

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: April 15, 2026 Budget and Finance Committee Meeting

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EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolutions would establish: (1) the City’s FY 2025-26 appropriations limit at \$14,639,589,998, as calculated by the Controller (File 26-0205); and (2) the FY 2025-26 appropriations limits for Special Tax Districts and Infrastructure and Revitalization Financing Districts (File 26-0207).

Key Points

- The California Constitution places annual limits on the appropriations of tax proceeds made by the State, school districts, and local governments in California. The annual appropriations limit is based on the appropriations limit for the preceding fiscal year and is adjusted for: (1) the change in population, and (2) the change in the cost of living. For the Citywide appropriations limit, the cost-of living adjustment is defined as either: (a) the change in per capita personal income, or (b) the change in the local assessment roll due to the addition of non-residential new construction. In FY 2024-25, the growth in personal income was 6.44 percent and the roll growth from nonresidential new construction was 9.76 percent. The Controller’s Office may choose the higher adjustment and therefore is using the non-residential construction growth to calculate the appropriations limit. The appropriations limit does not apply to tax proceeds appropriated for: (a) debt service, (b) payroll taxes for Social Security and Medicare, and (c) qualified capital outlays.
- The City also sets appropriations limits for Special Tax Districts, Community Facilities Districts, and Infrastructure Revitalization Financing Districts. For these districts, the City must use the growth in per capita personal income for the cost-of-living factor.

Fiscal Impact

- The City’s FY 2025-26 appropriations limit is \$14,639,589,998. The FY 2025-26 net tax proceeds of \$5,542,689,415 are \$9,096,900,583 less than the FY 2025-26 appropriations limit of \$14,639,589,998. The resolution in File 26-0207 also sets 12 appropriations limits for special districts, ranging from \$2,549,168 to \$4,896,613,917.

Policy Consideration

- For the Citywide appropriations limit, the Controller used the percentage change in the local assessment roll for the cost-of-living adjustment. Had the Controller used the change in per capita personal income, the appropriations limit would be \$14,247,057,105.

Recommendation

- Approve the proposed resolutions.

MANDATE STATEMENT

California Constitution Article XIII B states that each local government must set annual appropriations limit as calculated using the preceding year’s appropriations limit adjusted for: (1) the change in population and (2) the change in the cost of living.

BACKGROUND

Proposition 4, known as the Gann Initiative and approved by California voters in 1979, added Article XIII B to the California Constitution. Article XIII B (later amended by State Proposition 111, as approved by the voters in 1990) places annual limits on the appropriation of tax proceeds made by the State, school districts, and local governments in California. The annual appropriations limit is based on the limit for preceding fiscal year and adjusted for (1) the change in population and (2) the change in the cost of living.

Per Article XIII B Section 9 and California Government Code Section 7901, the appropriations limit does not apply to any tax proceeds appropriated for: (a) debt service, (b) federal mandates for Social Security and Medicare payroll taxes, (c) qualified capital outlays, and (d) other federal mandates.

According to the Controller’s Office, outside bond counsel recommended that the City should also set appropriations limits for Special Tax Districts and Community Facilities Districts, as authorized by the Mello-Roos Community Facilities Act of 1982, and Infrastructure and Revitalization Financing Districts (IRFDs), as authorized by the California Government Code.¹ Based on this recommendation, the resolution in File 26-0207 establishes the appropriations limits for these districts in FY 2025-26.

Population Growth Factor

California Government Code Section 7901(b) uses the prior calendar year’s population growth for the fiscal year for which the appropriations limit is determined. According to the California Department of Finance, between January 1, 2024 and January 1, 2025, the population growth in the nine-county Bay Area increased 0.60 percent.²

Cost of Living Factor

California Constitution Article XIII B Section 8(e)2 allows the local government to use one of the two following definitions to calculate the cost-of-living adjustment:

1. The percentage change in California per capita personal income from the preceding year, estimated to be 6.44 percent in FY 2024-25, or

¹ Chapter 2.6 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53369 (“IRFD Law”). The statutes governing Infrastructure Financing Districts (IFDs) and Enhanced Infrastructure Financing Districts (EIFDs) do not provide for an appropriations limit.

