CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: September 3, 2025 Budget and Finance Committee Meeting

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Item 2 File 25-0827	Department: Municipal Transportation Agency

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution authorizes the SFMTA to execute an agreement with Solaris Bus US, Inc. to purchase three 40 foot and three 60-foot battery electric transit buses and related spare parts, tools, and training with a not-to-exceed amount of $9,964,706, exclusive of the estimated tax of $855,143, resulting in total expenditures of $10,819,849, and a contract term through December 19, 2027, with options to extend through December 19, 2029.

Key Points

- SFMTA operates a fleet of approximately 850 buses and plans to replace 80 to 100 buses annually. SFMTA must phase out diesel-hybrid buses by 2040 to comply with state regulations.
- In 2024, SFMTA received a federal grant to install charging infrastructure for 18 battery-electric buses scheduled for completion by 2026. SFMTA is procuring 18 battery-electric buses from New Flyer (7 buses), Gillig (5 buses), and Solaris (6 buses).
- SFMTA selected Solaris to procure six battery-electric buses based on a King County Metro procurement process and terms of the proposed SFMTA contract are based on a December 2024 King County Metro's Contract, a sole-source agreement. In July 2025, the Director of Transportation determined that the agreement resulted from an appropriate sole source award and that use of the procurement would be in the best interests of the City. The proposed cost per bus appears reasonable and is cheaper than with prior bus purchases.

Fiscal Impact

- The total cost of procuring six Solaris buses is $13.9 million, including $10.8 million for the proposed contract ($10.0 million) and estimated taxes ($0.9 million), $1.8 million for construction management, $1.1 million for detail design, and approximately $184,000 for planning and engineering.
- Funding sources include regional bridge toll revenues (26.6 percent), sales tax revenue dedicated to transportation (71.1 percent), Low Carbon Fuel Standard credits (1.4 percent), and $48,610 from the General Fund (0.3 percent).

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

Administrative Code Section 21.16(b) allows City departments to utilize the competitive procurement process of any other public agency or non-profit made up of multiple public agencies to make purchases of commodities or services for the use of the City under the terms established in that agency's competitive procurement process and as agreed upon by the City and the procuring agency, upon making a determination that (i) the other agency's procurement process was competitive or the result of a sole-source award, and (ii) the use of the other agency's procurement would be in the City's best interests.

BACKGROUND

The San Francisco Municipal Transportation Agency (SFMTA) operates a fleet of approximately 850 buses, with approximately 90 percent sourced from New Flyer. Bus replacements occur every 12 years, and SFMTA plans to replace 80 to 100 buses annually, depending on funding and vehicle age. SFMTA intends to diversify and increase competition on its bus suppliers by ensuring it procures buses from multiple manufacturers.

SFMTA Zero-Emission Bus Transition

SFMTA is transitioning to a fully zero-emission bus fleet to comply with the California Air Resources Board's Innovative Clean Transit regulation, which requires all public transit agencies to phase out diesel-hybrid vehicles and shift to battery-electric or other zero-emission alternatives by 2040.

In October 2024, a total of 112 hybrid buses were nearing the end of their useful life and required replacement. However, due to insufficient charging infrastructure for battery-electric buses at the time, the Board of Supervisors approved purchasing 94 40-foot hybrid buses from New Flyer (File 24-0933). SFMTA is procuring battery-electric buses to replace the remaining 18 hybrid buses at the end of their useful life.

In 2024, SFMTA received a federal grant to install charging infrastructure for 18 battery-electric buses at Woods Yard and Islais Creek scheduled for completion by 2026. SFMTA is coordinating with SFPUC to address long-term grid capacity and backup power concerns.

Procurement

As outlined in our report on New Flyer earlier this year (File 25-0145), SFMTA is procuring 18 battery-electric buses from three manufacturers: New Flyer (7 buses), Gillig (5 buses), and Solaris

(6 buses)[1]. Solaris, Europe's largest zero-emission bus manufacturer, did not participate in SFMTA's 2021-2024 pilot program, which evaluated buses from New Flyer, Nova, BYD, and Proterra, due to federal Buy America requirements tied to grant funding.[2] For this procurement, SFMTA leverages a December 2024 King County Metro's Contract, a sole-source agreement under Washington State's cooperative purchasing framework, using exclusively local funding sources.[3] In July 2025, the Director of Transportation determined that the agreement resulted from an appropriate sole source award and that use of the procurement would be in the best interests of the City.[4] On August 5, 2025, the SFMTA Board authorized the proposed contract.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution authorizes SFMTA to execute an agreement with Solaris Bus US, Inc. to purchase three 40 foot and three 60-foot battery electric transit buses and related spare parts, tools, and training with a not-to-exceed amount of $9,964,706, exclusive of the estimated tax of $855,143, resulting in total expenditures of $10,819,849, and a contract term through December 19, 2027, with options to extend through December 19, 2029.

Schedule

Prototype buses are expected to be delivered no earlier than March 2027, with completed bus delivery expected by approximately November 2027. The agreement includes pre-delivery inspections and post-delivery compliance audits to ensure quality control, and liquidated damages to ensure on-time deliveries. If engineering modifications are required following prototype testing for the 40-foot and 60-foot buses, deliveries could be delayed.

Buy America Requirements

Since local funds are used, federal Buy America requirements do not apply.

[1] Procurement of New Flyer buses was previously approved by the Board of Supervisors (File 25-0145), and SFMTA reports the Gillig contract will be brought to the SFMTA Board in the coming months with pilot bus delivery expected in Q1 2026. If the contract amount exceeds $10 million, Board of Supervisors' approval will be required for the Gillig contract.

[2] Nova, BYD, and Proterra were deemed not viable because of performance, financial, or Buy America compliance issues.

[3] SFMTA is interested in developing a relationship with Solaris who can provide trolley buses in the event the current supplier of (New Flyer) exits the market.

[4] According to a July 2025 memo from the Director Transportation, King County Metro negotiated prices in the King County Metro agreement based on a comparison to quotes and procurement costs paid for similar buses. In addition, the memo states that the pricing is better than what the City could obtain independently because price negotiations occurred before the change in the federal administration, which created price uncertainty for imports, and because the King County Metro contract was for a greater amount of battery electric buses (16) than what the SFMTA could procure on its own.

Local Business Enterprise Requirements

The Contract Compliance Office waived the Local Business Enterprise subcontracting requirement because of the specialized nature of the buses and limited subcontracting opportunities.

FISCAL IMPACT

The proposed contract has a not-to-exceed value of $9,964,706, with total anticipated expenditures of $10,819,849 including estimated taxes of $855,143. The breakdown of costs is shown below in Exhibit 1.

Exhibit 1: Total Solaris Contract Costs

Item	Quantity	Total price
40-ft battery-electric buses	3	$4,218,588
60-ft battery-electric buses	3	$5,576,118
Spare parts		$30,000
Training[5]		$50,000
Special tools		$30,000
Regulatory and system modifications		$60,000
Total		**$9,964,706**

Source: SFMTA

The 40-ft buses each cost $1,406,196, for a subtotal of $4,218,588. The 60-ft buses each cost $1,858,706, for a subtotal of $5,576,118. The contract price includes allowances for spare parts, training, and special tools.

Bus Price

SFMTA staff negotiated the proposed prices for the two bus types based on the basic bus prices and optional add-ons for door and battery enhancements in the King County Metro agreement plus SFMTA enhancements to the basic bus, including digital side mirrors, tinted windows, an enhanced barrier for operator safety, an upgraded wheelchair ramp, USB charging ports, and technology enhancements (such as video cameras and passenger counters) according to an SFMTA memo on the proposed agreement to the SFMTA Board of Directors. The proposed SFMTA prices for 40-foot and 60-foot buses are 15 percent and 18 percent greater respectively than the King County Metro basic price in exchange for these enhancements. Exhibit 2 below provides details on the King County Metro agreement prices and SFMTA negotiated enhancements.

[5] The $50,000 training allowance covers beginner and intermediate maintenance classes (8-12 individuals each) and "train-the-trainer" courses for in-house operator training, scheduled post-prototype delivery.

Exhibit 2: King County Metro Agreement Price and Options and SFMTA Enhancements

Price Detail	40-foot	60-foot
King County Metro (KCM) Basic Price	$1,220,000	$1,580,000
KCM Options for Enhancements	1,960	83,290
Door Enhancements	*1,960*	*2,940*
Battery Enhancements		*80,350*
SFMTA Enhancements	184,236	195,416
ITS Equipment and Five-Year License[6]	*103,518*	*104,862*
Digital Side Mirrors	*6,316*	*6,316*
2-Bike Rack	*1,457*	*1,457*
Additional Warranties	*48,082*	*57,918*
Additional Service Support[7]	*24,863*	*24,863*
Total	**$1,406,196**	**$1,858,706**

Source: Proposed Agreement, Exhibit H-1 Price Change Detail

The proposed SFTMA prices are comparable to estimates from an independent cost estimate by SFMTA staff and a consultant based on a review of the average costs from prior procurements in Europe. In addition, the proposed prices are four percent and 18 percent lower than unit prices for 40-foot and 60-foot buses in SFMTA's contract with New Flyer. According to SFMTA staff, the specifications for the proposed Solaris buses are similar to the New Flyer buses, apart from the digital side mirrors.

Total Solaris Project Costs and Funding Sources

The total cost of procuring six Solaris buses is $13.9 million, including $10.8 million for the proposed contract and estimated taxes, $1.8 million for construction management[8], $1.1 million for detail design[9], and approximately $184,000 for planning and engineering.

