CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Appropriations Committee

FROM: Budget and Legislative Analyst

SUBJECT: June 12, 2025 Special Budget and Appropriations Committee Meeting

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Item 4 **File 25-0597**	**Department:** Early Childhood (DEC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would allow the City to use interest earned in the Babies and Families First Fund to reduce early care and education baseline spending requirements by up to $16.9 million in FY 2025-26 and FY 2026-27. The credits would not be applied if the fund balance is below $200 million.

Key Points

- Approved by voters in June 2018, Proposition C created a tax on commercial rents. Of the revenues, 15 percent is transferred to the General Fund and 85 percent is deposited into the Babies and Families First Fund and must be spent on early care and education. Proposition C also requires the City to maintain a baseline level of early care and education spending, based on funding levels in FY 2017-18 and adjusted annually unless the City projects a certain General Fund deficit.
- In 2023 and 2024, the Board of Supervisors approved ordinances that allowed interest earned within the Babies and Families First Fund to reduce baseline spending requirements through FY 2025-26.

Fiscal Impact

- The primary fiscal impact of the proposed ordinance is to reduce early care and education baseline spending by the amount of interest earned on the Babies and Families First fund balance. The proposed FY 2025-26 – FY 2026-27 budget assumes the adjusted baseline spending requirement and funds that spending primarily with Public Education & Enrichment (PEEF) funding (89%), the Children's Fund, and the General Fund.

Recommendation

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

MANDATE STATEMENT

Charter Section 2.105 requires that legislative acts in San Francisco be by ordinance, subject to approval by a majority of the Board of Supervisors.

Business and Tax Regulations Code Section 2113 states that amendments to or repeal of Article 21 of the Business and Tax Regulations Code are subject to Board of Supervisors approval by ordinance without voter approval.

BACKGROUND

Commercial Rents Tax

The Early Care and Education Commercial Rents Tax was authorized by the voters in June 2018 with the passage of Proposition C and went into effect on January 1, 2019. The validity of the tax was litigated and resolved in the City's favor. The law is codified in Article 21 of the Business and Tax Regulation Code.

The commercial rents tax applies to businesses leasing commercial space that are subject to the City's gross receipts tax and is in addition to gross receipts or payroll taxes paid by non-residential businesses in the City. Of the revenues, 15 percent is transferred to the General Fund and 85 percent is deposited into the Babies and Families First Fund and must be spent on early care and education.

Proposition C (June 2018) also requires the City to maintain a baseline level of early care and education spending, based on funding levels in FY 2017-18 and adjusting annually by the percent change in the City's aggregate discretionary revenues. Baseline spending is funded by the General Fund, the Public Education and Enrichment Fund, the Children and Youth Fund. The City may suspend growth in the early care and education baseline funding if the City's projected budget deficit at the time of the Joint Report of the Five-Year Financial Plan exceeds $200 million, adjusted annually by the percent change in the City's aggregate discretionary revenues. According to the December 2024 Joint Report, the deficit trigger early care and education baseline is $206.3 million. Because the March 2024 Update to the Joint Report projected the City's General Fund deficit at $272.3 million for FY 2025-26, growth in early care and education baseline for FY 2025-26 would be paused, regardless of any legislative action.

Prior Board Actions

In July 2023, the Board of Supervisors approved an ordinance that modified the early care and education baseline funding requirement in FY 2023-24 and FY 2024-25 in two ways (File 23-0661). The ordinance allowed up to $20 million interest earned on fund balance in FY 2023-24 and up to $10 million in FY 2024-25 as a credit against early care and education baseline spending. The General Fund savings were used to fund nutrition assistance programs provided by the Human Services Agency. The 2023 ordinance also suspended growth in early care and education baseline spending amount in FY 2024-25. Growth in the baseline spending requirement was suspended in

FY 2023-24 due to the projected deficit in 2023, so the baseline spending amount remains at the FY 2022-23 level ($93.8 million).

