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: February 4, 2026 Budget and Finance Committee Meeting

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Item 1 **File 25-1255**	**Department:** Children, Youth and Their Families

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance de-appropriates $250,000 from District 10 General City Responsibility and re-appropriates the funds to the Department of Children, Youth, and Their Families in FY 2025-26.

Key Points

- The District 10 Office has prepared a Public Safety Plan, which outlines violence prevention strategies. The proposed ordinance funds three positions with the non-profit organization Young Community Developers to deliver services to youth impacted by violence. The services include program administration, school-based conflict resolution sessions, and community outreach.

Fiscal Impact

- The proposed ordinance re-appropriates FY 2025-26 funding set-aside for District 10 projects.

Recommendation

- Approve the proposed ordinance.

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

Through an ongoing community input process, the District 10 Office has prepared a Public Safety Plan, which outlines violence prevention strategies. The proposed ordinance funds a program deliver services to youth impacted by violence.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance de-appropriates $250,000 from District 10 General City Responsibility and re-appropriates the funds to the Department of Children, Youth, and Their Families (DCYF) in FY 2025-26.

The funding will be used for the following three positions at the non-profit organization Young Community Developers (YCD):

- The Director of Special Initiatives, who acts as the primary administrator responsible for managing the overarching Safety Plan.
- The Violence Interrupter position, who provides school-based support, including conducting mediations, facilitating conflict resolution sessions, and providing direct advocacy during sensitive administrative proceedings such as Individualized Education Program (IEP) meetings and expulsion hearings. This role also coordinates safety training with school officers and provides report-outs during citywide weekly coordination meetings.
- The District 10 Intern, who serves as a community liaison.

FISCAL IMPACT

The proposed ordinance re-appropriates FY 2025-26 funding set-aside for District 10 projects.

RECOMMENDATION

Approve the proposed ordinance.

Item 4 File 25-1246	Department: Office of Economic Workforce Development (OEWD)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would approve a Hotel Development Incentive Agreement between the City and Bespoke Hospitality, LLC for the Hearst Hotel Development Project, providing not to exceed $40,000,000 in net present value as a percentage of Transient Occupancy Taxes (TOT) the City receives from a new hotel at 5 Third Street and 17-29 Third Street, waive Chapter 21G of the Administrative Code and certain sections of the Labor and Employment Code, ratify past actions and authorize future actions in furtherance of the ordinance, and make findings under the California Environmental Quality Act (CEQA) and of consistency with the General Plan and Planning Code.

Key Points

- JMA Ventures, through its affiliate Bespoke Hospitality, LLC (Developer), has a long-term lease to develop and operate the property at 5 Third Street and 17-29 Third Street, three mostly vacant, internally connected commercial buildings collectively known as the Hearst Building. The Developer has obtained Planning Department approvals to develop a mixed-use hotel project on the property with up to 170 hotel rooms, restaurant and bar spaces, office, retail, seismic and structural upgrades, and restoration of historical building features.
- To help finance construction of the hotel, the City would provide incentive payments equal to the actual General Fund TOT revenues generated by the new hotel, up to $40 million in net present value, for a period of up to 20 years.

Fiscal Impact

- According to a fiscal analysis of the project, which has been peer reviewed, the proposed development would provide net General Fund revenues of approximately $713,000 compared to the existing land use, after accounting for the TOT incentive payments to the developer. The project would also annually generate approximately $157,000 in net revenue to the Municipal Transportation Agency (MTA) Fund and $367,493 in TOT for arts and culture purposes (which is unaffected by the incentive agreement).

Policy Consideration

- The proposed agreement would provide a public subsidy for a hotel project. In October 2025, the Board of Supervisors approved an incentive agreement for a mixed-use development at 530 Sansome Street using TOT revenues generated by a new hotel in the development. However, that subsidy agreement was to help finance the construction of a new fire station as part of a development agreement, while the proposed Hearst Hotel project does not include public facilities.

Recommendation

- Approve the proposed ordinance.

MANDATE STATEMENT

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

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 property at 5 Third Street and 17-29 Third Street consists of three buildings: (1) a 13-story mixed-use office building constructed in 1911 by William Randolph Hearst that had been the headquarters of the San Francisco Examiner; (2) an eight-story commercial building; and (3) a three-story commercial building. The three buildings are connected internally and are collectively known as the Hearst Building. As of December 2025, the buildings were approximately 74 percent vacant.