Funding sources include $3.7 million in Regional Measure 3 bridge tolls (26.6 percent), $10.0 million in Proposition L revenues (71.1 percent), $191,982 in Low Carbon Fuel Standard credits (1.4 percent), and $48,610 from the General Fund (0.3 percent).

Estimated Fuel Savings

According to SFMTA, Battery-electric buses have approximately 30 percent higher upfront costs ($350,000 to $450,000 depending on size) than hybrids, but they anticipate fuel savings over the lifespan to offset this by about $220,000 per bus.

[6] ITS Equipment refers to major onboard SFMTA-specific equipment, including dispatch, location, radio, telematics, and surveillance systems.

[7] Warranties cover component or system failure on the vehicle for two years, plus on-site coverage by the manufacturer for a period following vehicle delivery and acceptance.

[8] Construction management begins when the bus enters production, and covers inspections, testing, commissioning, change orders, validation, delivery, acceptance, and warranty management.

[9] Detail design begins during contracting and covers the full design and configuration of the bus, finalizing contracting, and determining the project schedule.

Decommissioning Revenue

Retired buses will be auctioned after salvaging parts, recouping an estimated $5,000 per vehicle. The net proceeds for bus auctions are considered a General Fund revenue.

RECOMMENDATION

Approve the proposed resolution.

Item 3 File 24-0780	Department: Controller, City Administrator

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would authorize the sale of up to $65,000,000 in Certificates of Participation (COPs) and approve documents associated with the transaction.

Key Points

- The City's ten-year capital plan is updated every two years. The Capital Plan for FY 2026-2035, as recommended by the Capital Planning Committee, provides for $541.5 million of COPs over the ten-year term, including $50.0 million over FY 2025-26 – FY 2026-27 for street resurfacing and curb replacement.
- The adopted budget for FY 2025-26 – FY 2026-27 appropriated proceeds for the proposed COPs to fund street resurfacing and curb ramp replacement project costs as well as COP transaction costs.

Fiscal Impact

- According to the Office of Public Finance, estimated average annual debt service for the proposed debt is $5.5 million. Total debt service over the anticipated 20-year term is approximately $110.7 million, with a true interest cost of 6.84 percent. Debt service will be paid from the City's General Fund.
- The proposed debt is consistent with the City's financial policies.

Policy Consideration

- The FY 2025-26 – FY 2026-27 budget for street resurfacing, including the proposed COPs, is approximately 25 percent less than the amount necessary to maintain a pavement condition index (PCI) score of 75, which his considered "good." According to Public Works, without increased investments by FY 2026-27, the citywide PCI score is at risk of decreasing in subsequent years, which will increase street maintenance costs. Similarly, the amount budgeted for curb replacement is approximately 37 less than the amount recommended by the City's Capital Plan to ensure sidewalks are accessible to people with disabilities. Absent an increase in General Fund revenues above current projections, increasing funding for street resurfacing would require reordering the Capital Plan and defunding planned projects and/or reallocating General Fund appropriations from other budgeted uses.
- Street resurfacing is most appropriately covered by the General Fund (and other ongoing sources of funding) because it is a regular, on-going expense. However, due to constraints on the General Fund, the City has turned to COP debt to maintain street resurfacing funding. This is more expensive over the long term due to due to issuance and financing costs.

Recommendation

- Approve the proposed ordinance.

MANDATE STATEMENT

City Administrative Code Section 10.62(b) states that the Board of Supervisors may authorize the issuance of Certificates of Participation (COPs) and other lease financing debt to fund capital projects provided the annual debt service cost of such outstanding general fund appropriation debt does not exceed 3.25 percent of discretionary revenue as determined by the Controller and Director of Public Finance. Administrative Code Section 10.62(c) states that the Director of Public Finance may issue tax-exempt and taxable commercial paper notes to provide interim funds to finance the acquisition, construction and rehabilitation of capital improvements and capital equipment, subject to the project's and financing plan's approval by the Board of Supervisors and Mayor.

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

Ten-Year Capital Plan

The City's ten-year capital plan is updated every two years. The Capital Plan for FY 2026-2035 provides for $487 million of new Certificates of Participation debt (COPs) over the ten-year term, for the relocation of HSA offices, Treasure Island infrastructure, Hall of Justice replacement space, and previously authorized projects. The City's financial policies constrain the use of COPs debt by limiting debt service to 3.25 percent of General Fund discretionary revenues. While the City's capacity to authorize new COP debt outside the Capital Plan is largely constrained by this requirement, in May 2025, after the adoption of the Capital Plan and following a review of projected discretionary revenues in the March Update to the Five Year Plan and actual financing results from recently issued COPs, the Controller's Office identified $54.5 million in additional COP capacity, which increases the total COP capacity from $487 million to $541.5 million over the ten-year FY 2026-2035 capital planning horizon. In May 2025, the Capital Planning Committee recommended using $50 million of this additional COP capacity for street repaving ($46 million) and curb replacement ($4 million) for FY 2025-26 and FY 2026-27. The appropriation of those funds is included in the FY 2025-26 – FY 2026-27 budget & appropriation ordinance.

Prior Authorizations

In 2022, 2023, and 2024, the Board of Supervisors approved COPs for various capital projects, including street resurfacing. Exhibit 1 shows the COP authorizations, related commercial paper (interim financing) issued, and the amounts dedicated to street resurfacing.

Exhibit 1: Certificate of Participation Debt for Street Resurfacing (as of April 2025)

File	Project	Authorized for Street Resurfacing	Commercial Paper Issued	COP Issued	Disbursed to DPW
22-0683	FY 2022-23 Street Resurfacing	$30,000,000	$0	$30,000,000	$21,653,473
23-0833	FY 2023-24 Street Resurfacing	32,800,000	18,074,784	0	18,074,784
24-0784	FY 2024-25 Street Resurfacing	23,865,217	0	0	0
Total		**86,665,217**	**18,074,784**	**30,000,000**	**39,728,257**

Source: Office of Public Finance

As shown above, $86.7 million of COP debt has been authorized for street resurfacing between 2022 and 2024. Capital projects with authorized COPs funding are often initially funded with short-term commercial paper, later paid down by longer-term COP debt. The Office of Public Finance will issue COPs when staff are certain that project funds will be spent within three years of issuance. Of the $86.7 million approved COPs for street resurfacing, $39.8 million had been disbursed to DPW as of April 2025.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would:

- authorize sale of up to $65,000,000 of Certificates of Participation in one more series on a tax or tax-exempt basis
- authorize use of the proceeds to pay for issuance costs, capital project costs, retire related commercial paper, and fund a debt service reserve.
- authorize a competitive, negotiated, or direct placement sale for the COPs
- authorize the Director of Public Finance to appoint underwriters for a negotiated sale, appoint a placement agent for a direct placement or award a bid to a bidder with the lowest true interest cost for a competitive sale
- approve the form of the Supplement to the Trust Agreement between the City and U.S. Bank National Association, as Trustee
- approve the form of the Supplement to the Property Lease between the City and U.S. Bank National Association
- approve the Supplement to the Project Lease for Laguna Honda Hospital, One South Van Ness, and County Jail Complex for additional base rent
- approve the form of the preliminary and final Official Statement

- approve the form of the Official Notice of Sale document, Notice of Intention to Sell the COPs document
- approve the form of the Continuing Disclosure Certificate
- approve the form of a Purchase Contract for the COPs
- grant authority to City officials to modify the aforementioned documents in furtherance of the COPs sale

FY 2025-26 – FY 2026-27 COPs Issuance

Supplement to Property and Project Leases, and Trust Agreement

COPs are structured as a lease-lease back, in which the City leases the City-owned property to a trustee and the trustee leases back the property to the City. The City's lease payments to the trustee are equal to the debt service due to COP holders and made semi-annually. The City would enter into the one or more Supplements to existing Property and Project Leases and Trust Agreement with U.S. Bank National Association, in which the City-owned Laguna Honda Hospital campus at 375 Laguna Honda Boulevard, One South Van Ness at 1 South Van Ness Avenue, and the San Bruno Jail Complex at 1 Moreland Drive in San Bruno would serve as the leased property to secure the proposed COPs. The City may add or substitute properties to the Master Lease as needed.

Commercial Paper

Under separate legislative approval, the City may issue commercial paper, a form of short-term debt, in advance of issuing COPs to fund project costs and then use COPs proceeds to repay related commercial debt obligations. According to the Office of Public Finance memo, of the $250 million in commercial paper authority, $111 million has been released from Controller's Reserve and $44 million is outstanding as of July 22, 2025.

Method of Sale

According to Office of Public Finance staff, the Office will work with their municipal finance advisor to determine the best method of sale of the COPs, whether competitive, negotiated, or direct placement based on market conditions at that time. If the City chooses to pursue a negotiated sale, as authorized by the proposed ordinance, the Office of Public Finance will use the City's Underwriting Pool, which was selected via a competitive process.

Projects and Uses of Proceeds

The proposed COPs adds $23 million for street resurfacing and $2 million for curb replacement in both FY 2025-26 and FY 2026-27. As noted above, the proposed COPs are not part of the Ten Year FY 2026-2033 Capital Plan approved by the Board of Supervisors (File 25-0450) but were recommended to the Board of Supervisors by the Capital Planning Committee in May 2025.

Exhibit 2 below shows the sources and uses of the COPs proceeds.

