CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292
FAX (415) 252-0461

November 25, 2025

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: December 3, 2025 Budget and Finance Committee Meeting

TABLE OF CONTENTS

TABLE OF CONTENTS

Item 3 **File 25-1104**	**Department:** Homelessness and Supportive Housing

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the third amendment to the grant agreement between Episcopal Community Services (ECS) and the Department of Homelessness and Supportive Housing (HSH) for shelter services at Sanctuary Shelter (201 8th Street), which would extend the grant term by two years from June 30, 2026 to June 30, 2028 for a total term of July 1, 2021 through June 30, 2028; and increase the agreement amount by $15,140,870 for a new total amount not to exceed $40,896,141.

Key Points

- The purpose of the grant is to provide emergency shelter operations and support services at Sanctuary Shelter to single adults. ECS was initially budgeted to serve 124 people per night in FY 2021-22 and FY 2022-23 and has been serving 200 people per night since FY 2023-24, which is consistent with the shelter's pre-COVID capacity.
- In FY 2024-25, ECS met eight out of eleven service and outcome objectives of the grant. In particular, ECS met objectives related to client satisfaction and shelter occupancy but did not meet objectives related to client referrals for problem solving and supporting clients in obtaining and uploading documents to secure long-term housing. According to HSH, ECS has provided training to staff to improve client referrals for problem solving and uploading of important documents.

Fiscal Impact

- The proposed amendment would add $274,608 to the FY 2025-26 budget of $6.2 million for a total budget of $6.4 million and fund the program at the same level in the extended term through FY 2027-28. The proposed annual budget of approximately $6.4 million in the extended term is equal to $32,229 per bed, which is comparable to other large shelter sites, according to HSH staff.
- The grant is funded by the General Fund (95 percent) and the federal Emergency Solutions Grant Program funding (5 percent).

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

BACKGROUND

Episcopal Community Services (ECS) of San Francisco is a non-profit organization that provides services to people experiencing homelessness—one of the largest providers of such services in San Francisco. The organization operates several emergency shelters, including the Sanctuary at 201 8th Street. The Sanctuary is a 24-hour congregate shelter. ECS has operated the Sanctuary shelter since the founding of the Department of Homelessness and Supportive Housing (HSH) in 2016. In 2019, HSH selected ECS through a Request for Qualifications to continue to provide services at the Sanctuary for up to 200 adult guests from July 2019 to June 2021. Upon expiration of this agreement, HSH awarded a new contract to ECS pursuant to Administrative Code Chapter 21B, which allows for selection of homeless service providers without competitive solicitations.

HSH entered into a new grant agreement with ECS with an initial term of 12 months from July 2021 to June 2022 and a not-to-exceed amount of $6,110,917 to serve 124 adult guests, which was less than the pre-COVID capacity of 200 adult guests. That agreement was first amended in July 2022 to extend the term by one year to June 30, 2023 and increase the not-to-exceed amount by $2,520,374 to $8,631,291; a second amendment in July 2023 extended the grant term by three years from June 30, 2023 to June 30, 2026 and increased the not-to-exceed amount by $17,123,980 to $25,755,271. Shelter capacity was restored to 200 adult guests starting in FY 2023-24.

Federal Emergency Solutions Grant Program

The Emergency Solutions Grants (ESG) Program is a federally funded U.S. Department of Housing and Urban Development (HUD) entitlement grant program that addresses the needs of people experiencing homelessness in areas of street outreach, emergency shelter, rapid re-housing, and homelessness prevention. Each year, the City and County of San Francisco receive an allocation of ESG funding that is provided to community-based organizations.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the third amendment to the grant agreement between ECS and HSH for shelter services at Sanctuary Shelter, which would extend the grant term by two years from June 30, 2026 to June 30, 2028 for a total term of July 1, 2021 through June 30, 2028; and increase the agreement amount by $15,140,870 for a new total amount not to exceed $40,896,141.

Services Provided

The purpose of the grant is to provide emergency shelter operations and support services to single adults, age 18 and older. ECS was initially budgeted to serve 124 people in FY 2021-22 and FY 2022-23 and has been serving 200 people since FY 2023-24. The proposed amendment continues to fund ECS to serve 200 nightly guests with 38.70 full-time equivalent (FTE) staff, down from 40.02 in FY 2024-25. According to HSH, the program served a total of 616 individuals in FY 2024-25, with an occupancy rate of 95 percent.[1]

Services and amenities include 24/7 access to shelter beds, two meals per day, laundry services, case management, community meetings, and behavioral health support. The shelter also includes a Department of Public Health (DPH) Shelter Health Clinic, which is not funded by this grant agreement.

Performance Monitoring

According to the FY 2024-25 program monitoring report, ECS met all service and outcome objectives—as shown in Exhibit 1—except three, as noted below:

- Only 27 percent of clients attended community meetings. The minimum required is 60 percent. In response, ECS noted that it has no ability to mandate guest attendance for community meetings. This objective is proposed to be removed for the third amendment to the agreement.
- Only 19 percent of clients were offered referral for problem-solving and/or assessment via Adult Coordinated Entry.[2] The minimum required is 100 percent. In response, ECS noted that a prior Associate Director of Interim Housing had instructed case management staff to support guests in finding housing outside of Coordinated Entry. All new guests are now referred to Coordinated Entry upon intake, according to ECS.
- Only 5 percent of Housing Referral Status clients received support gathering and uploading vital documents into the Online Navigation and Entry (ONE) System[3] and met document readiness standards within six months of intake. The minimum required is 80 percent. In response, ECS acknowledged that documents were not uploaded to the ONE System as required. According to ECS, all staff have been retrained to upload guest documents immediately upon completion.

According to the Department, no further action was taken after it received the responses from ECS, which the department felt were timely and appropriate.