JMA Ventures, through its affiliate Bespoke Hospitality, LLC (Developer), has a long-term lease from the Hearst Corporation to develop and operate the property. The Developer has obtained Planning Department approvals in 2017 to develop a mixed-use hotel project on the property, as follows: (1) a mixed-use hotel on the 2^{nd} through 12^{th} floors with up to 170 rooms; (2) rooftop modifications to include an event space and rooftop bar and patio; (3) approximately 5,920 square feet of office space; (4) approximately 11,393 square feet of retail space; (5) approximately 4,005 square feet of restaurant and/or bar space; (6) rehabilitation and repair of the historic façade cladding, cast-iron storefront surrounds, and windows; (7) seismic and structural building system upgrades; and (8) retention and minor upgrades to the publicly accessible ground floor lobby.

The Office of Economic and Workforce Development (OEWD) retained BAE Urban Economics (BAE) to review the Developer's financial pro forma. BAE agreed with the developer that the project was infeasible without an incentive from the City. To support project feasibility, OEWD and the Developer propose to establish a funding incentive payment equal to a percentage of the Transient Occupancy Tax (TOT) generated by the project for a maximum of 20 years.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would approve a Hotel Development Incentive Agreement between the City and the Developer for the Hearst Hotel Development Project, providing financial assistance up to $40,000,000 in net present value over 20 years, equal to the TOT generated by the new hotel to the City's General Fund. The proposed ordinance would also waive Chapter 21G of the City's Administrative Code and certain sections of the Labor and Employment Code, ratify past actions and authorize future actions in furtherance of the ordinance, and make findings under the California Environmental Quality Act (CEQA) and findings of consistency with the General Plan and Planning Code.

Incentive Payments

To help finance construction of the hotel, the City has agreed to calculate actual General Fund TOT revenues from the hotel and provide quarterly incentive payments to the Developer for a period of up to 20 years, equal to 12.5 percent of hotel room revenues, or approximately 89.3 percent of actual collected TOT revenues (the remaining 10.7 percent of TOT revenues dedicated to arts and culture programming would be unaffected by the agreement).[1] The maximum incentive amount is $40,000,000 in net present value over 20 years, calculated with a nine percent discount rate, or approximately $84.5 million in nominal dollars. After paying that amount or if the 20-year term has elapsed, the City would no longer pay the incentive payments. The City would make an annual deposit into an incentive account with projected payments as outlined in Exhibit D of the agreement and would then pay the developer out of that account based on the actual TOT revenues received each quarter.

The $40 million cap on total payments to the developer is based on a project design with 113 hotel rooms. The agreement allows for a 15 percent variance to this design, so there would be no change to the payment calculation or the incentive cap if the hotel has between 96 and 130 rooms. If the number of rooms is below 96, the annual deposit and total cap would be reduced proportionally based on the actual number of rooms as a percentage of 113. If the number of rooms exceeds 130, the payment cap and annual deposit would not increase, but the quarterly payments would be reduced proportionally to account for this increase.[2]

Developer Obligations

Under the proposed incentive agreement, the Developer is required to receive a First Certificate of Occupancy within five years of the effective date of the agreement (target completion date). If the First Certificate of Occupancy is obtained late but within one year of the target completion date, the incentive payment cap would be reduced by 20 percent. If the First Certificate of Occupancy is obtained between one and two years after the target completion date, the payment cap would be reduced by 30 percent. If the First Certificate of Occupancy is not obtained within two years of the target completion date, the incentive agreement would terminate. The City may extend these deadlines due to “excusable delays” outside of the Developer’s control, as defined in the agreement.

Code Waivers

The proposed ordinance waives Administrative Code Section 21G to clarify that the financial assistance given to the Developer is not a “grant” as defined by the Administrative Code. The proposed ordinance also waives various provisions of the Labor and Employment Code related to prevailing wages and apprenticeship requirements to avoid confusion because the Developer is required to meet similar State requirements to obtain tax credit funding.

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[1] Per Article 7 of the Business Tax & Regulations Code, the City’s TOT rate is 14%, including 12.5% for the General Fund and 1.5% for arts and cultural programming.