Exhibit 2: Budgeted Sources and Uses of COPs Proceeds, FY 2025-26 & FY 2026-27

Sources	**Amount**
COP Proceeds	65,000,000
Uses	**Amount**
Project Funds	
Street Resurfacing	46,000,000
Curb Ramps	4,000,000
Subtotal, Project Funds	50,000,000
City Services Auditor	100,000
Capitalized Interest	2,095,800
Debt Service Reserve Fund	5,658,000
Cost of Issuance	1,607,040
Underwriters Discount	419,160
Reserve of Market Uncertainty	5,120,000
Total Uses	**65,000,000**

Source: Office of Public Finance

FISCAL IMPACT

Debt Service

According to the Office of Public Finance memo, estimated average annual debt service on the proposed COPs is approximately $5.5 million. Total debt service over the anticipated 20-year term is approximately $110.7 million, which includes approximately $58.7 million in principal and $52 million in interest and true interest cost of 6.84 percent. The debt will be issued in the second half of 2026 and debt service will be paid from the City's General Fund. The estimates assume the debt is tax-exempt.

The FY 2025-26 – FY 2026-27 budget appropriated the proceeds of the proposed COPs.

City Debt Policy

Administrative Code Section 10.62 limits debt service of COPs and other lease financing to 3.25 percent of discretionary General Fund revenues.[1] According to the projections provided by the Controller's Office, debt service from the proposed COPs as well as planned COPs through FY 2034-35 will be below that cap.

[1] This limit only applies to General Fund lease financings that are not offset by other revenues according to Office of Public Finance staff.

POLICY CONSIDERATION

Street Resurfacing Program

The Department of Public Works is responsible for maintaining approximately 940 miles of streets. Resurfacing the streets regularly helps to maintain the quality of the streets and reduces maintenance costs over time. Public Works measures the success of the street resurfacing program by two metrics: (1) resurfacing at least 500 street blocks each year and (2) maintaining a citywide average Pavement Condition Index (PCI) of 75, which is considered "good." The Department of Works reports it repaved 561 street blocks in FY 2024-25 and 506 blocks in FY 2023-24, exceeding the annual 500 block goal. According to the Controller's Performance Scorecard, the City's PCI was 74 in 2023 and PCI 75 in 2024, up from 63 ("at risk") in 2009. The improvement in street condition is partially due to the 2011 Road Repaving and Street Safety Bond Program, totaling $248 million.[2]

According to the Adopted Capital Plan, to maintain a PCI of 75, the City should spend $1.1 billion over the next 10 years including $88 million in FY 2025-26 and $93 million in FY 2026-27. On-going sources for street resurfacing include State gas tax revenue, State vehicle tax revenue, and the General Fund. According to prior discussions with Office of Resilience and Capital Planning staff, street resurfacing is most appropriately covered by the General Fund because it is a regular, on-going expense. However, due to constraints on the General Fund, the City has turned to COP debt to maintain street resurfacing funding. This is more expensive over the long term due to due to issuance and financing costs.

Exhibit 3 below summarizes the budgeted funding for the City's street resurfacing program, including the proposed COPs.

Exhibit 3: Street Resurfacing Program Budget

Funding Source	FY 2024-25	FY 2025-26	FY 2026-27
State Gas & Vehicle Taxes	31,350,000	32,761,000	33,000,000
State Highway Gas Tax Funding	10,945,000	10,890,000	10,900,000
Certificates of Participation	23,865,217	23,000,000	23,000,000
Total	**66,160,217**	**66,651,000**	**66,900,000**

Source: FY 2025-26 – FY 2026-27 Budget & Appropriation Ordinance

As shown above, the FY 2025-26 – FY 2026-27 budget increases the total street resurfacing budget slightly, from $66.2 million in FY 2024-25 to $66.6 million in FY 2025-26 and $66.9 million in FY 2026-27. As in FY 2024-25, General Fund pay-go funding was replaced with COPs and the City continued to rely on state revenues for approximately half of the program budget in FY 2025-26 and FY 2026-27. The budgeted funding is less than the $88 million and $93 million assumed in Capital Plan for FY 2025-26 and FY 2026-27, respectively. According to Public Works, without

[2] The final bond sale for the 2011 Road Repaving and Street Safety Bond Program was completed in 2016.

increased investments by FY 2026-27, the citywide PCI score is at risk of decreasing in subsequent years, which will increase street maintenance costs. The Capital Plan does not include any more debt for street resurfacing through FY 2034-25.

Exhibit 4 below shows DPW's curb ramp replacing program funding. The FY 2025-26 – FY 2026-27 budget maintains the $4 million annual budget but shifts $2 million from the General Fund to COPs. This level of funding is less than the amounts recommended by the FY 2026-2035 Capital Plan, which recommended $8.5 million in FY 2025-26 and $8.9 million in FY 2026-27 for curb ramp replacement program to ensure sidewalks remain accessible to people with disabilities.

Exhibit 4: Curb Ramp Replacement Funding

Funding Source	FY 2024-25	FY 2025-26	FY 2026-27
Certificates of Participation	0	2,000,000	2,000,000
General Fund	4,000,000	2,000,000	2,000,000
Total	**4,000,000**	**4,000,000**	**4,000,000**

Source: FY 2025-26 – FY 2026-27 Budget & Appropriation Ordinance

Absent an increase in General Fund revenues above what is currently projected for the next five years, increasing funding for street resurfacing and/or curb ramp replacement would require reordering the Capital Plan and defunding planned projects and/or reallocating General Fund appropriations from other budgeted uses.

RECOMMENDATION

Approve the proposed ordinance.

Item 5 File 25-0826	**Department:** Real Estate Division (RED) Office of Economic Workforce Development (OEWD)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a new lease agreement between the Real Estate Division (RED) as landlord, and Non Plus Ultra, Inc. (NPU) as tenant at the Old Mint located at 88 5th Street for an initial term through July 31, 2029 with three five-year options to extend and a participation rent equal to 10 percent of gross monthly revenues. The proposed resolution has an error and the initial term should be approximately four years, not five years, as stated in the resolution.

Key Points

- The Office of Economic Workforce Development (OEWD) began working in 2015 to restore the Old Mint building as a cultural center. In 2016, RED and OEWD issued a Request for Proposals soliciting tenants to lease the Old Mint while project planning and restoration of the building proceeded. Non Plus Ultra, Inc. (NPU) was the only respondent to the RFP. Both departments were unable to provide competitive solicitation details. To keep the building activated and maintained while restoration plans progress, RED and OEWD are proposing to continue NPU's tenancy with a new lease and did not issue a competitive solicitation.
- The proposed lease allows for a continuation of the existing use of the property for NPU's current operations, which includes hosting various events and performances. Participation rent will equal 10 percent of gross monthly revenues generated from booking events for the initial term. An appraisal determined that the proposed participation rent at fair market rent value. The City may elect to terminate the lease without penalty with one-year notice to the tenant.

Fiscal Impact

- Over the first four years of the initial term of the proposed lease, projected total participation rent to be paid by NPU to the City is approximately $693,759. Back rent of $163,000 owed to the City will be forgiven in exchange for the tenant completing planned capital improvement projects valued at $477,500.

Policy Consideration

- The proposed new lease was not competitively procured because the tenant is in good standing, RED is continuing the interim activation of the site, and RED's belief that there will be minimal responses to an RFP issuance due to the one-year termination clause. Unlike the Port, the Real Estate Division does not have a formal policy regarding competitively awarding lease renewals. Because the lease was not competitively awarded consistent with Chapter 23 of the Administrative Code, we consider approval to be a policy matter for the Board of Supervisors.

Recommendations

- The Board of Supervisors should: (1) Amend the proposed resolution to correctly state that the initial lease term is approximately four years. (2) Approval of the resolution, as amended, is a policy matter for the Board of Supervisors.
- The Real Estate Division should: (3) Establish and document a policy regarding competitively awarding leases.

MANDATE STATEMENT

City Charter 9.118(c) states that any lease, modification, amendment, or termination of a lease that had an initial term of ten years or more, including options to extend, or that had anticipated revenues of $1 million or more is subject to Board of Supervisors approval.

Administrative Code Section 23.30 states that the Board of Supervisors shall approve all leases on behalf of the City as landlord by resolution for which the term is longer than a year and costs over $15,000 per month. The Real Estate Division must obtain an appraisal of the fair market rent if the rent exceeds $45 per square foot per year and appraisal review if the rent exceeds $60 per square foot per year.

BACKGROUND

The Old United States Mint (Old Mint), which is a National Historic Landmark located at 88 5th Street, was acquired by the City from the federal government in 2003. The Office of Economic Workforce Development (OEWD) began working in 2015 on a project to fully restore and rehabilitate the Old Mint with a long-term goal of establishing it as a new and permanent cultural center, which could possibly feature a museum. In June 2016, the Real Estate Division (RED) in coordination with OEWD issued a Request for Proposals (RFP) soliciting prospective tenants to lease the Old Mint while project planning and restoration of the building proceeded. The proposed term in the RFP was two years upon commencement of the lease with three one-year extension options. According to the RFP, selection and evaluation criteria for proposals included experience in event planning, a business plan, financial capacity (organization and partners), community programming/engagement, improvements to premises, monthly rent bid, and other factors, as well as an oral interview. According to RED and OEWD, Non Plus Ultra, Inc. (NPU), an event hosting company, was the only respondent to the RFP. However, both departments were unable to provide competitive solicitation details (e.g., scoring, panelists). In March 2020[1], the Board of Supervisors approved a lease between the City, as landlord, and NPU, as tenant, at the Old Mint for a monthly base rent of $22,000, participation rent of 50 percent of venue rental fees and $2,500 per ticketed event for a two-year term through February 28, 2022 with three one-year extension options (File 17-1320).

According to RED, this lease has been on month-to-month holdover status effective March 1, 2025[2] with a rental rate of $24,761 per month. To keep the building activated and maintained while restoration plans progress, RED and OEWD are proposing to continue NPU's tenancy at the Old Mint with a new lease. According to RED, a new competitive solicitation for the proposed lease did not occur because the tenant successfully managed the building, including during the

[1] According to OEWD, it took over three years from the RFP issuance for the lease to be executed because of multiple leadership changes and challenges in prioritizing the project during the transitions. During this period, NPU (formerly Activate San Francisco) continued to operate at the Old Mint under a 2015 month-to-month permit.