[1] A minimum occupancy rate of 90 percent is measured during annual program monitoring.
[2] Coordinated Entry is known as the "front door" to the Homelessness Response System, designed to assess, prioritize, and match people experiencing homelessness to housing opportunities.
[3] The ONE System is the database used to connect clients to services, including shelter, housing, and problem-solving services.

Exhibit 1: Episcopal Community Services (ECS) Service and Outcome Objectives (Goals and Actuals) for FY 2024-25

Service Objective	Goal	Actual	Achieved (Y/N)
1. Grantee shall provide intake and program orientation to 100 percent of all initial guests and updates for returning guests in a new stay within 24 hours of arrival to the site.	100%	100%	Y
2. Grantee shall provide bed turnover services within 24 hours to 100 percent of beds needing turnover.	100%	100%	Y
3. 60 percent of guests shall attend monthly in-house Community Meetings as measured through sign-in sheets. (Unless excused for work, school, or medical appointments).	60%	27%	N
4. 100 percent of guests with referral needs shall be provided referrals related to benefits, employment, health, and related transportation support if needed.	100%	100%	Y
5. 100 percent of guests shall be offered referral for problem-solving and/or assessment via Adult Coordinated Entry within one week of placement.	100%	19%	N
6. Grantee shall maintain accurate client roster in the ONE system.	100%	100%	Y
7. One hundred percent of shelter staff shall be trained in compliance with standards of care.	100%	100%	Y
8. Grantee shall administer survey to 100 percent of guests that are active in the program. A minimum of 50 percent of the guests onsite during the quarterly satisfaction survey distribution period shall complete the survey instrument approved by HSH.	50%	87%	Y
Outcome Objective			
1. 100 percent of client data shall be entered and routinely updated in ONE, or other database mandated by City.	100%	100%	Y
2. 80 percent of Housing Referral Status participants will receive support gathering and uploading of vital documents into the ONE system and meet document readiness standards within six months of initial intake.	80%	5%	N
3. A minimum of 75 percent of guests who complete the Quarterly Satisfaction Survey shall rate the treatment by staff, meals, connection to services and safety as good or excellent.	75%	81%	Y

Source: HSH

Fiscal Monitoring

The FY 2024-25 fiscal and compliance monitoring report noted one finding related to submission of late invoices by ECS to DPH for an adult behavioral health grant. In response, ECS noted that it had hired an additional staff person so that two people now manage invoicing. ECS also noted that it had moved up its accounting close date.

FISCAL IMPACT

The proposed resolution would increase the not-to-exceed amount by $15,140,870 to $40,896,141. Exhibit 2 below summarizes the actual expenditures and proposed budget of the proposed amended grant agreement. The proposed amendment would add $274,608 to the FY 2025-26 budget of $6,171,075 for a total budget of $6,445,683 and fund the program at the same level in the extended term. The proposed annual budget of approximately $6.4 million in the extended term is equal to $32,229 per bed—comparable to other large shelter sites, according to HSH.

Exhibit 2: Episcopal Community Services (ECS) Expenditures for Sanctuary Shelter

Year	Salaries & Benefits	Operating Expense	Indirect Cost (15%)	Other Expenses	Capital Expenditures	Total Expenditures
FY 2021-22 Actual	$2,125,479	$1,082,147	$478,760	($49,472)	$3,750	**$3,640,664**
FY 2022-23 Actual	2,633,154	970,208	540,505	(55,568)	40,514	**4,128,813**
FY 2023-24 Actual	3,561,422	1,023,305	687,709	(14,632)	111,204	**5,369,008**
FY 2024-25 Actual	3,605,407	1,252,256	728,650	798,531	60,867	**6,445,711**
FY 2025-26 Proposed	3,545,678	2,059,264	840,741			**6,445,683**
FY 2026-27 Proposed	3,545,678	2,059,264	840,741			**6,445,683**
FY 2027-28 Proposed	3,545,678	2,059,264	840,741			**6,445,683**
Subtotal, Budget	**$22,562,496**	**$10,505,708**	**$4,957,847**	**$678,859**	**$216,335**	**$38,921,245**
Contingency (15%)[1]						1,974,896
Total Not to Exceed						**$40,896,141**

Source: HSH

[1] The contingency amount is based on the amended increase for FY 2025-26 of $274,608 plus $6,445,683 in FY 2026-27 and FY 2027-28.

The total capital expenditures budget shown in FY 2021-22 through FY 2024-25 of $216,335 was spent on furniture (specifically beds), boiler repair, an ADA accessible door, IT equipment, and computers, according to HSH. The other negative expenses shown in FY 2021-22 through FY 2023-24 reflect underspending on the annual grant budget. Expenditures to date averaged 87 percent of the budget from FY 2021-22 through FY 2023-24, and expenditures reached 100 percent of the budget in FY 2024-25.

The staffing is proposed at 38.70 full time equivalent (FTE) positions in FY 2025-26, which is a reduction of 1.32 FTE from the prior year staffing of 40.02 FTE in FY 2024-25, with a number of positions shifting their FTE, as shown in Exhibit 3 below. Overall, the decline is due to a 3.14 FTE reduction in the number of service coordinators, which is partially offset by a 1.69 FTE increase in case managers. According to HSH, the grantee restructured its director level staffing by consolidating some responsibilities and reassigning others to a new Senior Support Service Manager position.

Exhibit 3: Change in Full-Time Equivalent Positions from FY 2024-25 to FY 2025-26

Job Title	FY 2024-25 FTE	FY 2025-26 FTE	Change
Service Coordinators (Monitors)	22.33	19.19	(3.14)
Case Manager III	4.83	5.64	0.81
Bilingual Case Manager III	1.12	2.00	0.88
Shift Supervisors	4.20	4.20	-
Senior Support Service Manager	-	0.86	0.86
Facilities-Janitors/Launderers	3.80	3.80	-
Facilities-Maintenance Supervisor	0.89	1.00	0.11
Admin-Site Manager	1.00	1.00	-
Director of Interim Housing	0.85	0.85	-
Director of Impact and Analytics	0.09	0.09	-
Director of Strategic Initiatives & Quality Assurance	-	0.07	0.07
Admin-Director of Healthy Aging	0.08	-	(0.08)
Associate Director of Interim Housing	0.85	-	(0.85)
TOTAL	**40.02**	**38.70**	(1.32)

Source: HSH

Funding Source

The grant is funded by the General Fund (95 percent) and federal Emergency Solutions Grant Program funding (5 percent).

