the proposed ordinance would be \$8.8 million in FY 2022-23. Because this reduces General Fund revenues, approval of the proposed ordinance is a policy matter for the Board of Supervisors.

RECOMMENDATION

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