

CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

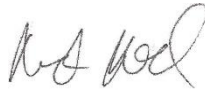
BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst



SUBJECT: June 17, 2026 Budget and Finance Committee Meeting

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Item 1 File 26-0500 <i>(Continued from the 6/3/2026 Budget & Finance meeting)</i>	Department: Municipal Transportation Agency
EXECUTIVE SUMMARY	
Legislative Objectives - The proposed resolution would retroactively approve an amended and restated lease agreement between the San Francisco Municipal Transportation Agency (MTA), as landlord, and Tad's, Inc. (Tad's), as tenant, for approximately 5,368 square feet of retail space at 44 Ellis Street in the Ellis-O'Farrell Garage. Key Points - In May 2019, the Board of Supervisors approved a ten-year lease with Tad's for restaurant space at 44 Ellis Street with fixed annual rent totaling approximately \$5.3 million over the lease term. During the COVID-19 pandemic, MTA informally modified the lease by forgiving certain rent and water charge obligations and transitioning from fixed rent to a percentage rent structure based on eight percent of gross sales. - The proposed amended and restated lease would formalize these changes, including retroactive adoption of the eight percent gross sales rent structure, forgiveness of rent obligations from April 2020 through December 2020, forgiveness of outstanding water charges from February 2020 through January 2024, revised water charges, minimum operating hours, and a one-time administrative fee. - Under the percentage rent model, Tad's paid an average of approximately \$241,281 annually from FY 2022-23 through FY 2024-25, equivalent to approximately \$44.95 per square foot annually. This exceeds the January 2026 appraisal, which estimated market rent at \$43.03 per square foot annually. Fiscal Impact - Under the proposed amended and restated lease, MTA projects approximately \$1.9 million in rental revenue through the April 2029 lease expiration date. Compared to the original lease, projected rental revenue would decrease by approximately \$3.42 million, from \$5.32 million to approximately \$1.9 million. Revenues generated under the lease support MTA transit operations. Policy Consideration - Our report to the November 5, 2025, Budget & Finance Committee meeting disclosed that MTA had been conducting lease transactions verbally and recommended that the Department formalize its lease agreements. Since then, MTA reports it has formally amended three of the 16 leases requiring amendments, while six leases are awaiting drafting and execution of finalized terms. Recommendations - Amend the resolution to state that Board of Supervisors approval is retroactive. - Approve the resolution, as amended.	

MANDATE STATEMENT

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

BACKGROUND

The Ellis-O'Farrell Garage (located at 123 O'Farrell Street) is owned by the City and is under the jurisdiction of the San Francisco Municipal Transportation Agency (MTA). The facility provides approximately 950 parking spaces and includes three commercial retail spaces totaling 11,000 square feet. In FY 2024-25, the retail tenants in the garage generated over \$395,841 in revenue for MTA.

Lease History

In May 2013, the Real Estate Division (RED) issued a Request for Proposals (RFP) for lease of the commercial space at 44 Ellis Street located on the street level of the Ellis-O'Farrell Garage. According to MTA, RED received one response from Les Joulins USA Inc. (Les Joulins). In May 2015, the Board of Supervisors approved a resolution authorizing a ten-year commercial lease between MTA, as landlord, and Les Joulins, USA, Inc. (Les Joulins), as tenant, for use as a restaurant and nightclub (File 15-0312). In March 2017, Tad's, Inc. (Tad's), which operates a restaurant, assumed the lease¹ with six years remaining from the initial lease term. In May 2019, the Board of Supervisors approved a retail lease agreement between MTA, as landlord, and Tad's, as tenant, for approximately 5,368 square feet of retail space at 44 Ellis Street, for a ten-year term plus two five-year extension options, at a total rent over the initial ten-year term of \$5,317,024 (File 19-0317).

In 2020, due to the COVID-19 pandemic, MTA granted rent relief to the tenant and informally waived certain rent and water charge obligations, amended the method for calculating base rent, and amended the water charges.

MTA is now requesting to memorialize the changes to the 2019 lease amendment under an amended and restated commercial lease agreement.

On April 7, 2026, the MTA Board of Directors approved and authorized the Director of Transportation to execute the proposed amended and restated lease agreement.