[2] According to RED, the lease is on holdover because of delays caused by incorporating the tenant improvement projects and lease termination clause as part of the proposed lease

pandemic, and has acquired an understanding of the historical building and location.[3] In addition, RED states that the proposed lease's one-year termination clause would likely result in minimal responses to an RFP issuance. Consequently, this lease is now being considered by the Board of Supervisors for approval because the proposed lease's initial term, including options to extend, is over ten years.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new lease agreement between the Real Estate Division (RED) as landlord, and Non Plus Ultra, Inc. (NPU) as tenant at the Old Mint located at 88 5th Street for an initial term through July 31, 2029 with three five-year options to extend and a participation rent equal to 10 percent of gross monthly revenues. The proposed resolution states that the initial term is five years, however, this is an error and the initial term should be approximately four years, for a total potential term of 19 years.[4] We recommend that the resolution be amended to state the correct lease term.

The lease is for 100,000 square feet at the Old Mint building located at 88 Fifth Street. The new lease agreement would commence upon approval of this resolution. The resolution also authorizes RED to make further immaterial amendments to the contract.

Exhibit 1 below summarizes the terms and conditions of the lease provisions.

[3] According to RED, the tenant currently has a lease at the Palace of Fine Arts with the Recreation and Park Department, which has confirmed the tenant is in good standing.

[4] RED states that the lease term is up to 19 years but the City can deny exercising the extension options. In addition, the lease includes a one-year termination clause to accommodate OEWD's long-term restoration goals and provide added flexibility.

Exhibit 1. Summary of Proposed Lease

	Proposed Lease
Premises	100,000 square feet (75,000 of rentable space and 25,000 of publicly accessible event space[5]) at the Old Mint building located at 88 Fifth Street in San Francisco
Base Rent	None
Participation Rent	Ten percent of monthly gross sales[6] for initial term. RED may adjust the participation rent if extension option is exercised.
Utilities, Maintenance and Repair	Tenant solely responsible
Initial Term	Approximately four years following execution, to expire on July 31, 2029
Options to extend	Three five-year options to extend
Tenant Improvements	In exchange for forgiving $163,000 in back rent under the current lease, tenants will make the following capital improvements at no cost to the City, valued at $477,500: exterior and interior lighting upgrade, security camera upgrade, elevator door replacement, restroom remodel including replacement of main waterline, and elevator modernization. The Tenant Capital Improvement Projects Plan will refresh every two years.
Lease Termination	City may elect to terminate the lease without penalty with written one-year notice to the tenant.
Security Deposit	$50,000 (already received by RED in November 2015)

Source: Proposed Lease Agreement

Note: Lease term commences upon approval of the proposed resolution.

Site Usage

The 100,000 square feet of premises are comprised of approximately 75,000 square feet of rentable space and 25,000 of publicly accessible event space at the Old Mint building located at 88 Fifth Street. The proposed lease allows for a continuation of the existing use of the property for NPU's current operations, which includes hosting music concerts, community events, cultural programming and performances, trade shows, corporate events and meetings, and special events. The new lease maintains the size of the currently leased premises.

Utilities, Maintenance & Repair

Under the proposed lease, the tenant will pay the utilities separately from the participation rent. The tenant is also responsible for all maintenance and repair to the premises, as well as on-site

[5] During events, this space is publicly accessible.

[6] Gross sales could include any other income besides venue rental fees. Under this proposed lease, revenue from gross sales and venue rental fees should be the same.

security. This includes paying for a facility team of two full-time staff members who oversee ongoing restoration projects, maintenance and emergency repairs dedicated to the upkeep of the Old Mint building.

Participation Rent Determination

Under the proposed lease, participation rent will equal 10 percent of gross monthly revenues generated from booking events for the initial term. The proposed lease also stipulates that RED may adjust the participation rent if the City elects to exercise an extension option. An appraisal conducted by Colliers International in October 2024 (as required under Chapter 23 of the Administrative Code) has determined that the proposed participation rent of 10 percent of monthly gross sales for the leased premises is at fair market rent value.

Tenant Improvements

According to RED, because NPU entered the lease in March 2020 at the start of the pandemic which disrupted the business, it fell behind in rent payments totaling $332,640 and repaid $169,640, with a current back rent of $163,000. Under the proposed lease, the back rent of $163,000 owed to the City will be forgiven in exchange for the tenant completing planned capital improvement projects valued at $477,500 during the initial term of the lease. The tenant is responsible for funding the improvements. As stipulated in the lease, the tenant's capital improvement projects plan will be refreshed every two years, and the tenant may make additional improvements based on the plan. Exhibit 2 below summarizes the proposed tenant capital improvement projects to be completed in 2025 and 2026.

Exhibit 2. Proposed Tenant Capital Improvement Projects

Year	Project	Estimated Cost
2025	Exterior and Interior Lighting Upgrade	$38,247[7]
	Security Camera Upgrade	8,568
	Elevator Door Replacement	56,529
	2025 Subtotal	*$103,344*
2026	Restroom Remodel and Main Waterline Replacement	192,276
	Elevator Modernization Project	181,880
	2026 Subtotal	*$374,156*
	Total	**$477,500**

Source: RED

Lease Termination

Under the proposed lease, the City may elect to terminate the lease without penalty with a written one-year notice to the tenant. According to RED, the lease could be terminated early if OEWD is ready to move forward with establishing the Old Mint as a cultural center or the tenant is not meeting lease terms and conditions. According to OEWD staff, the anticipated completion date for restoring the Old Mint is still to be determined, as the department is updating cost

[7] According to RED, this estimate is for the first stage of the project and is part of a larger enhanced lighting project should funds become available.

estimates and identifying capital funds for the work since previous plans to restore the facility in partnership with the California Historical Society are no longer viable.[8]

FISCAL IMPACT

As shown in Exhibit 3 below, over the first four years of the initial term of the proposed lease, projected total participation rent to be paid by NPU to the City is approximately $693,759. According to RED, projected participation rent for Years 1 and 2 are based on current bookings and estimated gross revenues, increasing by 10 percent from Year 1 to Year 2 and 12 percent from Year 2 to Year 3. Projections for Years 3 and 4 are based on the tenant's projections.

Exhibit 3. Projected Participation Rent to Be Paid by NPU

Year	Projected Gross Revenues	Projected Participation Rent
Year 1	$1,511,904	$151,190
Year 2	1,663,095	166,310
Year 3	1,862,666	186,267
Year 4	1,899,919	189,992
Total	**$6,937,584**	**$693,759**

Source: RED

Estimated participation rent is $151,190 in Year 1, or approximately $2.02 per rentable square foot. This is approximately 49 percent lower than the base holdover rent of $297,132. According to RED, the rent is reduced under the proposed lease compared to the existing because the holdover rent was based on pre-pandemic market conditions, which have since changed. In addition, the proposed lease now requires the tenant to be responsible for maintenance, repairs and additional capital improvements.

According to RED, under the current lease, the tenant has paid $95,459 in participation rent from March 2020 to July 2025. RED states the lower amount is due to the tenant's inability to host events during the pandemic.

As discussed above, the back rent of $163,000 owed to the City will be forgiven in exchange for the tenant completing planned capital improvement projects valued at $477,500 during the initial term of the lease.

POLICY CONSIDERATION

Administrative Code Section 23.33 states that any leases of City property that are expected to produce more than $2,500 per month in revenue be awarded in accordance with Competitive Bidding Procedures, unless such procedures are impractical or impossible. Despite this local law,

[8] According to OEWD staff, OEWD and the California Historical Society (CHS) evaluated the feasibility of rededicating the Old Mint as a new cultural facility, with CHS as lead tenant and curator of the space. A preliminary estimate by a consultant estimated a capital improvement project to restore the facility would cost $153 million in 2024 dollars. CHS has since ceased operations, and OEWD is working with the Department of Public Works' Bureau of Architecture to update plans for the facility and develop a scope of work and cost estimates for Phase 1 improvements.

RED did not competitively award this new lease. Because the lease was not competitively awarded consistent with Chapter 23 of the Administrative Code, we consider approval to be a policy matter for the Board of Supervisors.

As previously mentioned, RED states that a competitive solicitation for the proposed lease did not occur because NPU successfully managed the building, especially during the pandemic, and has acquired an understanding of the historical building and location. The tenant has also booked events through 2026, demonstrating potential revenue generation. In addition, RED believes that the proposed lease's one-year termination clause would likely result in minimal responses to an RFP issuance. The current lease was competitively procured in 2016, and according to RED and OEWD, NPU was the only respondent. However, as previously mentioned, both departments were unable to provide competitive solicitation details (e.g., scoring, panelists). RED states that the RFP process in 2016 was used to select an interim activation of the site, in which a tenant was selected as a "placeholder" to occupy the space until OEWD completes the long-term restoration project. If the lease required permanent activation, RED would have issued a new RFP for the proposed lease; however, RED intends to continue the interim activation. The interim tenancy may now run 44 years, if all options of the proposed lease are exercised.

The Real Estate Division does not have a formal policy regarding competitively awarding lease renewals. We recommend that RED establish and document a policy regarding competitively awarded leases. The Port has a policy regarding awarding new leases to existing tenants without a competitive solicitation, so long as they are in good standing.

RECOMMENDATIONS

The Board of Supervisors should:

1. Amend the proposed resolution to correctly state that the initial lease term is approximately four years.
2. Approval of the resolution, as amended, is a policy matter for the Board of Supervisors.