RECOMMENDATION

Approve the proposed resolution.

Item 4 **File 25-1105**	**Department:** Homelessness and Supportive Housing

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves the third amendment to the grant agreement between the Department of Homelessness and Supportive Housing (HSH) and Felton Institute for Bayview Drop-in Center operations, extending the agreement term by 24 months, from June 30, 2026, to June 30, 2028, and increases the total not-to-exceed amount by $7,134,976, from $9,719,173 to $16,854,149.

Key Points

- HSH funds and oversees the City's homeless response system. One component of the system is drop-in centers, which provide non-shelter essential services such as food, showers, and laundry to individuals who are at-risk of or experiencing homelessness. HSH funds two drop-in centers in San Francisco: the Bayview Drop-In Center and the Mission Neighborhood Resource Center.
- HSH selected the Felton Institute to operate a Bayview drop-in center under Administrative Code 21B, which waives competitive procurement rules for homeless service contracts. The existing agreement, which HSH has amended twice, has a not to exceed amount of approximately $9.7 million and a three-year and 10-month term ending in June 2026.
- HSH conducted a site visit and performance evaluation on September 16, 2025. Based on the performance monitoring report, the Felton Institute achieved all service and outcome objectives for FY 2024-25.
- In FY 2024-25, HSA conducted citywide nonprofit monitoring for the Felton Institute and identified two initial findings. According to a subsequent Final Status Letter, the Felton Institute resolved these findings, and HSA determined that the Felton Institute was in full compliance with the City's requirements.

Fiscal Impact

- The proposed third amendment increases the agreement's total not-to-exceed amount by $7,134,976, for a new total of $16,854,149. The contract is funded by the General Fund.
- The proposed FY 2025-26 budget of $3.0 million represents a four percent increase ($114,791) over the FY 2024-25 actual expenditures of $2.9 million.

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

Drop-In Centers

The Department of Homelessness and Supportive Housing (HSH) funds and oversees the City's homeless response system. One component of the system is drop-in centers, which provide non-shelter essential services such as food, showers, and laundry to individuals who are at-risk of or experiencing homelessness. HSH funds two drop-in centers in San Francisco: the Bayview Drop-In Center and the Mission Neighborhood Resource Center.

Contract History

In October 2022, HSH entered into an agreement with the Felton Institute, under Administrative Code Section 21B,[1] with an initial term from October 1, 2022, through June 30, 2024, and a total not-to-exceed amount of $4,201,720 for the operation of a drop-in center at 2111 Jennings Street in the Bayview. The United Council of Human Services provided programmatic services, and the Felton Institute provided fiscal intermediary services. HSH states the selection of providers was based on their experience and ability to begin services in a timely manner.

In March 2023, HSH approved the first amendment which increased the total not-to-exceed amount by $668,644, from $4,201,720 to $4,870,364, to add a 15 percent indirect cost rate to the Felton Institute's budget to cover the administrative costs associated with managing the program ($409,979) and provided one-time funding across two years ($180,443) to cover salary expenses associated with the transition of the program from United Council of Human Services to the Felton Institute.

In July 2024, HSH approved the second amendment, which extended the term by 24 months, from June 30, 2024, through June 30, 2026, and increased the not-to-exceed amount by $4,848,809, from $4,870,364 to $9,719,173.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves the third amendment to the grant agreement between the Department of Homelessness and Supportive Housing (HSH) and Felton Institute for Bayview

[1] Administrative Code Section 21B, established in April 2019, waives competitive procurement rules for homeless service contracts, but requires contracts to be detailed in a quarterly report to the Board of Supervisors.

Drop-in Center operations, extending the agreement term by 24 months, from June 30, 2026, to June 30, 2028, and increases the total not-to-exceed amount by $7,134,976, from $9,719,173 to $16,854,149.

According to HSH, this two-year extension aligns with the department's Multi-Year Procurement Plan to eventually re-procure services through competitive solicitations. Per the plan, HSH intends to release solicitations for drop-in resource centers in Spring 2027, with a tentative agreement start by Fall 2027. HSH notes that it is standard procedure to extend existing agreements by up to one year beyond the plan's timeline to prevent disruptions to service provision.

Scope of Services

The grant provides drop-in center services to individuals and families experiencing homelessness in the Bayview-Hunters Point neighborhood. Grant terms require the Felton Institute to maintain and repair the drop-in facility and provide janitorial services, laundry facilities, locker space, bathroom and shower facilities, breakfast and dinner, a temporary address location for receipt of mail and mail storage, and drop-in chairs for those with or without shelter reservations,[2] including respite when medically requested for those with shelter reservations.

In addition to the term and funding changes, this amendment adjusts the agreement's service and outcome objective measures. According to the new grant agreement, locker space, shower and restroom facilities, and laundry service hours were reduced from 24/7 to a set of scheduled hours each day. Additionally, the service objectives now require 100 breakfast and 200 dinner meals daily, 3,000 unduplicated clients annually, and 50 duplicated clients daily. The existing agreement does not specify service levels for these objectives. The grant continues to require 42 lockers and 48 chairs for program clients.

According to the Grant terms, the Felton Institute shall provide drop-in services to 3,000 unduplicated clients annually, and 50 duplicated clients daily. According to HSH, the grantee served 3,309 unduplicated clients in FY 2024-25. A breakdown of the service schedule is provided in Exhibit 1 below.