In 2024, the Board of Supervisors approved an ordinance that allowed interest earned in the Babies and Families First Fund to reduce early care and education baseline spending requirements by up to $16.6 million in FY 2024-25 and up to 16.9 million in FY 2025-26, so long as the fund balance was above $300 million.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would allow the City to use interest earned in the Babies and Families First Fund to reduce early care and education baseline spending requirements by up to $16.9 million in FY 2025-26 and FY 2026-27. The credits would not be applied if the fund balance is below $200 million.

FISCAL IMPACT

Exhibit 1 below shows the proposed change in the early care and education baseline spending requirement.

Exhibit 1: Proposed Changes in Early Care & Education Baseline Spending

ECE Baseline	FY 2025-26	FY 2026-27
Baseline Spending Amount	93,800,000	99,300,000
Credit from Interest	(16,900,000)	(16,900,000)
Adjusted Baseline Spending	76,900,000	82,400,000
Budgeted Baseline Spending	78,000,000	83,000,000

Source: Proposed Ordinance, Proposed FY 2025-26 – FY 2026-27 Budget, Controller's Office

The primary fiscal impact of the proposed ordinance is to reduce early care and education baseline spending by the amount of interest earned on the Babies and Families First fund balance. The proposed FY 2025-26 – FY 2026-27 budget assumes the adjusted baseline spending requirement and funds that spending primarily with Public Education & Enrichment (PEEF) funding (89%), the Children's Fund, and the General Fund. Baseline spending is budgeted in DEC, DCYF, and HSA.

Fund Balance

We estimate that the Babies & Families First Fund will have a fund balance of approximately $474 million starting July 1, 2025. This large fund balance is the source of the interest revenue being used to offset baseline spending that would otherwise have to be funded by the General Fund. The balance is primarily due to an accumulation of funding from a hold on spending during litigation regarding the validity of the tax (which has since been resolved in the City's favor). The prior mayoral administration created a plan to spend down the fund balance by expanding childcare subsidies, however the plan is being revised by the new administration. As of this writing, $399.5 million is on Mayor, Controller, and Board of Supervisors reserves, with the majority of the reserve being held by the Mayor's Office pending finalization of the new spending plan. Monies in the Babies and Families First Fund may only be used for early care and education programs.

RECOMMENDATION

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

Item 7 **File 25-0518**	**Department:** Department of Homelessness and Supportive Housing (HSH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the first amendment to the lease between the Department of Homelessness and Supportive Housing (HSH) as tenant and Lawrence B. Stone Properties #08, LLC as landlord for the property located at 2177 Jerrold Avenue, authorizing the City to contribute up to $3,055,982 for additional improvements, with no changes to the lease term or base rent.

Key Points

- In December 2023, the Board of Supervisors approved a lease between HSH and Lawrence B. Stone Properties #08, LLC as landlord for an approximately 98,000-square foot parcel of land with two buildings, located at 2177 Jerrold Avenue. The original plan for the site was to construct 60 shelter cabins and 20 safe parking spaces, for a total capacity of approximately 95 guests. In April 2025, HSH opened Phase 1 of the 2177 Jerrold project (Jerrold Commons), which includes 60 cabins. However, to maximize capacity at the site, HSH has decided not to move forward with the safe parking spaces, and instead plans to construct approximately 82 shelter beds in Building B.
- Under the proposed lease amendment, the City would contribute up to $3,055,982 to fund the shelter expansion of approximately 82 beds in a dormitory-style congregate setting. The lease term and base rent would not change. HSH has issued a Request or Information (RFI) to select a nonprofit provider to operate the site and provide supportive services.

Fiscal Impact

- The proposed First Amendment would authorize HSH to contribute up to $3,055,982 to fund the Jerrold Avenue shelter expansion. At this time, HSH estimates an operating cost of $125 per bed per night, including meals, or approximately $3.7 million per year. The improvements would be funded by Proposition C funds, and the operating costs would be funded by a combination of Proposition C and State funds.