The Real Estate Division should:

3. Establish and document a policy regarding competitively awarding leases.

Item 7 File 25-0751	Department: Public Health (DPH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves Amendment No. 4 to the contract between DPH and Project Open Hand (POH) for the administration of food and nutrition services to low-income San Francisco residents living with HIV/AIDS, increasing the contract amount by $1,727,928, resulting in a new total not-to-exceed amount of $20,528,272, with no change to the existing ten-year term of April 1, 2017, through March 31, 2027.

Key Points

- Project Open Hand (POH) is a non-profit organization that provides nutritional support to individuals living with HIV/AIDS in San Francisco and is funded by the Department of Public Health to deliver these HIV health services.
- POH serves 895 unduplicated clients annually who are San Francisco residents living with HIV and meet income eligibility criteria (defined as up to 600% of the Federal Poverty Level) and will serve an estimated 450 additional clients annually in FY 2025-26 and FY 2026-27 with the proposed one-time funding from unspent federal grants from previous years.
- POH generally met or exceeded its service goals and unduplicated client targets in FY 2024-25. City monitoring also concluded that POH is in compliance with the City's financial and governance standards for non-profits.

Fiscal Impact

- Amendment No. 4 increases the contract by $1.73 million (to $4.91 million total across FY 2025-26 and FY 2026-27), funded primarily through $1 million in unspent federal Ryan White funds, plus $293,169 in General Fund support for cost-of-doing-business adjustments. The not to exceed amount of the contract includes a contingency to fund a cost of doing business increase in FY 2026-27.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

BACKGROUND

Project Open Hand (POH) is a nonprofit organization that provides nutritional support to individuals living with HIV/AIDS in San Francisco. The Department of Public Health (DPH) has contracted with POH to deliver these HIV health and food services. These services are tailored to meet the specific dietary needs of clients, including options for no dairy, vegetarian, pescatarian, and diabetic meals. For marginally housed clients without cooking facilities, pre-packaged "no-cook" items are provided. Additionally, POH offers dietetic and nutritional counseling by registered dietitians, who evaluate clients' needs and provide ongoing support to align nutrition with medical regimens and symptom management. Home-delivered meals are available for clients unable to access grocery centers, with deliveries including wellness checks by staff and volunteers across eight routes in San Francisco.

In addition to core services, POH conducts outreach under the "Getting to Zero" program, initiated in 2017 with City funding as part of San Francisco's broader Getting to Zero initiative. This program aims to eliminate new HIV infections, premature HIV-related deaths, and HIV/AIDS stigma. It focuses on reaching underserved HIV-positive residents who may be reluctant to engage with services due to stigma or accessibility barriers. Outreach efforts include bilingual coordinators participating in health fairs, maintaining referral networks with medical providers, and conducting targeted engagement through navigation centers, single-room occupancy hotels, needle exchange programs, and other community avenues.

Request for Proposals

On January 30, 2017, DPH issued a Request for Proposals for food and nutrition services targeting low-income HIV clients. POH was the sole respondent and met the minimum qualifications. The initial contract had a not-to-exceed amount of $6,258,690 and a four-year term from April 1, 2017, through March 31, 2021, with six one-year renewal options, allowing for a potential total term of ten years through March 31, 2027.

Amendment No. 1, effective December 1, 2018, extended the term by three months to June 30, 2021, and increased the not-to-exceed amount by $1,225,840, for a new total of $7,484,530.

Amendment No. 2, effective February 1, 2021, extended the term by one year to June 30, 2022, and increased the not-to-exceed amount by $1,873,175, for a new total of $9,357,705.

Amendment No. 3, effective January 1, 2022, extended the term by four years and nine months to March 31, 2027, and increased the not-to-exceed amount by $9,442,639, for a new total of $18,800,344.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves Amendment No. 4 to the contract between DPH and Project Open Hand (POH) for the administration of food and nutrition services to low-income San Francisco residents living with HIV/AIDS, increasing the contract amount by $1,727,928, resulting in a new total not-to-exceed amount of $20,528,272, with no change to the existing ten-year term of April 1, 2017, through March 31, 2027.

Services Provided

Under the existing agreement, POH serves 895 unduplicated clients annually who are San Francisco residents living with HIV and meeting income eligibility criteria (defined as up to 600% of the Federal Poverty Level, previously 500%). According to DPH staff, under the proposed amendment, Project Open Hand will serve an estimated 450 additional clients annually in FY 2025-26 and FY 2026-27 with one-time funding from unspent federal grants from previous years. Client enrollment prioritizes low-income, uninsured residents, followed by low-income, underinsured residents. An HIV diagnosis must be confirmed at intake, and eligibility for residency, income, and insurance status is confirmed at intake and every 12 months, with interim six-month confirmations possible via self-attestation. The services include:

- Prepared Meals
    - Meals are medically tailored and meet at least one-third of daily nutritional requirements. Clients can choose from various dietary options such as no dairy, vegetarian, renal, diabetic. Pre-packed "no-cook" bags are available for clients that do not have kitchens. Meals can be picked up or home-delivered, with deliveries including informal health checks for homebound clients.
- Grocery Center
    - Serves as a resource hub, offering referrals to housing, workforce development, medical, mental health, case management, and legal services and provides fresh proteins, dairy, fruits, vegetables, grains tailored to the nutritional and medical needs of clients.
- Nutritional Counseling
    - Registered Dietitians provide individual counseling and nutrition education with new clients and follow-up appointments are made for high-need clients. RDs offer guidance on dense foods, metabolic syndrome management, and symptom control.
- Outreach and Client Referral Network
    - POH maintains relationships with various access points in the HIV service system such as Ward 86, emergency rooms, and substance abuse programs. Bilingual outreach coordinators participate in numerous health fairs and community events annually.

- Getting to Zero Program
    - Outreach for HIV+ residents who are not currently served, including targeting navigation centers, SROs, needle exchange programs, mobile health services, City and free clinics, and other avenues

Contract Performance

DPH's most recent program monitoring evaluation for Project Open Hand's nutrition program was on January 7, 2025, which included a site visit. DPH evaluated service delivery, clients served, compliance with DPH policies, and client satisfaction. DPH provided an overall score of three out of a possible four points, which it classifies as "Acceptable/Meets Standards." DPH monitoring noted that Project Open Hand's dietitians did not always follow up with high-risk clients after initial intake, as required by the contract.

Exhibit 1 below shows the units of service and unduplicated client count data for Project Open Hand's nutrition program in FY 2024-25. The data shows POH met 101 percent of the units of service targets and 129 percent of the target annual unduplicated clients.

DPH's most recent program monitoring evaluation for Project Open Hand's Getting to Zero program was on January 7, 2025, which included a site visit. Getting to Zero's most recent performance monitoring evaluation was on January 7, 2025. DPH provided an overall score of four out of a possible four points, which it classifies as "Commendable/Exceeds Standards."

Exhibit 1 below shows the units of service and unduplicated client count data for Project Open Hand's Getting to Zero program in FY 2024-25. The data shows POH met 100 percent of the units of service targets and 494 percent of the target annual unduplicated clients.

Exhibit 1: Project Open Hand (POH) Contract Performance FY 2020-21 through FY 2024-25

Units of Service	Contract Target	Actual	Actual as Percentage of Contracted
Food and Nutrition Services (Main Program)			
Grocery Bags	12,555	13,222	105%
Prepared Meals	64,077	64,077	100%
Nutrition Counseling Hours	330	255	77%
Unduplicated Clients Served	*775*	*1002*	*129%*
Getting to Zero			
Grocery Bags	707	707	100%
Prepared Meals	4,895	4,895	100%
Unduplicated Clients Served	*120*	*593*	*494%*
Total Unduplicated Clients	***895***	***1,595***	***178%***
Total Units of Service	**82,564**	**83,126**	**101%**

Source: DPH

Note: The performance review recommends that the program work with the Human Services Agency to determine if the target UDC should be adjusted to better reflect current program practice and capacity.

Fiscal and Compliance Monitoring

The Human Services Agency most recently completed their citywide fiscal and compliance monitoring of Project Open Hand for FY 2023-24. According to the June 2024 letter, there were no findings identified, stating the agency was in full compliance.

DPH and the Business Office of Contract Compliance most recently reviewed the Audited Financial Statements of Project Open Hand for FY 2019-20 to FY 2022-23 and concluded that the Agency is "low risk", which is defining as having "solid financials and… the capability to absorb some losses".

FISCAL IMPACT

The proposed Amendment No. 4 adds $1,727,928 to the contract. This increase consists of unspent funding of Ryan White Part A and Ryan White Part A Minority AIDS Initiative (MAI) funds, an increase to the Getting To Zero program, and a contingency amount.

Exhibit 2 below summarizes the new spending authorized by this amendment for the final two fiscal years of the contract.

Exhibit 2: Summary of Proposed Contract Spending from 2025 through 2027

	Existing (Amend 3)	Total Proposed	Proposed Increase
FY 2025-26			
Personnel	$1,100,031	$1,386,192	$286,161
Operating	490,370	665,061	174,691
Indirect	148,375	187,523	39,148
Subtotal	*1,738,776*	*2,238,776*	*500,000*
Contingency (25%)	90,821	268,654	177,833
Total	$1,829,597	$2,507,429	$677,833
FY 2026-27			
Personnel	860,328	1,326,262	465,934
Operating	370,888	635,193	264,305
Indirect	116,669	179,599	62,930
Subtotal	*1,347,885*	*2,141,054*	*793,169*
Contingency (12%)	0	259,926	256,926
Total	$1,347,885	$2,397,980	$1,050,095
2-Year Total	**$3,177,482**	**$4,905,409**	**$1,727,928**

Source: DPH

Reasons for the Increase

The proposed additional funding in Amendment No. 4 is largely sourced from unspent allocations of grant funding from previous years. According to DPH, underspending is typically the result of unfilled provider positions. Specifically, this includes an estimated $1 million in unspent FY 2024-25 and FY 2025-26 Ryan White Part A and Ryan White Part A Minority Aids Initiative federal funding. The remainder of the increase is composed of $293,169 from the General Fund for a 2.5 percent cost of doing business adjustment for the Getting To Zero program and $434,759 in contingency funding. According to DPH, contingency funding is set aside to cover potential future increases, such as Cost of Doing Business allocations or a rise in existing grant funding.