[2] Drop-in chair refers to a practice where individuals are permitted to stay overnight and sleep while sitting in a chair, rather than in a bed, which distinguishes it from a shelter-service.

Exhibit 1: Service Schedule by Service Category FY 2025-26 to FY 2027-28

Service Component	Hours
Breakfast	7:00am - 9:00am daily
Dinner	5:00pm - 7:00pm M-F; 4:00pm - 6:00pm S-S
Drop-In Chairs	3:30pm - 7:30am daily
Laundry Services	8:00am - 12:00am daily
Showers and Restrooms	8:00am - 12:00am daily; 24/7 in emergencies*
Locker Space	7:00am - 11:00pm daily
Access to mail pick up and mail storage**	9:00am - 4:30pm daily

Source: HSH

Notes: *According to HSH, the Drop-in Center will still accommodate 24/7 access to showers and restrooms on an as-needed basis; however, regular hours are reduced to better align with staffing levels.

**The proposed amendment removes voicemail access from the scope of services because this facility does not have a voicemail machine. Clients will still be able to call out to access their voicemail provider.

Performance Monitoring

HSH conducted a site visit and performance evaluation on September 16, 2025. HSH reports the Felton Institute achieved all service and outcome objectives for FY 2024-25. A breakdown of the goals and actuals is shown in Exhibit 2 below.

Exhibit 2: Service and Outcome Objective Goal vs. Actuals FY 2024-25

Category	Objective	Goal	Actual
Service	Unduplicated Client Meal Count	2,400 Annually	**3,642**
Service	Drop-in Chairs	48 chair capacity	**Yes**
Service	Locker Space	42 locker capacity	**Yes**
Service	Shower and Restroom Facilities	24/7 access	**Yes**
Service	Voicemail Access, Mail Pick Up, and Mail Storage	Daily 7 AM to 7 PM	**Yes***
Service	Laundry services	24/7 access	**Yes**
Service	Client satisfaction surveys collected	400 Annually	**400**
Outcome	Service rated as satisfactory or better	75%	**94%**

Source: HSH
*As noted above, this facility does not have a voicemail machine. Voicemail access is removed from the scope of services in the proposed agreement

On October 8, 2025, HSH finalized the results of the program monitoring assessment of the drop-in center program and cited no findings for this fiscal year; however, the Felton Institute received the following suggestions for best practices: (1) provider should translate all materials into Filipino to comply with the City's threshold languages, (2) provider should include a date field on the satisfaction surveys so guests can enter the date survey is being completed, and (3) provider should post the Shelter Grievance Ordinance and Shelter Grievance Policy on bulletin boards. HSH confirms that the Felton Institute submitted a satisfactory response and implemented a Plan of Correction, completing all items in October 2025.

Fiscal Monitoring

The Human Services Agency (HSA) conducted the Citywide fiscal monitoring review on May 14, 2025. Two initial findings were identified for the Felton Institute for FY 2024-25. First, HSA requested an annual cash flow projection that the organization had failed to submit, and second, the organization had less than 30 days of operating cash. On June 10, 2025, the Felton Institute provided the missing projection document to HSH and committed to exploring new revenue streams and building cash reserves to be compliant in the future.

On June 13, 2025, HSH issued the Final Status Letter for Felton Institute for FY 2024-25, resolving these findings and determining that Felton Institute was in full compliance with fiscal requirements.

FISCAL IMPACT

The Third Amendment increases the total agreement not-to-exceed amount by $7,134,976, for a new total of $16,854,149. Exhibit 3 summarizes the proposed fiscal changes by year. The contract is funded by the General Fund.

Exhibit 3: Grant Agreement Budget and Not to Exceed Amount

Fiscal Year	Budget
FY 2022-23 (Actual) (Partial Year)	$1,757,695
FY 2023-24 (Actual)	2,401,793
FY 2024-25 (Actual)	2,851,773
FY 2025-26 (Projected)	2,966,564
FY 2026-27 (Proposed)	2,966,564
FY 2027-28 (Proposed)	2,966,564
Subtotal (Budget)	**$15,910,953**
Contingency (15%)	943,196
Total (NTE)	**$16,854,149**

Source: HSH

The proposed FY 2025-26 budget of $2,966,564 represents approximately a four percent increase ($114,791) over the FY 2024-25 actual expenditures of $2,851,773.

A breakdown of expenditures and revenues by fiscal year is detailed in Exhibit 4 below. The proposed FY 2026-27 budget maintains existing staffing levels of 20.25 full-time equivalent (FTE) positions.

Exhibit 4: Expenditures and Revenues for Felton Institute, FY 2023-24 to FY 2027-28

	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27 (Extension)	FY 2027-28 (Extension)
Salaries and Benefits	$1,328,518	$1,557,388	$1,596,955	$1,596,955	$1,596,955
Operating Expenses	749,371	996,694	982,668	982,668	982,668
Subtotal	2,077,889	2,554,082	2,579,623	2,579,623	2,579,623
Indirect Cost (15%)	311,683	383,110	386,941	386,941	386,941
Other Expenses	12,221				
Adjustment to Actuals	(10,776)	(85,419)			
Total	**$2,401,793**	**$2,851,773**	**$2,966,564**	**$2,966,564**	**$2,966,564**

Source: HSH

RECOMMENDATION

Approve the proposed resolution.

Items 5 & 6 **Files 25-1108, 25-1147**	**Department:** Department of Homelessness and Supportive Housing (HSH), Mayor's Office of Housing and Community Development (MOHCD)

EXECUTIVE SUMMARY

Legislative Objectives

- **File 25-1108** is a resolution that would authorize the Department of Homelessness and Supportive Housing (HSH) to execute a Standard Agreement with the California Department of Housing and Community Development (HCD) for an amount not to exceed $39,044,030 for the acquisition, rehabilitation, and support of operating costs for property at 1035 Van Ness Avenue, and authorizing the City to commit up to $8,000,000 in matching funds.
- **File 25-1147** is a resolution approving and authorizing a Loan and Grant Agreement in an amount not to exceed $11,000,000, consisting of a loan in the amount of $8,000,000 for a minimum term of 55 years and a grant in the amount of $3,000,000 for the rehabilitation 1035 Van Ness into 124 units of permanent supportive housing for homeless veterans.