[2] For example, if the hotel were to have 80 rooms, the annual deposit and payment would be multiplied by 80/113, or 70.8 percent. If the hotel were to have 150 rooms, the quarterly incentive payment would be multiplied by 113/150 or 75.3 percent.

FISCAL IMPACT

Under the proposed incentive agreement, the City would provide the Developer incentive payments of up to $40,000,000 in net present value over a period of up to 20 years.

General Fund Fiscal Impact

According to a fiscal impact report conducted by Economic & Planning Systems, Inc. (EPS) on behalf of the Developer, the proposed development is projected to provide net General Fund revenues of approximately $713,000 per year compared to the existing land use. This projection excludes TOT revenues, since incentive payments based on those revenues would be paid to the Developer for up to 20 years to support the feasibility of the new hotel. An overview of General Fund revenues and expenditures are shown in Exhibit 1 below.

Exhibit 1: Annual General Fund Fiscal Impact Estimates, EPS Report

Projected General Fund Revenues	Existing Development	Proposed Project	Revenue Increase
Property Tax	$53,000	$630,000	$577,000
Property Tax in Lieu of VLF	10,000	120,000	110,000
Sales Tax	49,000	130,000	81,000
Utility Taxes	90,000	16,000	(73,000)
Parking Tax	-	33,000	33,000
Business Taxes & Fees[3]	459,000	66,000	(391,000)
Subtotal	*$660,000*	*$995,000*	*$337,000*
Less General Fund Baseline Requirements	(189,000)	(285,000)	(97,000)
General Fund Revenue After Baseline Requirements	**$470,000**	**$710,000**	**$240,000**

Projected General Fund Expenditures	Existing Development	Proposed Project	Expenditures Increase
Community Health	$72,000	$13,000	($58,000)
Human Welfare & Neighborhood Development	98,000	18,000	(80,000)
Police	172,000	32,000	(141,000)
Fire	117,000	21,000	(95,000)
Other Public Protection	40,000	7,000	(33,000)
Public Works, Transportation, & Commerce	37,000	7,000	(31,000)
Other Expenditures[4]	44,000	8,000	(36,000)
Total General Fund Expenditures	**$579,000**	**$106,000**	**($473,000)**
Net General Fund Revenues	**($109,000)**	**$604,000**	**$713,000**

Source: EPS fiscal impact report. Totals may not add due to rounding

[3] Business Taxes and Fees include Gross Receipts Tax, Commercial Rents Tax, and Business Registration fees.

[4] Other Expenditures include Culture and Recreation, General Administration and Finance, and General City Responsibilities.

In addition to the General Fund impact, the EPS draft report estimates that the project would annually generate approximately $157,000 in net revenue to the Municipal Transportation Agency (MTA) Fund and $367,493 in TOT for arts and culture purposes.

TOT Revenue and Incentive Payments

The draft report estimates that the hotel would generate approximately $3.1 million in annual TOT revenue to the City's General Fund, and that incentive payments in an equal amount would be provided to the Developer for up to 20 years after hotel occupancy to support the feasibility of the new hotel. This estimate assumes 113 hotel rooms with an average daily room rate of $900 and 66 percent average occupancy. Once the incentive payments expire, the development would provide approximately $2.9 million in annual net General Fund Revenues, including $2.2 million in annual TOT revenues net of General Fund baseline requirements, plus an additional $450,000 in net revenue to the MTA fund.

Under the incentive agreement, the City would make incentive payments totaling a net present value of up to $40 million over 20 years. The incentive payments would expire early if the cap on payments is reached. If the hotel generates less than $40 million in net present value TOT, the incentive payments would expire 20 years after hotel occupancy, regardless of the amount of TOT revenue. Exhibit D of the incentive agreement shows a schedule of projected incentive payments, starting at $1,130,922 in Year 1, $3,135,342 in Year 2, $3,427,110 in Year 3, and increasing three percent annually thereafter.

Peer Review

The City contracted with Bay Area Economics (BAE) to conduct a peer review of the EPS report. BAE found that the EPS report was generally reasonable, but that EPS likely overstated the decline in General Fund expenditures from the proposed project since the existing building is mostly empty. However, this also likely overestimates the Gross Receipts Tax, Sales Tax, and various utility tax revenues from the existing building, so the increase in revenues is likely underestimated. BAE noted that even if there is no decrease in General Fund expenditures from the proposed project, the project would still have a positive fiscal benefit to the City due to the revenue increases.