Policy Consideration

- The Jerrold project was originally intended to include approximately 20 safe parking sites. Due to the high costs of operating the safe parking locations and the limited success in moving residents into shelter or permanent housing, HSH has canceled plans to include safe parking on the Jerrold site and has no plans to open additional safe parking locations.

Recommendation

- Due to the shift in site configuration, approval of the proposed resolution is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

City Administrative Code Section 23.27 states that any lease with a term of one year or longer and where the City is the tenant is subject to Board of Supervisors approval by resolution.

BACKGROUND

In December 2023, the Board of Supervisors approved a lease between the Department of Homelessness and Supportive Housing (HSH) and Lawrence B. Stone Properties #08, LLC as landlord for an approximately 98,000-square foot parcel of land with two buildings, located at 2177 Jerrold Avenue (File 23-1197). The lease has a term of 15 years through November 2038, with two five-year options to extend through November 2048, and an initial base rent of $2,469,600, with three percent annual escalation. In the December 2023 hearing on the original lease, HSH noted that the significant size of the parcel would allow for expanded capacity when funding was identified.

The site consists of a parking area and two buildings. The original plan for the site was to construct 60 shelter cabins and 20 safe parking spaces, for a total capacity of approximately 95 guests. To support the guests, Building A would be used for administration and community space, and Building B would be used for additional community space, storage, and restrooms and showers. The estimated cost to renovate the buildings and construct the cabins and parking spaces was approximately $7.5 million. Work would be completed by the landlord, and the City would reimburse the landlord for up to $5,866,869 in improvement costs.

In April 2025, HSH opened Phase 1 of the 2177 Jerrold project (Jerrold Commons), which includes 60 cabins serving approximately 68 homeless adults. However, to maximize capacity at the site, HSH has decided not to move forward with the safe parking spaces, and instead plans to construct approximately 82 shelter beds in Building B. HSH has designated eight cabins to be dedicated to serving people living in vehicles in the area, with three of those occupied as of June 2025. The Real Estate Division (RED) has negotiated a lease amendment on behalf of HSH to include the 82 shelter beds and increase the City's contribution to fund these improvements.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the first amendment to HSH's lease with Lawrence B. Stone Properties #08, LLC for the property at 2177 Jerrold Avenue, authorizing the City's contribution of up to $3,055,982 for additional improvements, with no changes to the lease term or base rent. The resolution also affirms the Planning Department's determination under the California Environmental Quality Act (CEQA), adopts the Planning Department's findings of consistency with the General Plan and Planning Code, and authorizes the Director of Property to make further immaterial amendments to the lease.

Under Chapter 21B of the Administrative Code (File 25-0040), the Mayor may approve certain contracts and leases related to homelessness, substance abuse, mental and integrated health, and public safety ("Core Initiatives"), even if they exceed $10 million, if the Board of Supervisors fails to act on the legislation within 45 days of publication by the Clerk of the Board. The proposed resolution was posted on Legistar on May 16, 2025, so the Board's deadline to act is June 30, 2025.

Tenant Improvements For Program Expansion

Under the proposed lease amendment, the City would contribute up to $3,055,982 to fund the shelter expansion of approximately 82 beds in Building B in a dormitory-style congregate setting, which would be designated for older adults over age 50. The funding includes approximately $1.8 million in construction and soft costs for the Building B improvements and approximately $1.2 million in electrical upgrades from PG&E. Work would be completed by the landlord's contractor and reimbursed by the City. The costs for the proposed construction appear consistent with other HSH shelter projects and other City tenant improvement projects. HSH estimates a construction timeline of approximately six to seven months of the dorm buildout and 12-13 months for the electrical upgrades, and that the shelter can open before the electrical upgrades are complete. The original lease provided for City funding of approximately $1.1 million to install restrooms and showers in Building B. These upgrades have been completed and will serve both the existing cabin guests and the expanded shelter capacity.