² Chapter 1222 of the California State Statutes of 1980 allows the City to use the greater of its percentage change in population from the preceding year or the percentage change in the nine-county Bay Area. The San Francisco population decreased by 0.39 percent between January 1, 2024 and January 1, 2025.

- 2. The percentage change for the local jurisdiction in the assessment roll from the preceding year due to non-residential new construction, estimated to be 9.76 percent in 2024.

For Special Tax Districts, Community Facilities Districts, and IRFDs, the cost-of-living adjustment is defined as the percentage change in California per capita personal income from the preceding year, estimated to be 6.44 percent in FY 2024-25.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution in **File 26-0205** would establish the City’s FY 2025-26 appropriations limit at \$14,639,589,998, as calculated by the Controller.

The proposed resolution in **File 26-0207** would establish the FY 2025-26 appropriations limits for special districts as follows:

- 1. Community Facilities District No. 2014-1 (Transbay Transit Center), set at \$508,714,941,
- 2. Community Facilities District No. 2016-1 (Treasure Island):
 - a. Improvement Area No. 1, set at \$136,380,449,
 - b. Improvement Area No. 2, set at \$100,579,097,
 - c. Improvement Area No. 3, set at \$269,320,301,
- 3. Special Tax District No. 2009-1 (San Francisco Sustainable Financing)³:
 - a. Improvement Area No. 1, set at \$2,549,168,
 - b. Improvement Area No. 2, set at \$3,122,057,
- 4. Special Tax District No. 2019-1 (Pier 70 Condominiums), set at \$2,246,619,402,
- 5. Special Tax District No. 2019-2 (Pier 70 Leased Properties), set at \$2,437,190,322,
- 6. Special Tax District No. 2020-1 (Mission Rock Facilities and Services), set at \$4,896,613,917,
- 7. Special Tax District No. 2022-1 (Power Station), Improvement Area No. 1, set at \$1,050,954,614,
- 8. IRFD No. 1 (Treasure Island), set at \$290,944,958, and
- 9. IRFD No. 2 (Hoedown Yard, Pier 70), set at \$126,720,525.

The appropriations limits for FY 2025-26 are based on the amounts of the FY 2024-25 appropriations limits and adjusted to reflect increases or decreases in: (1) the population, and (2) cost of living (calculated using the increase in the local assessment roll due to the addition of non-residential new construction for the Citywide appropriations limit, and using the percentage change in California per capita personal income for the special district appropriations limits).

³ Special Tax District No. 2009-1 (San Francisco Sustainable Financing) was formed in 2010 to finance energy efficiency and renewable energy capital improvements to residential, commercial, industrial, or other property.

FISCAL IMPACT

Cost of Living Factor

Cost of living is determined by using either the change in California per capita personal income or the increase in the local assessment roll due to the addition of non-residential new construction. According to the Controller’s Office, the City may choose whichever percentage is higher for the Citywide appropriations limit. For the special district appropriations limits, the City must use the percentage change in California per capita personal income.

As mentioned above, in FY 2024-25, the growth in personal income was 6.44 percent and the roll growth due to non-residential new construction was 9.76 percent. Consequently, the Controller’s Office is using the non-residential construction growth for the cost-of-living factor to calculate the Citywide appropriations limit.

Appropriations Subject to Limit

As mentioned above, the appropriations limit does not apply to tax proceeds appropriated for: (a) debt service, (b) payroll taxes for Social Security and Medicare, and (c) qualified capital outlays. Consequently, the Controller excluded \$759,553,670 from the City’s total FY 2025-26 tax proceeds of \$6,302,243,085, as shown in Exhibit 1 below, resulting in net tax proceeds subject to the appropriations limit of \$5,542,689,415.

Exhibit 1: Tax Proceeds Subject to the Proposed Appropriations Limit

FY 2025-26 Total Tax Proceeds	\$6,302,243,085
Exclusions	
Debt Service	(512,054,781)
Federal Mandate for Social Security/Medicare	(120,716,222)
Qualified Capital Outlays	(126,782,667)
<i>Subtotal Exclusions</i>	<i>(\$759,553,670)</i>
FY 2025-26 Net Tax Proceeds Subject to Appropriations Limit	\$5,542,689,415

Source: Controller’s Office

Article XIII B lets voters approve an increase to the appropriations limit for up to four years. In FY 2025-26, the appropriations limit increased by the revenue generated through the Business Tax Overhaul (Proposition M, approved in November 2024), which included a provision to increase the appropriations limit.