BAE noted that the TOT projections were reasonable but at the high end of the five-star hotel market and dependent on continued tourism recovery. BAE also found that the project would not be feasible without the TOT incentive, as it would not generate an acceptable rate of return.

General Economic Impact

EPS estimated that the project, when fully built out, would create approximately 121 jobs (including part-time) on an ongoing basis and generate $32.6 million annually in economic activity. When including indirect effects, such as increased spending at local businesses, the project would create approximately 151 jobs and $42.6 million annually in economic output. The report also estimated that development of the project would create approximately 706 job years and $206.6 million in one-time economic output, including multiplier effects.[5] In its peer review, BAE noted that EPS's report assumes no reduction in economic activity from the loss of existing

[5] A "job year" is the labor equivalent of one person working a full-time job for a year.

tenants, as these tenants would relocate to other vacant offices in San Francisco. BAE recommended that this assumption be adjusted as the project progresses as some tenants may choose to leave San Francisco.

POLICY CONSIDERATION

The proposed agreement would provide a public subsidy for a hotel project. In October 2025, the Board of Supervisors approved an incentive agreement for a mixed-use development at 530 Sansome Street using TOT revenues generated by a new hotel in the development (Files 25-0698, 25-0803). However, that subsidy agreement was for a longer duration (25 years) and helped finance the construction of a new fire station as part of a development agreement, while the proposed Hearst Hotel project does not include public facilities. OEWD notes that the benefits of this project include activating a mostly vacant building in the downtown, generating additional tourist activity, creating new jobs and economic activity, a net positive impact to the City's General Fund, and rehabilitation of the historic Hearst Building.

According to the Developer, without the City subsidy, the proposed project would generate an annual rate of return of approximately 3.8 percent, which does not meet industry standards. The proposed subsidy would enable the project to generate an annual rate of return of approximately 17.9 percent, which is feasible. BAE agreed with the Developer's findings that the project is infeasible without the City incentive, although BAE recommended restructuring the incentive period from 25 years to 20 years while increasing the subsidy from 80 percent of TOT revenues to 89.3 percent, which was reflected in the proposed agreement. The project also leverages approximately $54.2 million in tax credits from the State Historic Rehabilitation Tax Credit program. BAE notes that hotel subsidy agreements are common in other California cities with strong tourist sectors, including Los Angeles, Anaheim, and Palm Springs.

RECOMMENDATION

Approve the proposed ordinance.

Item 7 **File 26-0028**	**Department:** Sheriff's Department (Sheriff)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a contract between the Sheriff's Office and ConnectionsCA, LLC (Connections) to operate the Rapid Enforcement Support Evaluation and Triage (RESET) Center, for an initial term of two years and two months, from February 2026 through March 2028, with an option to extend for one year through March 2029, for an amount not to exceed $14,537,426. The proposed resolution states it is a Core Initiative contract. Per Administrative Code 21B, the Board of Supervisors has 45 days to reject the contract. The 45-day period ends on February 25, 2026.

Key Points

- To address the population of arrestees who are under the influence of alcohol or drugs, the Sheriff's Office plans to open the RESET Center as an alternative to jail. The Sheriff's Office and Department of Public Health (DPH) conducted an informal solicitation and awarded a contract to Connections under the authority granted in Administrative Code Section 21B.
- Under the proposed contract, Connections would operate a facility where intoxicated individuals who are arrested can safely sober up and receive connections to services for up to 24 hours. The contract includes five service and outcome objectives which would allow Connections to receive incentive payments if they are met.

Fiscal Impact

- The proposed contract would have a total amount not to exceed $14,537,426 over the initial term of two years and two months, which would only be paid if all objectives are met each quarter. If the one-year option to extend is exercised, the monthly cost would increase by the greater of three percent or the Consumer Price Index (CPI). The Sheriff will also incur costs of approximately $4.9 million to provide site security during the contract term.
- In FY 2025-26, the contract is funded by a General Fund work order from DPH to the Sheriff's Office. The Sheriff's Office is requesting funding for the contract in subsequent years, however at least $3.1 million in contract costs are not budgeted in FY 2026-27. The contractor is not yet able to bill insurance and/or Medi-Cal, but may be able to do so in six to nine months, which could reduce City costs by approximately $1 million per year. Because funding for next year is not budgeted, we consider approval to be a policy matter.