¹ According to MTA, the assignment and assumption of the lease agreement did not require Board of Supervisors approval because Section 16.2 of the lease outlines the tenant's right to transfer the lease with a written notice and financial statement of the proposed transferee. MTA states that Tad's Inc. was the transferee who had a strong financial background.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would retroactively approve an amended and restated lease agreement between the MTA, as landlord, and Tad's Inc., as tenant, for 5,368 square feet of retail space in the Ellis-O'Farrell Garage. The amended and restated lease would (1) revise the monthly base rent to 8 percent of gross revenues retroactive to January 1, 2021; (2) revise the monthly water charge to \$2,400 retroactive to February 1, 2024; (3) modify the base rent and water charge calculations for the first extension option; (4) require payment of a \$4,000 administrative fee; (5) establish minimum operating hours; (6) waive base rent obligations from April 1, 2020 through December 31, 2020; and (7) waive outstanding water charges from February 1, 2020 through January 31, 2024, effective through the April 30, 2029 lease expiration date.

Exhibit 1 summarizes the key terms of the existing and amended and restated lease provisions.

Exhibit 1: Key Terms of Amended and Restated Lease Agreement

Provision	Current Lease	Proposed Amended and Restated Lease
Premises	Ellis-O'Farrell Parking Garage located at 123 O'Farrell Street, approx. 5,368 sq. ft. on the ground floor	No change
Lease Term	Ten-year initial term commencing May 1, 2019 and expiring February 28, 2029. Rent to commence nine months after lease commencement date.	Correcting ten-year initial term: commencing May 1, 2019 and expiring April 30, 2029.
Options to Extend	Two five-year options to extend	No change
Permitted Use	Commercial space serving traditional "American Food" cuisine	Restaurant and bar with ancillary sales of merchandise; tenant must operate at a minimum between 9:00 a.m. and 9:00 p.m. on Sundays and 7:00 a.m. to 7:00 p.m. Monday through Saturday, subject to MTA approval for adjusted hours
Base Rent	Monthly base rent of \$36,905 beginning in Months 10–12 of the lease term for a total of \$5,317,024.60 from Year 1 – 10	Percentage rent equal to 8% of monthly gross revenues (retroactive to January 1, 2021)
Rent Escalation	4% annually	None during initial term. If first extension term is exercised, base rent becomes the greater of 103% of the average percentage rent paid during the last 12 months of the lease term or the prevailing market rate. If second extension term is exercised, base rent becomes the greater of 103% of the rent immediately before the first extension expires or 95% of the prevailing market rate. Rent escalates by 4% during the extension term.
Security Deposit	\$50,000	Tenant has transmitted the \$50,000 security deposit to MTA
Utilities	Tenant responsible for all utilities except for water and sewer	Tenant is responsible for all utilities and garbage service. Unpaid water charges accrued between February 1, 2020 to January 31, 2024 totaling \$65,400 forgiven. Tenant will pay MTA a monthly water charge of \$2,400 retroactive to February 1, 2024.
Janitorial Services	Tenant's responsibility	No change
COVID-19 Rent Relief	No rent relief provisions	Base rent obligations from April 1, 2020 through December 31, 2020 forgiven due to COVID-19 impacts
Tenant Improvements	Tenant responsible for specified initial tenant improvements, including mechanical, electrical, plumbing, ventilation, fire suppression, restroom renovations, façade, canopy, lighting, and finishes	According to MTA, tenant has completed improvements in March 2020, which included full replacement of the hood ventilation system, upgrades to fire and life safety, electrical, and plumbing systems, and new ceiling, flooring, and ADA-compliant bathroom installations
Administrative Fee	None	One-time administrative fee of \$4,000 to cover MTA's administrative costs for amendment
Real Estate Taxes and Fees	Tenant's responsibility	No change

Source: Amended and Restated Lease Agreement

Changes to Rent Structure

The existing lease established a fixed base rent structure with yearly adjustments, but no portion of the rent was based on a percentage of gross sales. However, according to MTA, fixed rent was only paid until March 2020. Prior to the transition to the percentage rent model, monthly rent was \$36,905, equivalent to annual rent of \$442,860 (\$82.50 per square foot annually). Due to the COVID-19 pandemic, MTA reports that all of MTA's retail lease agreements either shifted to a percentage of gross sales and/or were provided rent forgiveness. The amended and restated lease includes a provision forgiving rent obligations from April 1, 2020 through December 31, 2020 (totaling \$332,145) due to the impact of COVID-19.

MTA has been collecting rent as eight percent of gross sales since January 2021. According to MTA, the eight percent of gross sales rent structure was considered pursuant to the City Administrator's June 1, 2020 memo advising City departments to provide lease relief measures to support tenant retention and business continuity because of the pandemic. MTA states that the agency coordinated with other government departments and private sector entities to identify a lease structure, determining that a percentage rent model was the most appropriate structure and negotiated the percentage rent with the tenant. According to MTA, this structure enabled the tenant to continue operating despite a 40 percent decline in garage traffic and approximately 35 percent vacancy rates in the Union Square area, which occurred from 2020 to 2023. MTA states that the rent structure was maintained because the property location has not fully recovered and economic conditions remain uncertain. The percentage rent model provides flexibility and allows both parties to benefit as economic conditions improve.