Staffing

The contract supports approximately 15.6 full-time equivalent (FTE) positions.

RECOMMENDATION

Approve the proposed resolution.

Items 9 & 10 Files 25-0829 & 25-0830	Department: Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- **File 25-0829** is a proposed resolution that would approve an amended and restated loan Agreement with BHC Balboa Builders, LLC for a total loan amount not to exceed $56,425,904 to finance Phase 1 infrastructure improvements for the Balboa Reservoir Project.
- **File 25-0830** is a proposed resolution that would approve an amended and restated loan agreement between the City and Balboa Lee Avenue, L.P. in an amount not to exceed $36,000,000 for a minimum loan term of 57 years to provide gap financing for Building E and approve a long-term ground lease with Balboa Lee Avenue, L.P.

Key Points

- Under a development agreement, the Balboa Reservoir Project will provide 1,100 housing units, including 550 affordable units. Proceeds from the sale of townhome parcels were supposed to provide funding for infrastructure. However, market rate development is delayed due to economic conditions resulting in delays in the infrastructure work.
- The proposed infrastructure loan agreement provides for a minimum term of 10 years with two five-year options to extend. The borrower may repay the loan with: (a) proceeds from the sale of the townhome parcels; (b) other infrastructure financing sources and/or (c) proceeds from the transfer of market-rate, which is limited to $10.4 million under the development agreement. MOHCD may forgive the infrastructure loan if townhome parcel sale proceeds are insufficient to repay the loan.

Fiscal Impact

- The loans are funded by a $20.0 million State grant for infrastructure, the Housing Trust Fund, California Pacific Medical Center funds, and 2019 and 2024 general obligation bonds.

Policy Consideration

- MOHCD is proposing to provide an infrastructure loan and more total funding than what is required under the development agreement to preserve $213 million in state funding. It is uncertain if the townhome parcel sale proceeds can support the infrastructure work.

Recommendations

- The Board of Supervisors should: (1) Amend File 25-0830 to reduce the not to exceed amount to $28,000,000 to reflect the project budget. (2) Amend File 25-0829 to request that the MOHCD Director report back to the Board of Supervisors on (a) the status of the Balboa Reservoir project following completion of Building E, and, (b) on any action to forgive all or part of the proposed infrastructure loan; and (3) approve Files 25-0829 and 25-0830 as amended.
- MOHCD should: (4) Update its Underwriting Guidelines policy to include guidance on infrastructure loan terms, including interest rates, repayment terms as well as project hard and soft costs and related budget contingencies; and (5) Evaluate the feasibility of including additional transfer payments from the sale/refinancing of market rate parcels and/or operating income from the market rate parcels as repayment sources for the proposed and any future infrastructure loans for the Balboa Reservoir project.

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

Balboa Reservoir

The Balboa Reservoir is a 17-acre site formerly owned by the San Francisco Public Utilities Commission (SFPUC) and located across from City College. Following a Request for Proposals in 2016, Reservoir Community Partners, LLC (Reservoir Community Partners), a private joint venture made up of non-profit BRIDGE Housing and Avalon Bay Communities, was selected to lead the development of a master plan for the site. In 2020, the Board of Supervisors approved: (a) a development agreement between the City and the developer for the Balboa Reservoir Project (File 20-0423); and (b) a purchase and sale agreement between the SFPUC and Reservoir Community Partners for sale of the Balboa Reservoir from the SFPUC to the developer for $11.4 million (File 20-0740).[1] The Balboa Reservoir was previously vacant and used for surface public parking.

Development Agreement

Under the development agreement, the Balboa Reservoir Project will provide 1,100 units of housing, including 550 affordable housing units (50 percent), transportation and infrastructure improvements, public open space, and a childcare facility and community room. The development plan does not include any retail or commercial space. The development agreement specifies that parcels C, D, and G are for market-rate residential development as rental units and parcels TH1 and TH2 as market-rate residential ownership units (townhomes). Parcels A, B, E, and F are set aside for affordable rental housing development and Parcel H will be used for moderate-income residential condominiums. The development agreement provides for the transfer of market-rate parcels to vertical developers, as well as the transfer of affordable housing parcels to the City for a nominal amount.

As part of the development agreement and pursuant to the City's request for proposals, the Developer agreed to provide gap funding for two-thirds of the affordable housing units (367) to meet its 33 percent affordable housing commitment while the City agreed to provide gap funding for the remaining one-third of the affordable housing units (183) to reach the 50 percent overall affordable housing commitment. The Agreement specifies that City's gap funding contribution would be capped at $239,000 per unit (adjusted annual for inflation based on the Consumer Price

[1] The SFPUC retained one acre of the site and sold approximately 16 acres to Reservoir Community Partners.

Index). Based on a 16 percent increase in the CPI in the Bay Area between 2020 and 2024, the amount per unit is $277,240 or $50.7 million for the 183 affordable units.

Project Delays and Rephasing

According to the June 2025 MOHCD Memo to the Affordable Housing Loan Committee, Avalon, the market rate developer, paused the project in January 2023 due to market conditions for the townhomes, which would have provided funding for the horizontal improvements, resulting in delays in infrastructure work at the site. Following negotiations between the developer and MOHCD, the infrastructure work is being rephased to prioritize development of two affordable parcels (Buildings A and E) to avoid losing state funding for the affordable buildings. Building A was moved from Phase 2 to Phase 1, and Phase 1 was broken into two subphases, 1A and 1B. Exhibit 1 below shows the updated phasing for the project.

Exhibit 1: Updated Balboa Reservoir Project Phasing

Phase	Market Rate	Affordable
Phase 1A (Oct 2025 to June 2028)		
Building A (Affordable)		159
Building E (Affordable)		128
Private Streets		
Public Right of Way		
Subtotal, Phase 1A	0	287
Phase 1B (Start and End Date TBD)*		
Parcel J (Reservoir Park)		
Buildings C&D (Market)	260	
Building F (Affordable / Educator)		154
Townhomes (Market)	100	
Subtotal, Phase 1B	360*	154*
Phase 2 (Start and End Date TBD)*		
Building B (Affordable)		70
Building G (Market)	190	
Building H (Affordable)		20
SFPUC Open Space & Parcel O		
Gateway Landscape		
Parcel K (Brighton Paseo)		
Private Streets		
Child Care Facility		
Community Room		
Subtotal, Phase 2	190*	90*
Total	**550***	**531***

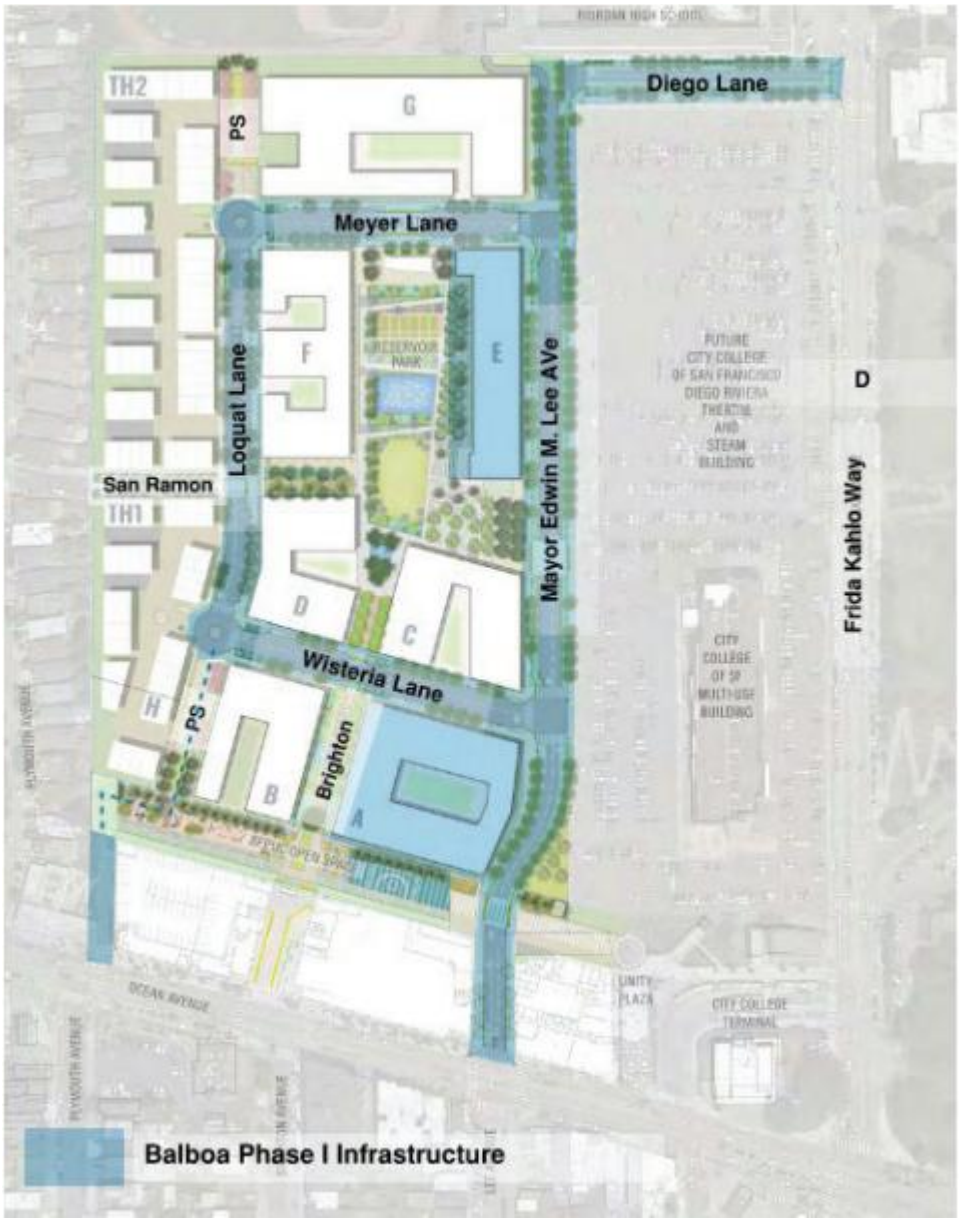
Source: MOHCD and development agreement, Schedule 1-A

*Phases 1B and 2 unit counts are estimates from the development agreement and have not been updated; the Development agreement contemplated 1,110 housing units, including 550 affordable units.