Key Points

- In 2025, the owner of 1035 Van Ness Avenue declared bankruptcy and HSH and the Mayor's Office of Housing and Community Development (MOHCD) selected Swords to Plowshares to purchase the property and develop it into permanent supportive housing for homeless veterans. In May 2025, the Citywide Affordable Housing Loan Committee approved a gap financing commitment for Swords to Plowshares to acquire and develop the property. In September 2025, HCD awarded the City a Homekey+ grant in the amount of $39,044,030, of which $32,800,000 is for the acquisition and rehabilitation of the property and $6,244,030 is an operating subsidy.
- After restoring 15 units that had been removed by the previous owner and constructing two accessory dwelling units, the building would consist of 124 units. Units would be restricted to veterans earning below 30 percent of median income.

Fiscal Impact

- The total development cost is approximately $334,278 per unit, of which the City subsidy is approximately $64,516 per unit. According to the 20-year cash flow analysis of the project, the project's revenues are sufficient to cover operating costs and reserves and repay approximately $8.1 million of the City loan over the first 20 years of operations.

Policy Consideration

- Unlike many other affordable housing and supportive housing projects to which the City has provided funding, the City will not own the land or structures at 1035 Van Ness. MOHCD and the project sponsor will enter into a purchase option agreement, which provides the City right of first refusal if the property is for sale.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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.

City Charter Section 9.118(a) states that contracts entered into by a department, board, or commission that (i) have anticipated revenues of $1 million or more, or (ii) have anticipated revenues of $1 million or more and require modifications, are subject to Board of Supervisors approval.

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

1035 Van Ness Avenue was developed in 2004 as the San Francisco Care Center, an assisted living facility with 122 units. In January 2025, the building owner declared bankruptcy and liquidated the property, which was purchased by the Housing Accelerator Fund in anticipation of permanent financing from the City. The Department of Homelessness and Supportive Housing (HSH) and Mayor's Office of Housing and Community Development (MOHCD) selected Swords to Plowshares to purchase the property and develop it into permanent supportive housing for homeless veterans.[1] The City decided to use the property for veterans' housing in conjunction with closing of different PSH sites for veterans operated by Swords that has struggled with high vacancies. In April 2025, the seller accepted an offer from the San Francisco Housing Accelerator Fund to purchase the property for $27,750,000. According to Omar Masry, MOHCD Multi-Family Lending Project Manager, this ownership model was chosen because it was faster than City acquisition and time constraints associated with bankruptcy proceedings.

In May 2025, the Citywide Affordable Housing Loan Committee (Loan Committee) approved a preliminary gap commitment for Swords to Plowshares to acquire and develop the property with two financing options: (1) a combination of $8,000,000 in City funds combined with a Homekey+ grant from the California Department of Housing and Community Development (HCD), or (2) $30,000,000 from the City's Preservation and Seismic Safety (PASS) bond program.[2] In May 2025, the Board of Supervisors approved and authorized HSH to apply for a Homekey+ grant in an amount not to exceed the greater of $37,500,000 or the maximum award available (File 25-0937). In September 2025, HCD awarded the City a Homekey+ grant in the amount of $39,044,030, of which $32,800,000 is for the acquisition and rehabilitation of the property and $6,244,030 is an

---

[1] HSH and MOHCD selected Swords to Plowshares under Administrative Code Section 21B, which authorizes HSH to enter into certain contracts for homeless services without competitive bidding.

[2] Homekey is a state grant program that provides funding for the acquisition and rehabilitation of hotels, motels, apartments, and other properties for use as permanent or interim homeless housing. Homekey+ is modeled on the Homekey program and uses Proposition 1 funding to provide permanent housing for individuals who are homeless or at risk of homelessness with behavioral health needs, including mental health and substance abuse challenges.

operating subsidy. In November 2025, the Loan Committee approved a Loan and Grant Agreement of up to $11,000,000 for the property.

DETAILS OF PROPOSED LEGISLATION

File 25-1108 is a resolution that would:

1. Authorize HSH to execute a Standard Agreement with HCD and co-applicants Swords to Plowshares and 1035Vets LLC (an affiliate of Swords to Plowshares) for a total award not to exceed $39,044,030 under the Homekey+ program, including up to $36,044,030 disbursed to 1035Vets LLC for acquisition of 1035 Van Ness and support of operating costs, and $3,000,000 disbursed to the City for rehabilitation of the property;
2. Accept and expend up to $3,000,000 from the City's portion of Homekey+ for the rehabilitation of the property;
3. Approve and authorize the City to commit up to $8,000,000 in required matching funds for rehabilitation of the property and a minimum of five years of operating subsidy, in addition to committing up to 15 years of operating subsidies through the City's Local Operating Subsidy Program (LOSP) subject to budget appropriations;
4. Authorize the City to assume any joint and several liability for expenditure of the Homekey+ grant under the Standard Agreement;
5. Adopt the Planning Department's findings of consistency with the General Plan and Planning Code; and
6. Authorize HSH to enter into any further immaterial amendments to the Standard Agreement and Homekey+ documents.

File 25-1147 is a resolution that would:

1. Approve a Loan and Grant Agreement in an amount not to exceed $11,000,000 with 1035Vets LLC for the purpose of rehabilitating the 1035 Van Ness property, consisting of a City loan in the amount of $8,000,000 for a minimum term of 55 years and a City-administered grant of HCD Capital Funds in the amount of $3,000,000;
2. Adopt findings that the project and proposed transactions are consistent with the General Plan and Planning Code;
3. Authorize the Mayor and MOHCD Director to execute the Loan and Grant Agreement, make certain modifications, and take certain actions in furtherance of the resolution; and
4. Authorize the MOHCD Director to make further immaterial amendments to the Loan and Grant Agreement.