As shown in Exhibit 2 below, the City’s appropriations limit, as calculated by the Controller, is \$14,639,589,998. The FY 2025-26 net tax proceeds of \$5,542,689,415 are \$9,096,900,583 less than the FY 2025-26 appropriations limit of \$14,639,589,998.

Exhibit 2: Proposed FY 2025-26 Citywide Appropriations Limit

Base FY 2024-25 Appropriations Limit	\$11,752,763,337
<i>Adjustment Factors</i>	
Increase in Population	0.60%
Roll Growth due to Non-Residential Construction	9.76%
<i>Subtotal</i>	<i>\$12,977,232,037</i>
Voter Approved Limit Changes	1,662,357,961
FY 2025-26 Appropriations Limit	\$14,639,589,998

Source: Controller’s Office

Special Districts Appropriations Limits

The appropriations limits for special districts were calculated by multiplying the San Francisco population change factor (-0.39 percent) by the California per capita personal income growth factor (6.44 percent), consistent with guidance from the California Department of Finance. This results in a net increase of approximately 6.02 percent to the prior year appropriations limit. The proposed appropriations limits for each district are shown in Exhibit 3 below.⁴

⁴ According to the Controller’s Office, the original expenditure limit amounts from the formation documents of the various special districts were used to determine the current expenditure limits based on the allowable increases each year since the various districts were formed.

Exhibit 3: Proposed FY 2025-26 Special District Appropriations Limits

District	FY 2024-25 Appropriations Limit	FY 2025-26 Appropriations Limit (6.02% Increase)
Community Facilities District No. 2014-1 (Transbay Transit Center)	\$479,807,119	\$508,714,941
Community Facilities District No. 2016-1 (Treasure Island)		
Improvement Area No. 1	128,630,605	136,380,449
Improvement Area No. 2	94,863,671	100,579,097
Improvement Area No. 3	254,016,124	269,320,301
Special Tax District No. 2009-1 (San Francisco Sustainable Financing, for energy efficiency capital improvements)		
Improvement Area No. 1	2,404,311	2,549,168
Improvement Area No. 2	2,944,645	3,122,057
Special Tax District No. 2019-1 (Pier 70 Condominiums)	2,118,954,831	2,246,619,402
Special Tax District No. 2019-2 (Pier 70 Leased Properties)	2,298,696,523	2,437,190,322
Special Tax District No. 2020-1 (Mission Rock Facilities and Services)	4,618,362,909	4,896,613,917
Special Tax District No. 2022-1 (Power Station), Improvement Area No. 1	991,233,920	1,050,954,614
IRFD No. 1 (Treasure Island)	274,411,956	290,944,958
IRFD No. 2 (Hoedown Yard, Pier 70)	119,519,607	126,720,525

Source: Controller’s Office

POLICY CONSIDERATION

As previously mentioned, the Controller has discretion to calculate the cost-of-living adjustment factor for the Citywide appropriations limit using one of two definitions:

1. The percentage change in California per capita personal income from the preceding year, estimated to be 6.44 percent in FY 2024-25, or
2. The percentage change for the local jurisdiction in the assessment roll from the preceding year due to non-residential new construction, estimated to be 9.76 percent in 2024.

Exhibit 4 below shows the FY 2025-26 appropriations limit using both definitions.

Exhibit 4: FY 2025-26 Citywide Appropriations Limit by Definition

	Definition 1: Per Capita Personal Income	Definition 2: Local Assessment Roll from Non- Residential New Construction
Base FY 2024-25 Appropriations Limit	\$11,752,763,337	\$11,752,763,337
Adjustment Factors		
Increase in Population	0.60%	0.60%
Increase in Per-Capita Personal Income	6.44%	-
Increase in Local Assessment Roll	-	9.76%
<i>Subtotal</i>	<i>\$12,584,699,144</i>	<i>\$12,977,232,037</i>
Voter Approved Limit Changes	1,662,357,961	1,662,357,961
FY 2025-26 Appropriations Limit	\$14,247,057,105	\$14,639,589,998

For the FY 2025-26 Citywide appropriations limit, the Controller elected to use the percentage change in the local assessment roll from the preceding year due to the addition of local non-residential new construction to calculate the cost-of-living adjustment, consequently calculating the appropriations limit at \$14,639,589,998, as shown in Exhibit 2 above. Had the Controller elected to use the percentage change in per-capita income from the preceding year, the appropriations limit, as shown in Exhibit 4 above, would have been calculated at \$14,247,057,105, which is \$392,532,893 less than the proposed appropriations limit of \$14,639,589,998.