Policy Consideration

- The RESET Center, as a component of the City's Breaking the Cycle Initiative, aims to remove people who are using drugs or alcohol on the street and connect them with treatment. The proposed program will allow for additional arrests for public intoxication and connections to services as it reduces the law enforcement drop off time.

Recommendation

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

MANDATE STATEMENT

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

BACKGROUND

The Sheriff's Office offers various alternatives to jail, such as pretrial diversion and electronic monitoring. To address the population of arrestees who are under the influence of alcohol or drugs, the Sheriff's Office plans to open a Rapid Enforcement Support Evaluation and Triage (RESET) Center as an alternative to jail. The RESET Center would be operated in partnership with the Department of Public Health (DPH), San Francisco Police Department (SFPD), District Attorney's Office, and San Francisco Fire Department (SFFD).

Under the authority granted by Administrative Code Chapter 21B, a competitive solicitation was not required to award a contract to operate the RESET Center.[1] The Sheriff's Office and DPH conducted an informal solicitation, reaching out to five providers with experience providing similar services: (1) Connections Health Solutions, (2) Crestwood Behavioral Health, (3) Cri-Help, (4) Janus, and (5) Cedar House. The City received responses from Connections, Crestwood, and Cri-Help, but only Connections ultimately decided to proceed with the evaluation process. Based on Connections' experience, clinical model, and positive references, the Sheriff's Office and DPH awarded a contract to Connections.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a contract between the Sheriff's Office and ConnectionsCA, LLC (Connections) to operate the RESET Center, for an initial term of two years and two months, from February 2026 through March 2028, with an option to extend through March 2029, for an amount not to exceed $14,537,426. The proposed resolution would also authorize the Sheriff's Office to make further immaterial amendments to the contract and affirm the Planning Department's determination under the California Environmental Quality Act (CEQA).

The proposed resolution states it is a Core Initiative contract. Per Administrative Code 21B, the Board of Supervisors has 45 days to reject the contract. The 45-day period ends on February 25, 2026.

Services Provided

Under the proposed contract, Connections would operate a facility where intoxicated individuals who are arrested can safely sober up and receive connections to services. This provides an alternative to jail and hospital watch, which requires a police officer to remain present until the

[1] Administrative Code Chapter 21B authorizes certain City departments to award certain contracts for homelessness, mental health, substance abuse, and public safety contracts without competitive bidding.

suspect is released. The goals of the program are to allow officers and deputies to drop people off quickly and return to service, enhance public safety by providing a quick intervention for public intoxication, promote health and stability with on-site medical providers, and encourage participants to connect to services during their stay. According to Patrick Leung, Sheriff's Office Chief Financial Officer, the program is considered voluntary, although people who leave early and remain intoxicated and disorderly could be arrested again. The maximum stay at the center is 24 hours. The RESET Center is complementary too, but distinct from existing DPH programs, including DPH Alcohol Sobering (which is primarily emergency medical service referrals for alcohol-only intoxication) and SoMa RISE (which is safe indoor space for intoxicated people struggling with substance use). Unlike those programs, the RESET Center would be Sheriff-led and accept individuals under arrest.

Individuals taken to the RESET Center must not have active warrants, exhibit aggressive or combative behavior, have any emergency medical needs, have psychiatric needs that require a 5150 involuntary hold, or possess illegal narcotics or weapons. Services provided include intake, screening, assessment, discharge, records management, stakeholder engagement, and establishing a Good Neighbor Policy. The center would be open 24 hours a day, seven days a week. Connections would have six staff on site on each shift, with three shifts a day, and the contract would fund a total of approximately 28.3 full-time equivalent (FTE) employees (including administrative positions). In addition, the Sheriff's Office would have two deputies on site at all times to provide security. The facility would have capacity for 25 clients.

According to Chief Financial Officer Leung, the program is intended to be a pilot that may be continued beyond the proposed contract term if it is successful. The RESET Center site, 444 6th Street, is intended to be the future Superior Court location. Depending on the status of the Hall of Justice relocation project, the RESET Center may have to be moved to a different location if the program is extended beyond the proposed contract term.