Building Description and Rehabilitation

1035 Van Ness is a vacant, 9-story assisted living facility consisting of 122 units, 35 parking spaces, ground floor reception and commercial space, and shared outdoor space. The previous owner removed 15 residential units, which subjected the building to code violations from the

Department of Building Inspection (DBI). The purchase price of $27,750,000 was consistent with an appraisal conducted by Colliers International in April 2025.

An MOHCD loan evaluation to the Loan Committee in May 2025 noted that the building is generally in good condition. The scope of rehabilitation had originally included restoring 15 units that were removed or modified without permits, adding two accessory dwelling units, converting units with half bathrooms into full bathrooms, adding or enlarging in-unit kitchenettes, creating a mail room on the ground floor, converting retail spaces into office spaces, and adding laundry machines on each floor. The estimated cost, including overhead and contingencies, was approximately $6.5 million. This cost has since increased to approximately $8.6 million due to refinements and expanding the scope with remodeling the 1st floor mailroom and 5th floor offices, exterior painting, repairing stucco cracks, and replacing failing air conditioning units. If unspent contingency funds are available, they would be used to replace rooftop mechanical equipment, exhaust fans, and air handling equipment.

MOHCD anticipates that construction would begin in January 2026 and would achieve substantial completion by July 2026. Upon completion, up to 108 tenants would be relocated from another PSH site, and HSH would terminate that lease. The remaining units would be leased through HSH's Coordinated Entry system or the U.S. Department of Veterans Affairs (VA). The project budget does not include funding for tenant relocation. Swords to Plowshares will seek VA funding for relocation costs.

Homekey+ Agreement

The proposed Standard Agreement for Homekey+ funds requires that the funding be used for permanent supportive housing or interim housing costs for people at risk of homelessness and with serious mental illness and that rents are no more than 30 percent of HCD median income. The agreement has a 15-year term but requires the proposed revenues to be spent by the City by deadlines that will be confirmed by HCD (anticipated to be February 2027 for capital funds and February 2037 for operating funds) and that the property remain income restricted housing for at least 55 years. The agreement requires the City to provide at least $8 million in matching funds, which will be met with Proposition C funds.[3]

Loan and Grant Agreement

Under the proposed Loan and Grant Agreement, the City would provide 1035Vets LLC a loan of $8,000,000 and grant of $3,000,000. Key terms of the Loan and Grant Agreement are shown in Exhibit 1 below.

[3] Proposition C, passed by San Francisco voters in November 2018, is a gross receipts tax to fund homeless services and housing.

Exhibit 1: Key Terms of Loan and Grant Agreement

Loan	
Loan Amount	$8,000,000
Loan Term	55 Years
Interest Rate	0%
Repayment	Annual payments, equal to 2/3 of residual receipts
Grant	
Grant Amount	$3,000,000
Grant Term	55 Years
Repayment	N/A
Units and Affordability	
Units	66 Studio Units and 58 SRO Units
Affordability Level	Units restricted to tenants under 30% of Median Income (May be increased to 50% of Median Income if the operator is unable to find tenants at the lower income level)

Source: Proposed Loan and Grant Agreement, Declaration of Restrictions, Promissory Note

Loan Documents

The proposed resolution also approves the following loan documents:

- The form of the Declaration of Restrictions, which requires the project sponsor to maintain the housing affordability levels defined in the loan agreement for at least 55 years;
- The Secured Promissory Note for the loan;
- The Deed of Trust, which secures the loan and project proceeds in favor of the City; and
- A 99-year Purchase Option Agreement, which allows the City first right of refusal if the property is for sale. The purchase price would be fair market value net of outstanding City loans on the property.

Sponsor Capacity for Project Development

According to a May 2025 memo to the Loan Committee, Swords to Plowshares is currently in the process of managing the acquisition and rehabilitation of 629 Post Street, a $30 million project of 63 units of permanent and transitional housing for homeless veterans. The property was acquired in 2023 for $17 million with an MOHCD loan. Construction is anticipated to begin in Summer 2026 and to be completed by September 2027. Swords to Plowshares also operates the Stanford Hotel at 250 Kearny Street. Because of Swords to Plowshares' modest experience in property ownership, MOHCD has recommended that staff take asset management and technical assistance courses from the Corporation for Supportive Housing, a national organization that offers these courses for supportive housing providers.

Performance and Fiscal Monitoring

HSH conducted FY 2023-24 performance monitoring of Swords to Plowshares' programs at the Stanford Hotel and identified 18 findings.[4] FY 2023-24 monitoring did not include service and outcome objective metrics because of an HSH administrative error with the CARBON reporting system. HSH is planning a site visit in December 2025 to determine if Swords to Plowshares is in conformance with corrective actions. HSH has not completed FY 2024-25 program monitoring, but preliminary data shows that Swords to Plowshares has met all contracted service and outcome objectives.

Staff from the Office of Economic and Workforce Development reviewed Swords to Plowshares' financial documents as part of the FY 2023-24 Citywide Fiscal and Compliance Monitoring Program and identified no findings. Swords to Plowshares met all the requirements to receive a one-year waiver from the program in FY 2024-25.[5]

FISCAL IMPACT

Under the proposed Loan and Grant Agreement, the city would provide 1035Vets LLC a loan of $8,000,000 and grant of $3,000,000. The City would also accept a Homekey+ grant from HCD, which would provide up to $36,044,030 disbursed to 1035Vets LLC for acquisition of 1035 Van Ness from the Housing Accelerator Fund and support of operating costs, and $3,000,000 disbursed to the City for rehabilitation of the property. The sources and uses of funds for capital expenses are shown in Exhibit 2 below.