RECOMMENDATION

Approve the proposed resolutions.

Item 5 File 26-0275	Department: Public Utilities Commission
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EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a professional services agreement for as-needed North American Electric Reliability Corporation (NERC) compliance and audit support for Hetch Hetchy Water and Power (HHWP) between Archer Energy Solutions and the Public Utilities Commission (PUC) for a five-year, plus one option to extend four additional years. The not-to-exceed amount for the five-year term is \$11,600,000.

Key Points

- The proposed contract was awarded following a competitive solicitation. Under the contract, Archer Energy would assist with HHWP’s compliance with NERC and other regulatory standards for power providers. According to the PUC, the services allow PUC to avoid financial penalties for violations that can range from \$1,000 to \$1,545,000 per violation per day. Through these ongoing compliance efforts, HHWP has successfully mitigated risk to date, resulting in zero financial penalties levied against the PUC for NERC compliance violations over the past ten years.
- The current PUC contract with Archer Energy expires on March 15, 2027, and has a total not-to-exceed amount of \$9,500,000. The current contract does not require Board of Supervisors approval because it is less than \$10 million. According to the PUC, the current contract spending has averaged about \$2.3 million in the last three years (2023-2025) and the total spending to date is \$8,549,152 with 11 months remaining in the contract term. This means that spending will likely outpace the remaining contract authority by about \$1.2 million. For this reason, the PUC procured a replacement contract prior to the end of the current contract term.

Fiscal Impact

- The proposed contract budget is approximately \$2.32 million per year, funded by Power customer revenues.
- Under the proposed agreement, the billing rates for Archer Energy Solutions and its subcontractors range from \$132.67 per hour up to \$300 per hour. The billing rates may escalate annually based on inflation in the Bay Area.

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

The North American Electric Reliability Corporation (NERC) is a non-profit with regulatory authority over power reliability standards in the United States. NERC regulatory requirements focus on the reliability of the electric system from both a security and operational perspective to prevent power service interruptions caused by malicious actors or operational failures. Currently, there are more than 56 reliability standards encompassing 254 individual requirements that apply to 1,862 devices within the Hetch Hetchy Water and Power (HHWP) system. These standards mandate the implementation of extensive policy, documentation, and operational procedures to demonstrate compliance.

Findings of non-compliance may be identified during official NERC audits or discovered through internal reviews and subsequently self-reported. The San Francisco Public Utilities Commission (PUC) currently has a professional services agreement with Archer Energy Solutions, LLC, which provides compliance support to manage these regulatory obligations, including self-reporting, developing remediation action plans, and communicating corrective actions to NERC. According to the PUC, the proposed contract allows the PUC to avoid financial penalties for violations that can range from \$1,000 to \$1,545,000 per violation per day. Through these ongoing compliance efforts, HHWP has successfully mitigated risk to date, resulting in zero financial penalties levied against the PUC for NERC compliance violations over the past ten years, per the PUC.

The current PUC contract with Archer Energy expires on March 15, 2027, and has a total not-to-exceed amount of \$9,500,000 over the contract term (five-years, nine months, and 14 days). The current contract does not require Board of Supervisors approval because it is less than \$10 million. According to the PUC, the current contract spending has averaged about \$2.3 million in the last three years (2023-2025); the total spending to date is \$8,549,152 with 11 months remaining in the contract term. This means that spending will likely outpace the remaining contract authority by about \$1.2 million. For this reason, the PUC procured a replacement contract prior to the end of the current contract term.