Service and Outcome Objectives

The contract includes a ramp up period from approximately April 2026 (when the center opens) through September 2026 when the Sheriff's Office will pay Connections its full monthly contract amount. Beginning in October 2026, the baseline monthly payment would be reduced to 92.5 percent of the monthly contract amount, but Connections would be able to earn up to 105 percent of the base amount if service and outcome objectives are met. There are two service objectives and three outcome objectives, with three tiers for each objective, as shown in Exhibit 1 below.

Exhibit 1: Service and Outcome Objectives

Service Objectives	Tier 1	Tier 2	Tier 3
Average Officer Drop-Off Time	≤ 15 minutes	≤ 12 minutes	≤ 8 minutes
Operational Staffing Requirement	≥ 85% capacity	≥ 90% capacity	≥ 95% capacity
Outcome Objectives	**Tier 1**	**Tier 2**	**Tier 3**
Retention & Release	≥ 85% remain until deemed sober for release	≥ 90% remain until deemed sober for release	≥ 95% remain until deemed sober for release
Voluntary Stay Conversion[2]	≥ 15% of those who remain convert to voluntary stay	≥ 20% of those who remain convert to voluntary stay	≥ 25% of those who remain convert to voluntary stay
Service Linkage at Discharge	≥ 20% of those who voluntarily stay linked to services	≥ 25% of those who voluntarily stay linked to services	≥ 30% of those who voluntarily stay linked to services

Source: Proposed contract

For each of the two service objectives, Connections would receive a monthly payment increase of .0625 percent for meeting Tier 1, 1.875 percent for meeting Tier 2, and 3.125 percent for meeting Tier 3. For each of the three outcome objectives, the monthly incentives are 0.417 percent for Tier 1, 1.25 percent for Tier 2, and 2.083 percent for Tier 3. Objective measures would be aggregated and paid for on a quarterly basis. The maximum total incentive is 12.5 percent if Connections meets Tier 3 performance for all five objectives each quarter.

FISCAL IMPACT

The proposed contract would have a total amount not to exceed $14,537,426 over the initial term of two years and two months. The not-to-exceed amount would only be paid if all objectives were met at the Tier 3 level each quarter. The contract budget is shown in Exhibit 2 below.

[2] A Voluntary Stay Conversion refers to a person who is deemed eligible for release, but chooses to stay for additional rest, engagement, or services for a total stay of less than 24 hours.

Exhibit 2: Contract Budget

Expenditures	Period 1 (Opening – 6/2026, 3-4 Months)	Period 2 (7/2026 – 6/2027, 12 Months)	Period 3 (7/2027 – 3/2028, 9 Months)	Total
Salaries & Benefits	$1,255,348	$3,898,693	$3,070,221	$8,224,262
Operating Expenses[3]	719,519	1,245,104	980,519	2,945,143
Equipment Purchase	172,250	36,000	36,000	244,250
Indirect Costs (20%)[4]	429,424	1,035,959	817,348	2,282,731
Profit (2%)	51,531	124,315	98,082	273,928
Total Cost Before Incentives	**$2,628,072**	**$6,340,072**	**$5,002,170**	**$13,970,314**

Incentive Pay	Period 1 (Opening – 6/2026, 3-4 Months)	Period 2 (7/2026 – 6/2027, 12 Months)	Period 3 (7/2027 – 3/2028, 9 Months)	Total
Baseline Payment (92.5% of Total Cost)	$2,628,072	$5,864,567	$4,627,007	$13,119,646
Tier 1 (95% of Total Cost)	2,628,072	6,023,068	4,752,061	13,403,202
Tier 2 (100% of Total Cost)	2,628,072	6,340,072	5,002,170	13,970,314
Tier 3 (105% of Total Cost, Total Not-to-Exceed)	**$2,628,072**	**$6,657,076**	**$5,252,278**	**$14,537,426**

Source: Proposed contract

Incentive pay would begin in October 2026, so Connections would be paid at 100 percent of its total cost for Period 1 and the first three months of Period 2. If the one-year option to extend is exercised, the monthly cost would increase by the greater of three percent or the Consumer Price Index (CPI) increase for San Francisco.