Exhibit 2: Sources and Uses of Capital Funds

Sources	Amount
MOHCD Loan	$8,000,000
Homekey+ Grant	32,800,000
Swords to Plowshares Capital/Fundraising	650,482
Total Sources	**$41,450,482**

[4] The findings were: (1) no evidence of tenant assessment information, (2) no evidence property management tenant correspondences are shared with support services, (3) grantee provided a list of trainings, but it was incomplete, (4) grantee did not provide an overdose prevention policy, (5) grantee did not provide evidence of MOUs, (6) grantee provided incomplete tenant satisfaction surveys, (7) no evidence that program materials are accessible to persons with disabilities, (8) HIPAA privacy rights were not publicly displayed, (9) no evidence of written materials translated in applicable languages, (10) conflicting responses to how service delivery and activities respect the backgrounds and interests of clients served, (11) no evidence of a policy regarding how clients will be outreached to for engagement in services, (12) grantee provided a link to staff job descriptions via email but documents did not open, (13) grantee provided org chart but difficult to comprehend, (14) grantee provided a list of staff training but was missing a training log of staff attendance, (15) grantee did not meet objectives every month for service and outcome objective s for the support services agreement, (16) service and outcome objectives for property management were not set up by HSH in CARBON, (17) grantee stated that they only submit critical incident reports when someone dies, and (18) none of the fire extinguishers were documented as being inspected.

[5] The requirements for a waiver are: (1) the contractor had no significant findings from the prior year; (2) the contractor had no major areas of concern identified by funding departments; (3) the contractor had at least two years of City funding; (4) the contractor has had an expanded monitoring within the last four years; and (5) the contractor does not receive funding from a source that mandates site visits.

Uses	Amount
Acquisition (Repayment of HAF Loan)	$27,954,726
Construction Hard Costs (Includes 10% Contingency)	8,550,032
Soft Costs (Includes 6.6% Contingency)	2,891,991
Reserves	1,053,733
Developer Fees	1,000,000
Total Uses	**$41,450,482**

Source: Proposed Grant and Loan Agreement

Construction costs include a 10 percent hard cost contingency and 6.6 percent soft cost contingency. Operating reserves total $1,053,733, which is intended to partially cover four months of operating costs and services. Total costs include $1,000,000 in developer fees and $2,891,991 in soft costs.

The Homekey+ loan would also fund $3,601,742 to replace aging boilers, water heaters, and roofing. This is characterized as an operating expenditure in the first year of operations, rather than as a capital expenditure.

Loan Funding Sources and City Subsidy

The proposed loan is funded by:

- $5,912,794 from the 2020 Health and Recovery General Obligation Bond proceeds; and
- $2,087,206 from Proposition C funds.

The City subsidy per unit is $64,516, which is well below the cost of other projects. The total development cost per unit is $334,278.

Operating Revenues and Expenditures

According to the 20-year cash flow analysis for the project, the project's revenues are sufficient to cover operating costs, reserves, and debt service (beginning in Year 6 of operations). Project revenues consist of tenant rents, Local Operating Subsidy Program (LOSP) rental assistance (for 58 units), and Veterans Administration Supportive Housing (VASH) vouchers (for 66 units). For the first five years of operations, rental assistance would be paid by the Homekey+ grant rather than LOSP payments. The budget assumes annual vacancy loss of five percent.

Over the initial 20 years, the project would generate positive cash flow of approximately $12.1 million. Of this amount, approximately $8.1 million would be used to repay the MOHCD loan and $4 million would be distributed to Swords to Plowshares. The budget does not include supportive services which would be funded under a separate HSH contract. According to Dylan Schneider, HSH Legislative Affairs Manager, the estimated initial cost to provide support services at 1035 Van Ness is approximately $422,492, which would be funded by the City's General Fund.

Exceptions from MOHCD Guidelines

- The soft cost contingency of 6.6 percent is below the standard of 10 percent.

- The annual operating expense escalation is not based on historical averages, due to no historical actuals being available for full occupancy. The loan assumes 3.5 percent annual escalation, which is a standard amount.

POLICY CONSIDERATION

Unlike many other affordable housing and permanent supportive housing projects to which the City has provided funding, the City will not own the land or structures at 1035 Van Ness. This model is similar to preservation projects under the Small Sites Program. Approximately $29.8 million of the Homekey+ grant will be disbursed directly to Swords to Plowshares so they can pay down the Housing Accelerator Fund acquisition loan. The property will then be owned by Swords to Plowshares. As noted above, the loan documents include a purchase option agreement that provides the City first right of refusal if the property is for sale.

RECOMMENDATION

Approve the proposed resolution.

Items 7 & 8 **Files 25-1109 & 25-1155**	**Department:** Homelessness and Supportive Housing Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- **File 25-1109** is a proposed resolution that would: (a) authorize HSH to execute a Standard Agreement with the California Department of Housing and Community Development (HCD), 835 Turk LLC, and Five Keys Schools & Programs (Five Keys) for a total amount not to exceed $17,291,506 of Project Homekey+ revenue grant funds, including up to $13,729,907 as a grant to the City for the rehabilitation of 835 Turk Street and associated tenant relocation costs and up to $3,561,599 as a grant to 835 Turk LLC for operating costs; (b) retroactively accept and expend the funds for the City portion of the Homekey+ grant; and (c) authorize HSH to commit approximately $16,270,093 in required matching funds for the rehabilitation of the property and a minimum of five years of operating subsidies.
- **File 25-1155** is a proposed resolution that would approve a ground lease with 835 Turk LLC for city-owned property located at 835 Turk Street for a 55-year term and total rent not to exceed $1 to rehabilitate and operate permanent supportive housing and approve a loan and grant agreement with 835 Turk LLC to finance the rehabilitation of the project with a loan amount not to exceed $12,922,000 and a minimum loan term of 55 years and a grant amount not to exceed $13,729,907 from Homekey+ grant funds.