Procurement

On May 27, 2025, the PUC advertised a Request for Proposals (RFP) for HHWP NERC Compliance and Audit Support. On August 15, 2025, the PUC received four proposals—from Ampere Industrial Security, Archer Energy Solutions, Guidehouse, Inc., and TRC Solutions, Inc.—which

were evaluated by a panel of five PUC staff.¹ The proposals were evaluated based on the following criteria:

- Initial Review: Meeting minimum qualifications and checking for responsiveness (pass/fail).
- Technical Written Proposal: Evaluated for a maximum of 995 points.
- Diversity, Equity, and Inclusion (DEI) Submittal: Evaluated for a maximum of 5 points.
- Social Impact Partnership (SIP) Proposal: Evaluated for a potential bonus of up to 49.75 points.

The maximum possible total score was 1,049.75 points, with Archer Energy Solutions receiving the highest score, as shown in Exhibit 1.

Exhibit 1: Proposers and Scores for RFP for Hetch Hetchy Water and Power (HHWP) North American Electric Reliability Corporation (NERC) Compliance and Audit Support

Proposer	Score (out of 1,049.75)
Archer Energy Solutions	1,007.25
Guidehouse	888.80
Ampere Industrial Security	783.67
TRC Solutions	718.50

Source: PUC

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a professional services agreement for as-needed NERC compliance and audit support for HHWP between Archer Energy Solutions and the PUC for a five-year term, plus one option to extend four additional years. The not-to-exceed amount for the initial five-year term is \$11,600,000.

Under the contract, Archer Energy would assist with HHWP’s North American Electric Reliability Corporation, Western Electricity Coordinating Council (WECC), California Independent System Operator (CAISO), and California Public Utilities Commission (CPUC) regulatory compliance programs as follows:

- **Task 1: Staff augmentation** to support the needs of the NERC Compliance Program. This may include providing full-time personnel such as a Compliance Manager, Critical Infrastructure Protection (CIP) Expert, and Operations and Planning (O&P) Expert, as well as supplying electrical engineering and network programming services.

¹ The panel included the following: Assistant Electric Analyst, Manager of Power Generation and Transmission, Cybersecurity Manager, Associate Electric Analyst, and Compliance Officer.

- **Task 2: Readiness assessments** to evaluate the City's strict compliance with all applicable existing and future registrations.² This includes utilizing NERC/WECC audit procedures, reviewing compliance documentation, and using tools like Compliance Application Notices and Reliability Standard Audit Worksheets to determine compliance status.
- **Task 3: Subject Matter Expert (SME) training** to prepare staff for providing testimony during audits. This task involves preparing and conducting training sessions, facilitating practice sessions, providing direct feedback to PUC subject matter experts, and advising on audit scheduling.
- **Task 4: On-site audit and spot check support** during WECC-scheduled audits. Support includes accompanying SMEs during auditor questioning, identifying when auditors exceed the scope of the standards, assisting with additional data requests, and consulting on issues that arise during the audit.
- **Task 5: Compliance process review, documentation, and controls** to assist in developing policies, procedures, and business workflows. This includes reviewing documentation, recommending quality and automation improvements, assisting with data requests, and evaluating the division's preventative, detective, and corrective Internal Controls.
- **Task 6: Risk management consultancy** to perform risk management assessments, evaluate controls, and assist HHWP in submitting their internal controls evaluation to the WECC.
- **Task 7: Cyber Vulnerability Assessments (CVA)** that meet or exceed Critical Infrastructure Protection (CIP) standards. The contractor will deliver a comprehensive report identifying vulnerabilities and detailing how each applicable CIP requirement was met.
- **Task 8: Functional registration review** to provide as-needed support for evaluating functional registrations, including assistance if the City is required to register for new NERC functional roles, such as Distribution Provider or Inverter Based Resource (battery facilities for storage as well as solar and wind turbine generators).
- **Task 9: Services for regulatory issues** to provide advance warning, guidance, and solutions regarding potential implementation issues associated with the issuance of new or revised NERC or WECC Reliability Standards.

Subcontractors

In addition to Archer Energy, the proposed contract includes two subcontractors: (1) Stantec, providing engineers and archaeologists, and (2) PowerPros, providing power technician testing staff.

² According to PUC, NERC requires utilities “register” for the type of assets they operate. For example, the SFPUC is the registered owner of hydrogenators and transmission lines. As regulations or the system changes, additional registrations may be required.