In FY 2025-26, the contract would be funded by a General Fund workorder from DPH to the Sheriff's Office. DPH's FY 2025-26 budget included $1.5 million of General Fund to support the RESET Center for six months, which annualizes to $3.1 million in FY 2026-27 in DPH's budget. Total program costs in FY 2025-26 are projected to be $3.1 million including rehab costs (approximately $500,000). According to DPH staff, the balance of $1.6 million in funding in FY 2025-26 will be provided by repurposing funds intended for an assisted living facility at 624 Laguna Street, which has been delayed.

[3] Operating costs include utilities, repairs and maintenance, janitorial, facility license and business fees, occupancy costs, information technology, food, medication, supplies, linens and laundry, waste removal, interpreting services, licensing fees, clinical costs, travel, training, taxes, and startup costs (in Period 1).

[4] Indirect costs include salaries and benefits for administrative and overhead positions. The indirect cost rate of 20% is greater than the typical indirect cost rate of 15% of DPH contracts. According to Sheriff's Office staff, the indirect cost rate is higher than DPH contracts to account for uncertainties in operating costs because this is the first time Connections will be operating in California, which has a higher cost of doing places compared to other states.

The Sheriff's Office is requesting funding for the contract in its upcoming FY 2026-27 - FY 2027-28 two-year budget, which could be offset by reducing the $3.1 million DPH has budgeted for this program in FY 2026-27. However, the remaining $3.4 million in expenses for FY 2026-27 and the $5 million for FY 2027-28 is not budgeted and will be a new cost for the General Fund. For this reason, we consider approval to be a policy matter for the Board of Supervisors.

The contract requires Connections to establish procedures to allow for Medi-Cal billing and estimates that it will take 6-9 months to be able to bill insurance and/or Medi-Cal. Any insurance or Medi-Cal revenues would offset City costs and could be approximately $1 million per year.

<u>Cost Comparisons</u>

At the Tier 2 rate (100 percent of total cost), the RESET Center has an annual cost of approximately $254,000 per bed/chair. This is more than SoMa Rise sobering center ($196,000 per bed/chair), which is less medically intensive and does not receive law enforcement drop-offs, but less than the mental health stabilization facility at 822 Geary Street ($454,000 per bed/chair), which is more medically intensive and also receives law enforcement drop-offs. Connections' cost proposal ($238,000 per bed/chair) was comparable to another proposal for this service ($224,000 per bed/chair) but approximately 52 percent higher than a third proposal for this service ($167,000 per bed/chair). As noted above, those two proposers ultimately did not proceed with the contract award process.

Sheriff's Staffing Cost

As noted above, the contract requires two Sheriff's deputies on site 24/7. At this time, the Sheriff's Office has not determined whether this assignment would be staffed with overtime or by reassigning staff on regular time. According to Chief Financial Officer Leung, the total annual cost to staff two deputies 24/7 would be approximately $2 million with overtime or $2.25 million with regular time (overtime is slightly lower because fringe benefits are more than half of the regular time cost). Over the initial two-year and two-month contract term, the total Sheriff's Office staffing cost at the RESET Center would be approximately $4.3 to $4.9 million.

POLICY CONSIDERATION

The RESET Center is a component of the City's Breaking the Cycle Initiative and aims to remove people who are using drugs or alcohol on the street and connect them with treatment. This strategy may result in increases in arrests for being under the influence of drugs or alcohol in public and for use of controlled substances.

According to data on Police Department incident reports. There were 716 citations or arrests for these types of incidents in 2023, increasing to 1,187 in 2025. The number of citations or arrests increased by 66 percent over the two-year period, driven by an increase in arrests or citations for being under the influence of controlled substances in 2025.

Exhibit 3: Citations or Arrests for Public Intoxication and Use of Controlled Substance

Incident - Citation or Arrest	2023	2024	2025	Two-Year Change	Percent Change
Controlled Substance, Under the Influence of	105	161	499	+394	+375%
Drugs, Under Influence of in a Public Place	524	463	564	+40	+8%
Alcohol, Under Influence of in Public Place	87	134	124	+37	+43%
Total	**716**	**758**	**1,187**	**+471**	**+66%**

Source: SF Open Data on Police Department Incident Reports

The Sheriff's Office estimates that jail bookings typically require 60-90 minutes of Deputy Sheriff and Police Officer time. This has limited the City's response to public intoxication due to the intensity of law enforcement resources necessary to complete these bookings. The proposed program will allow for additional arrests for public intoxication and connections to services as it reduces the law enforcement drop off time.

RECOMMENDATION

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