Site Operator

WeHOPE operates the Jerrold Commons cabins and provides supportive services. Rather than increasing WeHOPE's contract to support the expanded shelter capacity, HSH released a Request for Information (RFI) in April 2025 to identify qualified nonprofit providers to operate various shelter sites, including expanded capacity at Jerrold Commons. The RFI is seeking organizations with the following qualifications: (1) at least two years of shelter operations experience, (2) at least two years working with people experiencing homelessness, and (3) current registration as a City supplier. While WeHOPE is invited to respond, the site expansion would require a significant capacity increase for any provider that is selected, along with the ability to serve older adults and provide expanded services for this population. Responses to the RFI were due May 28, 2025, and HSH plans to use its streamlined procurement authority in Administrative Code Chapter 21B to award agreements without any further requests for proposals.

FISCAL IMPACT

The proposed first amendment would authorize HSH to contribute up to $3,055,982 to fund the Jerrold Avenue shelter expansion. The base rent of the lease would not change. The cost breakdown is shown in Exhibit 1 below.

Exhibit 1: 2177 Jerrold Avenue Shelter Expansion Budget

Item	Amount
Building B Dorm Buildout Construction	
Construction	$1,358,614
Soft Costs (Design and Construction Management)	95,000
Contingency (10% of Construction and Soft Costs)	145,361
Other Costs[1]	210,261
Building B Dorm Buildout Subtotal	*$1,809,236*
PG&E Service Upgrade	
Construction	$843,628
Contingency (10% of Construction Costs)	84,363
Other Costs	118,755
PG&E Owner Fees	200,000
PG&E Service Upgrade Subtotal	*$1,246,746*
Total Not-to-Exceed	**$3,055,982**

Source: Proposed Lease Amendment

The total budget includes $229,724 in contingencies, which is 10 percent of construction and soft costs. Additionally, the budget includes $129,471 in contractor overhead and profit, $135,999 in landlord management fees (to oversee the contractor per the lease that allows for a five percent project management fee), and $200,000 in PG&E owner fees, which PG&E requires for services upgrades. HSH plans to use Proposition C funds to fund these improvements.[2]

As noted above, HSH has not selected a provider to operate the shelter expansion and therefore has not determined the operating costs. At this time, HSH estimates a cost of $125 per bed per night, including meals. With an 82-bed capacity, this equates to an annual operating cost of approximately $3.7 million, or $2.8 million per year more than serving 20 RV slots. HSH anticipates funding this cost using a combination of Proposition C funds, State Behavioral Health Bridge Housing (BHBH) funds, and by applying for State grants.

POLICY CONSIDERATION

Change in Site Configuration from Previous Board Approval

As noted above, the 2177 Jerrold Avenue project was originally intended to include approximately 20 safe parking sites. HSH previously operated safe parking locations at 2340 San Jose Avenue from November 2019 through March 2021 and at the Candlestick Point State Recreation Area from January 2022 through March 2025. Due to the high costs of operating the safe parking locations and the limited success in moving residents into shelter or permanent housing, HSH has canceled plans to include safe parking on the Jerrold site and has no plans to open additional safe parking locations. According to Legislative Affairs Manager Schneider, HSH

[1] Other costs include inspections, insurance, payroll tax, overhead and profit, and a landlord management fee.
[2] Proposition C, approved by San Francisco voters in 2018, is a gross receipts tax to fund homeless services and housing.

is considering other expansion options to increase shelter capacity at the Jerrold site that had previously been designated for safe parking, although details have not been determined.

Due to the shift in site configuration from plans previously approved by the Board of Supervisors, the Budget and Legislative Analyst considers approval of the proposed resolution to be a policy matter.