Community Benefits Commitments

Under the Social Impact Partnership (SIP) program, Archer Energy Solutions has voluntarily committed to providing financial contributions and volunteer hours in three program areas: (1) Job Exposure, Training, and Internships, (2) Public Education, and (3) Environment and Community Health. As shown in Exhibit 2, the program will provide a total of \$106,000 in direct financial contributions, and a total of 67 volunteer hours (valued at a fixed rate of \$150 per hour) for a total value of \$10,050. The beneficiaries are determined after the contract is awarded. In the past, SIP program beneficiaries have included Habitat for Humanity Tuolumne County and the Tuolumne County Superintendent of Schools.

The contractor is required to submit an annual SIP Work Plan and bi-annual performance reports to the PUC. If the contractor fails to deliver on these obligations, the City retains the right to withhold payments and assess liquidated damages equal to 10 percent of the total unmet commitment value.

Exhibit 2: Social Impact Partnership (SIP) Program Commitments

SIP Program Area	Direct Financial Contributions	Volunteer Hours	Volunteer Hour (Fixed Rate)	Value of Volunteering	Total Contribution
Job Exposure, Training, and Internships	\$30,000	20	\$150	\$3,000	\$33,000
Public Education	30,000	14	150	2,100	32,100
Environment and Community Health	46,000	33	150	4,950	50,950
TOTAL	\$106,000	67		\$10,050	\$116,050

Source: Proposed Contract Agreement

FISCAL IMPACT

The proposed resolution would approve a contract amount not to exceed \$11,600,000 for a term of five years. According to the PUC, the budget is based on the existing spending on the Archer Energy contract of approximately \$2 million annually, including a 5 percent escalator and a 10.5 percent contingency, as shown in Exhibit 3 below. The PUC expects that costs will be roughly equal for each year of the contract.

Exhibit 3: Five-Year Proposed Contract Budget

Contract Base	\$2,000,000
Escalation (5%)	100,000
Contingency (10.5%)	220,000
Annual Total	\$2,320,000
Five-Year Total	\$11,600,000

Source: PUC

We note that the PUC’s assumption of \$2 million annual spending understates existing spending on the contract over the last three years, which has been \$2.3 million annually. However, we also

project that the current contract will have an unspent balance of approximately \$750,000 as of May 1, 2026, which is approximately 6.5 percent of spending on the proposed \$11.6 million new contract budget. This remaining spending authority will allow the PUC to increase the base annual spending on this service by 1.3 percent per year to cover inflation adjustments and maintain existing service levels.

The PUC reported that it does not have a budget available for the nine tasks described above because the budget will be driven by finding areas identified internally and through the assistance of Archer Energy Solutions.

The contract also allows the PUC to withhold five percent of each invoice until work for a given task has been completed.

Billing Rates

Under the proposed agreement, the billing rates for Archer Energy Solutions and its subcontractors range from \$132.67 per hour up to \$300 per hour. The maximum billing rate across all staff classifications is capped at \$300 per hour for the first year of the contract. The contractor will only be allowed to escalate billing rates annually based on the annual percentage change of the Consumer Price Index for the San Francisco Bay Area for Urban Wage Earners and Clerical Workers. Further, the agreement stipulates that an individual's billing rate may not exceed the lowest rate charged to any other governmental entity within the geographic location. The contract also caps the Effective Overhead and Profit Rate (EOPR) at 2.49 and limits subcontractor administration markups to 5 percent of the subcontractor's actual labor costs.

Funding Source

The contract is funded by Power customer revenues.

RECOMMENDATION

Approve the proposed resolution.