The existing lease agreement was never formally amended to reflect this change and neither were MTA's other leases. MTA staff state that due to the state of emergency and capacity constraints (both internal and citywide) during the pandemic, they were unable to formally document these changes across their portfolio at the time, intending instead to formalize the rent structures as leases came up for renewal.

The amended and restated lease formalizes the eight percent of gross sales rent structure. There is no minimum monthly rent in the initial term.

If the extension options are exercised, the lease transitions from a percentage rent model to a fixed rent structure. If the first extension term is exercised, base rent becomes the greater of 103 percent of the average percentage rent paid during the last 12 months of the lease term or the prevailing market rate. If the second extension term is exercised, base rent becomes the greater of 103 percent of the rent immediately before the first extension expires or 95 percent of the prevailing market rate. The rent then increases by four percent annually. According to MTA, the first extension term was intended to include annual four percent rent escalations; however, this provision was not reflected in the original amended and restated lease. The proposed resolution was continued at the June 3, 2026 Budget & Finance meeting so MTA could update the lease with this change.

Fair-Market Rent

An appraisal conducted in January 2026 determined that the fair market rent for this site is \$43.03 per square foot as of November 19, 2025 and in the condition prior to the tenant improvements completed in 2020. Under the eight percent gross revenue model, Tad's has paid an average of approximately \$241,281 annually from FY 2022-23 to FY 2024-25, equivalent to approximately \$44.95 per square foot. This exceeds the independent appraisal, which estimated market rent at \$43.03 per square foot annually. Under the prior lease structure, base rent was calculated on a fixed price-per-square-foot basis.

Comparison to Other City Leases with Restaurants

The Airport reported to our office in 2024 that the average percentage rent rate for food and beverage tenants was 13 percent in CY 2023. All Airport leases have a minimum annual guaranteed rent and percentage rent structure. The Port reported to us in October 2025 that the average percentage rent rate for restaurant tenants was eight percent. All Port leases have a minimum annual guaranteed rent and percentage rent structure. Port leases are more comparable to the proposed lease. This suggests the proposed eight percent rent is reasonable, though the lack of a minimum guaranteed rent in the proposed lease is unusual. In November 2025, the Board of Supervisors approved another MTA garage lease, Mel's Drive-In at the Fifth & Mission Garage, with no fixed rent and percentage rent based on eight percent of sales (File 25-1052).

Additional Amended Lease Provisions

The amended and restated lease also establishes the monthly water charge to \$2,400 retroactive to February 1, 2024. MTA states this would align with water rates paid by sub-metered restaurants of similar size in the MTA portfolio. If the tenant exercises an extension option, the monthly water charge will start at \$2,500 per month, increasing by \$50 annually up to a maximum of \$3,000 per month during the extension term.

In addition, the amendment would waive Tad's obligation to pay outstanding water charges for the period from February 1, 2020 through January 31, 2024 (totaling \$65,400). According to MTA, the original water charges were based on pre-pandemic usage levels and determined to be excessive given current economic conditions and activity levels in the area.

FISCAL IMPACT

Under the proposed amended and restated lease, projected rental revenue over the lease term is approximately \$1,899,144. MTA projects annual rent of approximately \$241,281 from FY 2026-27 to FY 2028-29 (pro-rated to April 30, 2029) based on the three-year historical average actual rent from FY 2022-23 to FY 2024-25. Historical and projected revenue for the lease term are shown in Exhibit 2 below.

Exhibit 2: Historical MTA Revenue and Projection from FY 2025-26 to FY 2028-29

Fiscal Year	Amount
FY 2019-20 (Actual) ²	\$73,810
FY 2020-21 (Actual)	\$44,481
FY 2021-22 (Actual)	\$125,055
FY 2022-23 (Actual)	\$223,138
FY 2023-24 (Actual)	\$252,180
FY 2024-25 (Actual)	\$248,526
3-Year Historical Average (FY 2022-23 to FY 2024-25)	\$241,281
FY 2025-26 (Actual ³ and Projection)	\$248,325
FY 2026-27 (Projection)	\$241,281
FY 2027-28 (Projection)	\$241,281
FY 2028-29 (Projection to April 30, 2029)	\$201,067
Total Projected	\$1,899,144

Source: MTA

Compared to the original lease, the proposed amended and restated lease (which incorporates the percentage rent model) is projected to reduce rental revenue over the lease term by approximately \$3.42 million, from \$5.32 million to an estimated \$1.9 million.