RECOMMENDATION

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

Item 8 **File 25-0609**	**Department:** Homelessness & Supportive Housing (HSH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would make the following changes to the programmatic allocation requirements for Homelessness Gross Receipt Tax revenue, interest, and unappropriated fund balance for three years, in FY 2025-26, FY 2026-27, and FY 2027-28: (1) Reallocate $88.5 million in interest revenue and unencumbered fund balance that would otherwise be spent on housing and prevention programs to shelter programs; (2) Suspend the 12 percent spending cap on short-term rental subsidies; and (3) Suspend all programmatic allocation requirements for new homeless gross receipt tax revenues. During that time, such revenues could be spent on any program addressing homelessness.

Key Points

- Current law requires the following spending from Homelessness Gross Receipt Tax revenues: at least 25 percent on mental health, at least 50 percent on housing, up to 10 percent on shelter, and up to 15 percent on prevention.
- The purpose of the reallocation of Homelessness Gross Receipt Tax revenues is, in part, to fund the Mayor's "Breaking the Cycle" initiative, which has a goal of temporarily expanding the number of shelter and treatment beds over the next three fiscal years. HSH reports that the plan includes 630 new shelter/treatment beds and costs $121 million. According to HSH, the shelter expansion budget includes expanding existing shelter sites, extending emergency hotel vouchers slots, plus 448 additional beds for which services are still to be determined. Certain sites will receive services from both DPH and HSH.
- According to HSH, suspending the rental subsidy cap would allow the Department to continue and expand the current level of service for rapid rehousing subsidies (which are limited to three years for adults and five years for families). The proposed budget includes the following increases to rental subsidies: 65 new slots for families living in RVs and 40 new slots for TAY (for the Rising Up Program) in FY 2025-26 and extension of 235 adult subsidy slots that would otherwise expire in FY 2026-27.
- Approval of the proposed ordinance requires at least eight votes from Board of Supervisors.

Fiscal Impact

- According to HSH budget staff, the reallocation $88.5 million in interest and fund balance is the only spending of Homelessness Gross Receipts tax revenue that does not conform to current program allocation requirements.

Recommendation

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

MANDATE STATEMENT

Charter Section 2.105 requires that legislative acts be accomplished by ordinance, subject to approval by a majority of the Board of Supervisors.

Business and Tax Regulations Code Section 2811 states that amendments to the Homeless Gross Receipts Tax are subject to Board of Supervisors approval by a two-thirds vote. Such amendments may only be to further the purpose of the tax.

BACKGROUND

The Homelessness Gross Receipts Tax was authorized by voters in November 2018 with the passage of Proposition C and became effective in January 2019. The tax added between 0.175% to 0.69%, depending on the businesses type, to the gross receipts tax on businesses earning over $50 million in a given year. The tax was adjusted by Proposition M (November 2024), which lowered the eligibility threshold from $50 million to $25 million in annual gross receipts and adjusted the tax rate to 0.164% to 1.64%, depending on the type of business and annual revenues in San Francisco.

In general, under current law, expenditures of Homelessness Gross Receipts Tax revenues must be spent in the following manner:

- At least 50 percent on permanent housing
  - Of which, at least 20 percent must be spent on transitional aged youth (TAY), defined as underage 30
  - Of which, at least 25 percent must be spent on family housing
  - Of which, the remaining portion must be spent on general housing, serving all populations
  - Of which, no more than 12 percent can be spent on short-term (less than five-year) rental subsidies
- Up to 10 percent on shelter and hygiene programs
- Up to 15 percent on prevention programs
- At least 25 percent on mental health services

Prior Board Actions

In July 2023, the Board of Supervisors approved an ordinance (File 23-0657) that allowed use of up to $16,360,000 in interest earnings from the Homelessness Gross Receipts Tax fund to fund programming outside of the spending requirements outlined above. The programming amounts in FY 2023-24 were $4.6 million for prevention and $1.34 million for shelter. The 2023 ordinance also provided a waiver for the 12 percent cap on short-term rental subsidies for FY 2023-24 and FY 2024-25.

In July 2024, the Board of Supervisors approved an ordinance that allowed use of up to $16,676,000 in interest earnings for shelter and rapid rehousing for families (File 24-0607).