<p>Item 6 File 26-0327</p>	<p>Department: Municipal Transportation Agency (SFMTA)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would approve an agreement between the City, the San Mateo County Transit District (SamTrans), and the Santa Clara Valley Transportation Authority (VTA) to accept the Peninsula Corridor Joint Powers Board’s (JPB) financial obligations to the California Public Employees Retirement System (CalPERS) if the JPB is unable to meet its obligations in the future. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Peninsula Corridor Joint Powers Board (JPB) operates the Caltrain commuter rail system between San Francisco and Gilroy. The JPB is made up of three member agencies, including the City, SamTrans, and VTA. SamTrans is the Managing Agency for Caltrain. • In August 2022, the JPB and the three member agencies entered into a Memorandum of Understanding (MOU) that revised Caltrain’s management structure. The MOU establishes an Executive Director, who reports directly to the JPB, and who supervises the five staff. • The employees reporting to the Caltrain Executive Director currently receive retirement benefits under SamTrans’ contract with CalPERS. However, CalPERS has determined that these employees should instead receive benefits through a contract between Caltrain and CalPERS. Under State law, before Caltrain can enter into a contract with CalPERS, the JPB member agencies must agree to accept financial responsibility for the pension liabilities of Caltrain in the event that Caltrain is insolvent or if CalPERS terminates the contract and Caltrain does not have sufficient assets to cover its pension liabilities. • The agreement between Caltrain and CalPERS will have an effective date of July 1, 2012 to ensure employees receive the same level of benefits as provided under the SamTrans contract with CalPERS. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • Based on the value of Caltrain’s assets, which was approximately \$4.36 billion as of June 30, 2025, and the value of the unfunded accrued pension liability for Caltrain, which was estimated to be \$15.7 million in 2023, Caltrain appears poised to meet its financial obligations to CalPERS in the future. Therefore, it is unlikely that the member agencies would be required to pay the accrued liability. The City’s share of Caltrain’s obligations would be determined in a subsequent agreement. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. 	

MANDATE STATEMENT

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

BACKGROUND

The Peninsula Corridor Joint Powers Board (JPB) owns and operates the Caltrain commuter rail system between San Francisco and Gilroy. The JPB is made up of three member agencies, including the City and County of San Francisco, the San Mateo County Transit District (SamTrans), and the Santa Clara Valley Transportation Authority (VTA). The JPB is governed by a nine-person Board of Directors, with each of the three member agencies appointing three board members.

The JPB purchased the commuter rail system from the Southern Pacific Transportation Company in 1991 using state grants and local funds, with SamTrans providing its share of local funds and an advance for the other two member agencies. SamTrans serves as the Managing Agency of the JPB and provides administrative, management, and staff services for Caltrain, and Caltrain reimburses SamTrans for its administrative and direct costs.

In August 2022, the JPB and the three member agencies entered into a Memorandum of Understanding (MOU) to resolve outstanding issues related to reimbursement to SamTrans for the initial acquisition costs and governance. The MOU establishes an Executive Director who reports directly to the JPB and who directly supervises the following five staff: Chief of Staff, Director of Government and Community Affairs, Director of Budgets and Financial Analysis, Director of Real Estate, and Director of Grants and Funds Management.

Retirement Benefits for Caltrain Staff

The employees reporting to the Caltrain Executive Director currently receive retirement benefits under SamTrans' contract with the California Public Employees Retirement System (CalPERS). However, CalPERS has determined that these employees should instead receive benefits through a contract between Caltrain and CalPERS. Caltrain and CalPERS are currently negotiating a successor agency contract to ensure employees receive the same level of benefits under the new contract as they do under the existing contract with SamTrans. Under State law, before Caltrain can enter into a contract with CalPERS, the JPB member agencies must agree to accept financial responsibility for the pension liabilities of Caltrain in the event that Caltrain is insolvent or if CalPERS terminates the contract and Caltrain does not have sufficient assets to cover its pension liabilities.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve an agreement between the City, the San Mateo County Transit District (SamTrans), and the Santa Clara Valley Transportation Authority (VTA) regarding the Peninsula Corridor Joint Powers Board's financial obligations to the California Public Employees Retirement System.

Under the agreement, the member agencies agree to accept financial responsibility for Caltrain's obligations to CalPERS in the event the JPB is dissolved, is insolvent, or if CalPERS terminates the contract and Caltrain does not have sufficient assets to cover its pension liabilities. The share of the CalPERS obligations to be assigned to each member agency will be established in a subsequent agreement. In March 2026, the SFMTA Board of Directors approved the proposed agreement, subject to Board of Supervisors' approval.

The agreement between Caltrain and CalPERS will have an effective date of July 1, 2012 to ensure employees receive the same level of benefits as provided under the SamTrans contract with CalPERS.¹

FISCAL IMPACT

Under the agreement, the City, together with the other two member agencies, agree to accept financial responsibility for Caltrain's obligations to CalPERS if Caltrain is unable to meet its financial obligations to CalPERS in the future. The City's share of Caltrain's obligations would be determined in a subsequent agreement.