Phase 1 Infrastructure

Phase 1 infrastructure improvements include demolition, site grading, street lighting, public right-of-way improvements, utility upgrades, and stormwater detention systems, as shown in Exhibit 2 below.

Exhibit 2: Balboa Reservoir Phase 1 Infrastructure Map



Source: MOHCD Balboa Reservoir Phase 1 Infrastructure Loan Evaluation Memo, June 2025

Phase 1 infrastructure construction is expected to begin in October 2025 and to be completed by March 2027. Construction of Building E is expected to begin by November 1, 2025 and to be completed in Fall 2027, and construction of Building A is expected to begin in February 2026 and to be completed by February 2028. The start date of Phase 2 infrastructure is not known.

Building E

Building E is the first affordable housing parcel to be developed and will be a seven-story building with 127 family units affordable to households earning up to 80 percent of MOHCD Area Median Income (AMI) and one manager's unit.

DETAILS OF PROPOSED LEGISLATION

File 25-0829 is a proposed resolution that would approve an amended and restated loan Agreement with BHC Balboa Builders, LLC for a total loan amount not to exceed $56,425,904 to finance Phase 1 infrastructure improvements for the Balboa Reservoir Project. The resolution also adopts findings that the loan agreement is consistent with the Mitigation Monitoring and Reporting Program, the General Plan, and the priority policies of the Planning Code and authorizes the MOHCD director to enter into immaterial amendments to the agreement.

File 25-0830 is a proposed resolution that would:

1) Approve a ground lease with Balboa Lee Avenue, L.P. for a term of 75 years with a 24-year option to extend and an annual base rent of $15,000;
2) Approve an amended and restated loan agreement between the City and Balboa Lee Avenue, L.P. in an amount not to exceed $36,000,000, for a minimum loan term of 57 years to provide gap financing for Building E ;
3) Find that the project and related transactions are consistent with the General plan and priority policies of the Planning Code; and
4) Authorize the Director of Property and Director of MOHCD to amend the ground lease and loan agreement, provided amendments do not increase the obligations or liabilities of the City.

Infrastructure Loan Agreement (File 25-0829)

In June 2025, MOHCD provided an initial predevelopment loan for Phase 1 infrastructure in the amount of $5 million under an original loan agreement. MOHCD is proposing to amend and restate the loan agreement to increase the total loan amount to a not to exceed $56,425,904, an increase of approximately $51.4 million.

The proposed amended and restated loan agreement provides for a minimum term of 10 years with two five-year options to extend. The outstanding principal and accrued interest are due and payable on the maturity date of the loan. There are three components to the infrastructure loan, including: (a) Building E infrastructure estimated to be approximately $19.7 million; (b) Building A infrastructure estimated to be approximately $22.1 million; and (c) infrastructure not attributable to Building E or Building A estimated to be approximately $10.4 million.[2] As documented in three separate promissory notes, the Building E and A infrastructure components have zero percent interest rates (similar to the Building E gap loan discussed below), and the infrastructure not attributable to Building E or Building A has a five percent interest rate.

[2] According to MOHCD staff, the amounts allocated to Building A and E are calculated in consultation with the Sponsor's financial consultant and tax attorney to ensure they qualify for Low-Income Housing Tax Credits, and the amounts may change as numbers are finalized.

Under the proposed agreement, the borrower may repay the loan with: (a) remaining proceeds from the sale of the townhome parcels consistent with the development agreement; (b) other infrastructure financing sources (such as Community Facilities District funding, subject to formation and approval) if the loan has been fully drawn down; and/or (c) proceeds from the transfer of market-rate parcels to developers of market rate rental housing.[3] The borrower must use other infrastructure financing sources (if available) in lieu of drawing down the MOHCD infrastructure loan. The borrower may request loan forgiveness subject to approval by the MOHCD Director if sale proceeds from the sale of townhome parcels are insufficient to repay the loan provided that the borrower has pursued all viable repayment strategies.

Building E Gap Loan Agreement (File 25-0830)

The original loan agreement provided by MOHCD in 2021 included $1 million for predevelopment costs. MOHCD increased the loan amount by $2 million in March 2025, for a total of $3 million in loans for predevelopment. MOHCD proposes to amend the loan agreement to increase the loan amount by an additional $33 million to complete development and construction, including permanent financing. Under the proposed amended loan agreement, the total loan amount would be up to $36 million. However, this exceeds the MOHCD loan in the project budget by approximately $7.6 million. We recommend that the Board of Supervisors amend the proposed resolution to reduce the maximum value of the loan to $28 million to reflect the project budget plus an additional five percent to account for potential changes to the allocation of infrastructure costs pending an analysis from the tax specialist and any changes in permanent or construction loan interest rates.

The project sponsor must repay the loan by the later of: (a) the 57th anniversary date of the deed of trust or (b) the 55th anniversary of the date on which construction financing is converted into permanent financing. The interest rate is reduced from three percent under the original loan agreement to zero percent under the amended and restated loan agreement to maximize tax credit equity in the project.

The loan is secured by a deed of trust recorded against the borrower's leasehold interest in the property.

Ground Lease & Affordability Restrictions

As provided in the development agreement, the developer will transfer ownership of the Building E parcel to the City for a nominal ($1) fee. The City in turn will enter into a long-term ground lease with the affordable housing sponsor (an affiliate of BRIDGE).

The proposed ground lease has a term of 75 years and gives the developer one 24-year extension option, for a maximum term of 99 years. During the initial lease term, proposed base rent is $15,000 per year, plus residual rent payable from residual receipts after full repayment of the

[3] According to Section 12.3 of the development agreement, the master developer is entitled to one-time transfer payments following transfer of market rate parcels (C, D, & G) to other market rate developers. The transfer payments must be used on project development costs. The transfer payments are $5,770,670 for Phase 1 and $4,616,536 for Phase 2, or up to a total of $10,393,206.

MOHCD loan, up to a total rent of 10 percent of appraised fair market value. (Consistent with MOHCD's Residual Receipts policy, the term "residual receipts" refers to up to two-thirds of net income after operating costs, ground lease base rent, and replenishing operating reserves.) Base rent during the extension period would be negotiated between the developer and the City and would have to be at least the annual rent of the initial lease term.

Affordability restrictions to preserve the affordability of the housing units in the proposed development are included in the loan agreement between the City and the affordable housing operator and recorded against the property as a Declaration of Restrictions. The unit mix by maximum income level is shown in Exhibit 3 below.

Exhibit 3: Building E Unit Mix and Maximum Income Level

Maximum Income Level	1-Bedroom	2-Bedroom	3-Bedroom	Total
40% of AMI	15	10	6	31
65% of AMI	18	12	6	36
80% of AMI	23	17	20	60
Unrestricted (Manager's Unit)		1		1
Total	**56**	**40**	**32**	**128**

Source: Proposed Building E Amended and Restated Loan Agreement

Sponsor Performance

According to the MOHCD loan evaluation memos on the proposed loans, BRIDGE has experienced significant staff turnover, including the director overseeing the project, which has contributed to overall delays for the Balboa Reservoir Project. In Spring 2024, BRIDGE hired two senior project managers and two associate project managers to support the project.

The infrastructure amended and restated loan agreement states that a portion of the developer fee is contingency on the developer maintaining adequate staffing, defined as at least one senior project manager "with ongoing executive support". MOHCD must approve staffing changes. However, the draft agreement does not specify what portion of the developer fee is contingent on maintaining adequate staffing. MOHCD staff report that they plan to update Article 15 of the agreement to state that the disbursement of developer fees for certain milestones (i.e., 50 percent completion through acceptance of improvements) will be contingent on the borrower maintaining adequate staffing.

FISCAL IMPACT

Infrastructure Budget

The Phase 1 infrastructure budget (as shown in Exhibit 4 below) is totally funded by the proposed MOHCD infrastructure loan.

Exhibit 4: Phase 1 Infrastructure Budget

Hard Costs (incl 20.2% contingency)	$38,642,958
Soft Costs (incl 10.5% contingency)	14,496,887
Developer Fee	2,200,000
Unpaid City Invoices	1,086,059
Total Costs	**$56,425,904**

Source: MOHCD Infrastructure Loan Evaluation Memo, June 2025

Hard costs total $38.6 million and reflect 68 percent of the total infrastructure budget. According to the MOHCD Infrastructure Loan Evaluation memo, it is difficult to compare infrastructure projects of different sizes, conditions, and terrains. Balboa Reservoir Phase 1 will include the second most amount of street area (3.609 acres) of MOHCD infrastructure projects. Street area is more expensive to build than rough graded areas due to the paving and utilities required.