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would make the following changes to the programmatic allocation requirements for Homelessness Gross Receipt Tax revenue, interest, and unappropriated fund balance for three years, in FY 2025-26, FY 2026-27, and FY 2027-28:

1. Reallocate $88.5 million in interest revenue and unencumbered fund balance that would otherwise be spent on housing and prevention programs to shelter programs.
2. Suspend all programmatic allocation requirements for new homeless gross receipt tax revenues. During that time, such revenues could be spent on any program addressing homelessness.
3. Suspend the 12 percent spending cap on short-term rental subsidies.

Approval of the proposed ordinance requires at least eight votes from Board of Supervisors, per Article 28 of the Business Tax and Regulations Code.

Shelter Expansion

The purpose of reallocating Homelessness Gross Receipts Tax revenues is, in part, to fund the Mayor's *Breaking the Cycle* initiative, which aims to temporarily expand the number of shelter and treatment beds over the next three fiscal years. The Department of Homelessness and Supportive Housing (HSH) reports that the plan includes 630 new shelters and treatment beds across all funding sources. While the Budget and Legislative Analyst's Office has received an overview of the plan, it has not received the underlying analysis that supports it.

According to HSH, the shelter expansion budget includes the following:

- Expansion of existing shelter sites (e.g., the Jerrold Avenue conversion from RVs to congregate shelter, and additional beds in the Bayshore Navigation Center)
- An extension of 110 emergency hotel voucher slots originally funded through the Safer Families Initiative
- 10 emergency hotel voucher slots for victims of domestic violence
- A sober shelter site at the Sharon Hotel on 6th Street
- 448 additional beds, for which the service composition is still to be determined

Certain sites will receive services from both HSH and the Department of Public Health (DPH).

HSH estimates the shelter expansion initiative will cost $121 million over three years across all funding sources. Of that amount, $88.5 million would be funded by reallocated interest earnings and the unappropriated fund balance from the Our City, Our Home Fund. The remaining $32.5 million would be funded through a combination of Our City, Our Home revenues, reallocated General Fund spending, and state grants.

Rental Subsidies

According to HSH, suspending the rental subsidy cap would allow the Department to continue and expand the current level of service for rapid rehousing subsidies, which are limited to three years for adults and five years for families. The proposed budget includes the following increases to rental subsidies:

- 65 new slots for families living in RVs
- 40 new slots for Transition Age Youth (TAY) as part of the Rising Up Program in FY 2025–26
- Extension of 235 adult subsidy slots that would otherwise expire in FY 2026–27

Suspension of Programmatic Allocation Requirements

The proposed ordinance allows any new Homelessness Gross Receipt tax revenue to be spent on any program addressing homelessness through FY 2027-28. According to HSH budget staff, the reallocation of interest and fund balance outlined above is the only spending of Homelessness Gross Receipts tax revenue that does not conform to current program allocation requirements. However, this provision in the proposed ordinance would allow the Mayor and Board to reallocate additional funding, including funding for existing programs, simply as a budget action.

FISCAL IMPACT

Exhibit 1 below shows HSH's planned use of interest earnings and fund balance, as detailed in the ordinance. The legislation would allow for this money to be spent on shelter rather than prevention and housing programs.

Exhibit 1: Reallocation of Interest Earnings and Unprogrammed Funds

	FY 2025-26	FY 2026-27	FY 2027-28	Total
Sources: Interest on Fund Balance & Unprogrammed Funds				
Housing - General	6,129,000	12,423,000	8,888,000	27,440,000
Housing - TAY	2,229,000	8,523,000	20,662,000	31,414,000
Housing - Families	2,786,000	9,080,000	7,942,000	19,808,000
Prevention	3,343,000	6,490,000	0	9,833,000
Uses				
Shelter	**14,487,000**	**36,516,000**	**37,492,000**	**88,495,000**

Source: Proposed Ordinance

RECOMMENDATION

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