Use of Revenues

Revenues from this lease will be used to fund MTA's transit operations.

POLICY CONSIDERATION

Our report to the November 5, 2025 Budget & Finance Committee meeting disclosed that MTA had been conducting lease transactions verbally and recommended that the Department formalize its lease agreements. According to MTA, the agency has worked over the past six months to formally amend existing leases and activate vacant spaces with new tenants. Since the November 5, 2025 Budget and Finance Committee meeting, MTA has formally amended three additional agreements of the 16 leases requiring formalization, while six leases are awaiting drafting and execution of finalized terms. MTA has also executed three new leases and expects to execute two additional new tenant leases by June 1, 2026.⁴

² Rent commenced in February 2020.

³ Actual revenues are as of April 30, 2026

⁴ These leases include the following: (1) Two Wells Fargo ATMs at 5th & Mission, (2) Pollalaster at 5th & Mission, (3) WM Glen at Sutter Stockton, (4) Real Mocha House at 1288 Polk and (5) Grace Jewelry at Ellis O'Farrell.

RECOMMENDATIONS

1. Amend the resolution to state that Board of Supervisors approval is retroactive.
2. Approve the resolution, as amended.

Item 2
File 26-0303

Department:

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance amends the Chapter 10 of the Administrative Code to (a) increase the minimum revenue grant amount requiring Board of Supervisors approval for grant acceptance and expenditure from \$100,000 to \$1,000,000, or the federal single audit threshold amount set by the U.S. Office of Management and Budget, starting October 1, 2026; (b) require Board of Supervisors approval of a grant increase only if it raises the grant to the approval threshold for the first time or increases a previously-approved grant to 110 percent or more of the previously-approved amount; and (c) authorize the Controller to make rules governing the acceptance and expenditure of any grants or grant increases that do not require Board of Supervisors approval.

Key Points

- City Administrative Code Section 10.170-1 states that accepting Federal, State, or third-party grant funds in the amount of \$100,000 or more, including any City matching funds required by the grant, is subject to Board of Supervisors approval.

Fiscal Impact

- Between January 1, 2025 and April 7, 2026, the Board of Supervisors reviewed 113 grants for acceptance. Of the 113 grants, 45 percent of those grants had not-to-exceed amounts below the proposed \$1,000,000 threshold for Board review.

Policy Consideration

- Based on data from January 1, 2025 to April 7, 2026, the proposed ordinance would eliminate Board of Supervisors review of 45 percent of revenue grants that currently require Board of Supervisors approval. This amounts to \$18.9 million or two percent of the \$765,804,058 in grant revenues reviewed by the Board during that period. The proposal would expedite the execution of revenue grant agreements but limits the Board's visibility, input, and oversight of grant funds.

Recommendation

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

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.

BACKGROUND

City Administrative Code Section 10.170-1 states that accepting Federal, State, or third-party grant funds in the amount of \$100,000 or more, including any City matching funds required by the grant, is subject to Board of Supervisors approval.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance amends the Chapter 10 of the Administrative Code to (a) increase the minimum grant amount requiring Board of Supervisors approval for grant acceptance and expenditure from \$100,000 to \$1,000,000, or the federal single audit threshold amount set by the U.S. Office of Management and Budget, starting October 1, 2026; (b) require Board of Supervisors approval of a grant increase only if it raises the grant to the approval threshold for the first time or increases a previously-approved grant to 110 percent or more of the previously-approved amount; and (c) authorize the Controller to make rules governing the acceptance and expenditure of any grants or grant increases that do not require Board of Supervisors approval.

FISCAL IMPACT

Between January 1, 2025 and April 7, 2026, the Board of Supervisors reviewed 113 grants for acceptance. As shown below, 45 percent of those grants had not-to-exceed amounts below the proposed \$1,000,000 threshold, as shown below.

Exhibit 1: Board of Supervisors Approval of Grants, January 1, 2025 – April 7, 2026

# of Grants	Proposed \$1M Threshold	% of # Grants	Total Grant Amount	Average Grant Amount
62	Over	55%	\$746,888,212	\$12,046,584
51	Under	45%	\$18,915,846	\$370,899
113			\$765,804,058	

Source: BLA review of legislative files

POLICY CONSIDERATION

Based on data from January 1, 2025 to April 7, 2026, the proposed ordinance would eliminate Board of Supervisors review of 45 percent of revenue grants that currently require Board of Supervisors approval. This amounts to \$18.9 million or two percent of the \$765,804,058 in grant

revenues reviewed by the Board during that period. The proposal would expedite the execution of revenue grant agreements but limits the Board's visibility, input, and oversight of grant funds.

RECOMMENDATION

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