Based on the value of Caltrain's assets, which was approximately \$4.36 billion as of June 30, 2025, and the value of the unfunded accrued pension liability for Caltrain, which was estimated to be \$15.7 million in 2023, Caltrain appears poised to meet its financial obligations to CalPERS in the future. In addition, Caltrain's total assets (\$4.36 billion) far exceed its total liabilities (\$0.43 billion, excluding the \$15.7 million CalPERS pension liability), indicating that Caltrain is poised to meet all of its long-term financial obligations. According to Caltrain's FY 2024-25 financial report, 90 percent of Caltrain's total assets are capital assets, such as right of way improvements, rail vehicles, and facilities. The remaining 10 percent of Caltrain's total assets are cash, receivables, and other current assets. These assets are available to Caltrain to meet its financial obligations, including obligations to CalPERS.

Caltrain Operating Budget

While Caltrain's assets are sufficient to meet its long-term obligations, we note that Caltrain ridership has not recovered since the pandemic, and Caltrain, like other transit agencies, is facing potential service reductions in light of operating deficits. Caltrain ridership is down 38 percent

¹ The July 2012 effective date of the CalPERS agreement is prior to the effective date of California Public Employees' Pension Reform Act (PEPRA), which reduced pension benefits for new CalPERS participants effective January 1, 2013.

since 2019, and the agency incurred a net loss of approximately \$204 million in FY 2024-25, which exceeds its net loss of approximately \$76 million in FY 2018-19. A proposed ballot measure for the November 2026 election would generate an estimated \$980 million annually across five Bay Area counties for transit through a half-cent sales tax in Alameda, Contra Costa, San Mateo, and Santa Clara Counties and a one-cent sales tax in San Francisco. If voters approve the measure, 60 percent of revenue would be used to preserve service on BART, Muni, Caltrain, AC Transit and smaller transit agencies. According to a December 2025 presentation to the Caltrain Joint Power Board, the regional sales tax measure would provide 100 percent of Caltrain's operating costs for 14 years.

Appendix I shows transit losses and ridership for Caltrain and the three member agencies in FY 2018-19 and FY 2024-25.

RECOMMENDATION

Approve the proposed resolution.

Appendix I: Transit Income (Loss) and Ridership, FY 2018-19 & FY 2024-25 (in thousands)

	Caltrain	SFMTA ¹	SamTrans	VTA ¹
FY 2024-25 Income (Loss) (in thousands)				
Operating Revenues	\$63,388	\$131,029	\$13,128	\$34,073
Operating Expenses	377,418	1,465,308	252,789	640,993
Operating Loss³	(\$314,030)	(\$1,334,279)	(\$239,661)	(\$606,920)
Non-Operating Net Revenues	110,375	475,404	286,233	480,177
Income (Loss) before Capital Contributions	(\$203,655)	(\$858,875)	\$46,572	(\$126,743)
Capital Contributions ²	225,737	281,659	19,246	64,540
Net Transfers	0	632,237	0	97,557
Change in Net Position	22,082	55,021	65,818	35,354
FY 2018-19 Income (Loss) (in thousands)				
Operating Revenues	\$112,777	\$226,426	\$15,567	\$42,489
Operating Expenses	226,217	1,099,892	169,274	510,345
Operating Loss	(\$113,440)	(\$873,466)	(\$153,707)	(\$467,856)
Non-Operating Net Revenues	37,671	237,927	162,044	370,814
Income (Loss) before Capital Contributions	(\$75,769)	(\$635,539)	\$8,337	(\$97,042)
Capital Contributions ²	405,162	519,016	8,789	53,713
Net Transfers	0	612,254	0	102,507
Change in Net Position	329,393	495,731	17,126	59,178
Ridership (in thousands)				
FY 2018-19 Passengers	17,797	222,937	10,671	35,466
FY 2024-25 Passengers	11,017	197,883	10,753	27,051
Change in Passengers	(6,780)	(25,054)	82	(8,415)
Percent Change	-38%	-11%	1%	-24%

Sources: Annual Comprehensive Financial Reports for Caltrain and member agencies

¹ SFMTA and VTA figures are for transit activities only

² Capital Contributions are grants and contributions from federal, state, and local governments to acquire or improve capital assets

³ Operating expenses include depreciation