The Phase 1 Infrastructure budget includes a $2.2 million developer fee. MOHCD does not have a policy for infrastructure developer fees. According to the MOHCD Infrastructure Loan Evaluation memo, the proposed $2.2 million fee is based on the developer fee allowed for Sunnydale Phase 3 Infrastructure, which is of similar size and scope to Balboa Reservoir Phase 1 Infrastructure. Similarly, MOHCD does not have a specific policy for infrastructure hard cost contingency. The proposed 20.2 percent contingency exceeds the hard cost contingency Sunnydale Phase 3 Infrastructure (15 percent). MOHCD staff report they are working with the Sponsor and General Contractor to determine if the 20 percent contingency is appropriate or if it should be reduced. Reducing the hard cost contingency to be in line with Sunnydale Phase 3 would reduce the infrastructure budget by $1.7 million. We recommend MOHCD update its Underwriting Guidelines policy to include guidance on infrastructure loan terms, including interest rates, repayment terms as well as project hard and soft costs and related budget contingencies.

The budget also includes $1.1 million to pay the City for design, permitting, and review work related to Balboa Reservoir infrastructure, including city staff time from the Office of Economic and Workforce Development (OEWD), the City Attorney's Office, Planning, Public Works, SFPUC, the Fire Department, and the SFMTA.

Building E Total Development Costs

The total development costs for Building E are $151.9 million, including acquisition costs and infrastructure costs allocated to the project. Of the $151.9 million in permanent funding sources for the project, $46.4 million (31 percent) are City funds, $19.6 million (13 percent) are State funds, and $85.9 million (56 percent) are private funds (which benefit from tax credits awarded to the project). Exhibit 5 below shows the total development sources and uses for Building E.

Exhibit 5: Building E Total Development Costs

Sources and Uses	Amount
Sources	
MOHCD Loan	$26,699,334
MOHCD Infrastructure Loan allocated to Building E	19,681,825
Permanent Loan	15,849,000
HCD Affordable Housing and Sustainable Communities (AHSC) Loan	19,610,404
Deferred Developer Fee	2,107,193
General Partner Equity	13,810,758
Limited Partner Equity	54,128,420
Total Sources	**$151,886,934**
Uses	
Acquisition	1,627,286
Hard Costs (incl 5% contingency)	87,194,304
Infrastructure Costs	19,681,825
Soft Costs (incl 10% contingency	23,191,299
Reserves	1,804,369
General Partner Equity	13,810,758
Developer Fee	4,577,093
Total Uses	**$151,886,934**

Source: MOHCD

The budget includes developer fees of approximately $4.6 million, including a project management fee of $1.1 million, an at-risk fee of approximately $1.4 million, and a deferred fee of approximately $2.1 million. According to MOHCD staff, the acquisition costs reflect a portion of the costs to purchase the land from the SFPUC. The acquisition costs of $1.6 million were allocated to Building E based on the number of housing units.

Building E City Subsidy per Housing Unit

Total development costs are $151.9 million, $1.2 million per unit, or approximately $655,000 per bedroom. The City's total subsidy for the housing development costs, including acquisition and infrastructure costs, is $46.4 million, or $362,353 per unit, as shown in Exhibit 6 below.

Exhibit 6: City Subsidy for Building E Affordable Housing Units

Units and Residential Area	
Number of Units	128
Total residential area (sq. ft.)	152,838

Cost and City Subsidy	Building E Infrastructure	Building E Development	Building E Total Costs
Development Cost	$19,681,825	$132,205,109	$151,886,934
Total City subsidy	19,681,825	26,699,334	46,381,159
Development cost per unit	153,764	1,032,852	1,186,617
Development cost per sq. ft.	129	865	994
City Subsidy per unit	153,764	208,589	362,353
City Subsidy per sq. ft.	129	175	303

Source: MOHCD

Based on a comparison of similar projects, MOHCD staff found the total development cost per unit, excluding acquisition and infrastructure costs, to be within average according to the April 2025 MOHCD loan evaluation of the Building E gap loan. However, MOHCD staff found the subsidy per unit to be 28 percent greater than comparable projects.

Operating Budget

According to the 20-year cash flow analysis for the project, the project will have sufficient revenues to cover operating expenses, reserves, management fees, and debt service on the California Department of Housing and Community Development (HCD) Affordable Housing and Sustainable Communities (AHSC) loan (a portion of which is structured as hard debt). Project revenues consist of tenant rents. A portion of net income after operating expenses (residual receipts) will be used to repay the MOHCD gap loan and HCD loans. The Project is not expected to generate sufficient net revenues to make residual rent payments under the proposed Ground Lease.

According to the MOHCD loan evaluation of the Building E gap loan, the operating expenses are 33 percent lower per unit than similar projects. In particular, the utilities and insurance costs are low compared to other projects but are comparable to other projects operated by BRIDGE.

Funding Sources for City Loans

Sources for the two proposed loans are shown in Exhibit 7 below.

Exhibit 7: Sources for MOHCD Loans

Source	Phase 1 Infrastructure	Building E Gap
HCD Infill Infrastructure Grant	$19,971,128	
Housing Trust Fund	8,841,340	2,000,000
Housing Trust Fund Advance	5,558,660	800,773
California Pacific Medical Center Funding	5,550,887	6,550,887
2019 GO Bonds	9,600,000	9,600,000
2024 GO Bonds	6,903,889	7,747,674
Total	**$56,425,904**	**$26,699,334**

Source: Proposed amended and restated loan agreements

POLICY CONSIDERATION

City Funding Exceeds development agreement Requirements

MOHCD is proposing to provide an infrastructure loan and more total funding than what is required under the development agreement to preserve $213 million in state funding. The project is at risk for losing state funding (including Low-Income Housing Tax Credit equity and tax-exempt bonds) if Building E and the associated infrastructure construction does not begin in October 2025.

As noted above, the development agreement requires the city to contribute $50.7 million for affordable housing development but allows for an adjustment to the City's funding share or affordability levels if there is not sufficient available financing for the affordable housing parcels. MOHCD's total contribution to infrastructure, Building E, and Building A is projected to be $87 million, which is $36.3 million more than what is required with another affordable housing parcel still to be built with City funding according to the MOHCD loan evaluation. According to the MOHCD loan evaluation on the proposed infrastructure loan, MOHCD is charging five percent interest on a portion of the infrastructure loan in light of the increased financial burden for the City. According to OEWD staff, there are not currently plans to amend the development agreement to memorialize changes to the City's funding share.

Potential Forgiveness of Infrastructure Loan

As noted above, the proposed infrastructure loan can be repaid by proceeds from the market rate town home parcels (after paying down the PUC for the land in the project area), other infrastructure financing, including a possible Community Facilities District, and/or transfer payments from sales of the other market parcels, which are limited to $10.4 million per the development agreement. According to the MOHCD loan evaluation of the proposed infrastructure loan, it is uncertain if the townhome parcel sale proceeds and potential Community Facilities District funding can support the infrastructure work. Therefore, the infrastructure loan agreement allows the MOHCD Director to forgive the outstanding loan amount if these sources are not sufficient. Approximately, $20 million of the proposed $56.4 million infrastructure loan is funded by State sources with the remaining $36.4 million funded by

City sources. Given the size of City investment in the project and the amount of the infrastructure loan, we recommend that the Board of Supervisors' amend the resolution in File 25-0829 to request that the MOHCD Director report back to the Board of Supervisors on (1) the status of the Balboa Reservoir project following completion of Building E, including the timeline and City funding for the horizontal and vertical development of the remaining parcels and total disbursement of the proposed infrastructure loan and separately, (2) on any action to forgive all or part of the proposed infrastructure loan, and include the reports in the legislative file for File 25-0829.

We also recommend MOHCD evaluate the feasibility of including additional project revenues as repayment sources for the proposed and any future infrastructure loans for the Balboa Reservoir project. Such revenues could include additional transfer payments from the sale or refinancing of the market rate (non-townhome) parcels or operating income from the market rate parcels. This may require amending the development agreement for this project, which cannot be done unilaterally. We believe this is appropriate given that the land was sold by the SFPUC to the developer based on an appraisal that assumed infrastructure work that is the developer's responsibility as part of the development agreement. MOHCD notes that including these additional funding sources would reduce the financial feasibility and potentially further delay the development of the market rate parcels and parks within the project area and that the infrastructure will eventually be accepted by the City for the benefit of the public.

RECOMMENDATIONS

The Board of Supervisors should:

- Amend File 25-0830 to reduce the not to exceed amount from $36,000,000 to $28,000,000 to reflect the project budget for Building E.
- Amend File 25-0829 to request that the MOHCD Director report back to the Board of Supervisors on (1) the status of the Balboa Reservoir project following completion of Building E, including the timeline and City funding for the horizontal and vertical development of the remaining parcels and total disbursement of the proposed infrastructure loan and separately, (2) on any action to forgive all or part of the proposed infrastructure loan, and include the reports in the legislative file for File 25-0829.
- Approve files 25-0829 and 25-0830 as amended.

MOHCD should:

- Update its Underwriting Guidelines policy to include guidance on infrastructure loan terms, including interest rates, repayment terms as well as project hard and soft costs and related budget contingencies.
- Evaluate the feasibility of including additional transfer payments from the sale/refinancing of market rate parcels and/or operating income from the market rate parcels as repayment sources for the proposed and any future infrastructure loans for the Balboa Reservoir project.