Key Points

- In March 2022, the City acquired 835 Turk Street for use as permanent supportive housing. Five Keys leases, operates, and maintains the property under an existing agreement, which HSH plans to terminate. Under the Local Operating Subsidy Program (LOSP), the City has committed up to 15 years of operating subsidies, subject to budget appropriations.
- The renovation scope of work includes seismic upgrades, new ground floor offices, conversion of 12 existing units to six accessible units, window replacements, and life safety upgrades.

Fiscal Impact

- The total cost to acquire and rehabilitate the property is approximately $56.1 million. The proposed Homekey+ grant will fund $13.7 million, and the City will fund a total of $42.4 million ($400,012 per residential unit). New City funding provided under the proposed loan of $12.9 million is from $3,293,000 in Homelessness Gross Receipts Tax revenues and $9,629,000 in 2020 Health and Recovery General Obligation Bond funds.
- The City's annual costs to support the project in Year 1 total approximately $1.8 million, or $17,242 per unit, including LOSP subsidy payments, support services costs, and DPH costs for behavioral health support to the project. The Homekey+ operating grant to Five Keys will provide an additional $712,320, on average, annually to support operations for five years.

Recommendation

- Approve the proposed resolutions.

MANDATE STATEMENT

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.

City Charter Section 9.118(a) states that contracts entered into by a department, board, or commission that (i) have anticipated revenues of $1 million or more, or (ii) have anticipated revenues of $1 million or more and require modifications, are subject to Board of Supervisors approval.

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

In 2021, the Department of Homelessness and Supportive Housing (HSH) issued a Request for Information (RFI) and identified a property at 835 Turk Street for use as permanent supportive housing. In March 2022, the City acquired the property. The six-story building consisted of 114 single room occupancy units. The property is located in the Filmore District on Turk Street between Gough Street and Franklin Street. Five Keys Schools & Programs (Five Keys) leases, operates, and maintains the property as permanent supportive housing and provides supportive services under an existing lease and property management agreement and a grant agreement.

Prior Board of Supervisors' approvals related to 835 Turk Street include:

- In February 2022, the Board of Supervisors approved HSH's purchase of 835 Turk Street at a total acquisition cost of $25.7 million and application for a Homekey Grant to purchase the property (File 22-0015).[1]
- In January 2023, the Board of Supervisors approved a lease and property management agreement between HSH and Five Keys for a term of five years with one five-year option to extend with total costs not to exceed approximately $16.7 million (File 22-1158).
- In May 2025, the Board of Supervisors authorized HSH to jointly apply with 835 Turk LLC for Homekey Grant fund in an amount not to exceed $18 million or the maximum amount allowed under the Notice of Funding Availability (NOFA), whichever is greater (File 25-0396).

[1] Homekey is a state grant program that provides funding for housing for people who are homeless or at risk of homelessness. The program funds the development of hotels, motels, multifamily apartments, and other properties into permanent or interim housing.

Homekey Grant Award

In October, the Department of Housing and Community Development (HCD) approved a Homekey+ grant in the amount of $17,291,506 for the rehabilitation of the property, tenant relocation, and operating costs for 835 Turk Street. The Homekey+ award differs from prior Homekey funding awarded to the City because it focuses on permanent housing for residents with behavioral health needs, including serious mental illness or substance use disorder. The Department of Public Health's (DPH) Permanent Housing Advance Clinical Services team is providing behavioral health support services to residents.

HCD will provide a grant directly to 835 Turk LLC for the operating award of approximately $3.6 million and will provide the remaining amount of approximately $13.7 million as a grant to the City to be used to rehabilitate the property.

DETAILS OF PROPOSED LEGISLATION

File 25-1109 is a proposed resolution that would:

1. Authorize HSH to execute a **Standard Agreement** with HCD, 835 Turk LLC, and Five Keys for a total amount not to exceed $17,291,506 of Project Homekey+ revenue grant funds, including up to $13,729,907 as a grant to the City for the rehabilitation of permanent supportive housing and associated tenant relocation costs for 835 Turk Street and up to $3,561,599 as a grant to 835 Turk LLC for operating costs.
2. Retroactively accept and expend the funds for the City portion of the Homekey+ grant in an amount up to $13,729,907 for costs incurred from March 5, 2024 through approximately March 14, 2027.
3. Authorize HSH to commit approximately $16,270,093 in required matching funds for the rehabilitation of the property and a minimum of five years of operating subsidies. Under the Local Operating Subsidy Program (LOSP), the City has already committed up to 15 years of operating subsidies, subject to budget appropriations.
4. Authorize the City to assume joint and several liability for the expenditure of the Homekey grant under the Standard Agreement.
5. Adopt the Planning Department's findings of consistency with the General Plan and policy priorities of the Planning Code.
6. Authorize HSH to amend the Standard Agreement and Homekey documents provided the changes do not increase the liabilities of or decrease the benefits to the City

File 25-1155 is a proposed resolution that would:

1. Approve a **Ground Lease** with 835 Turk LLC for city-owned property located at 835 Turk Street for a 55-year term and total rent not to exceed $1 to rehabilitate and operate permanent supportive housing.

2. Approve a **Loan and Grant Agreement** with 835 Turk LLC to finance the rehabilitation of the project with a loan amount not to exceed $12,922,000 and a minimum loan term of 55 years and a grant amount not to exceed $13,729,907 from Homekey+ grant funds.
3. Adopt findings that the property is "exempt surplus land" under the California Surplus Lands Act.
4. Determine that the below market rent under the Ground Lease serves a public purpose under Administrative Code Section 23.30 by providing affordable housing.
5. Adopt findings that the project and proposed transactions are consistent with the General Plan and policy priorities of the Planning Code.
6. Authorize HSH, MOHCD, and the Director of Property to amend the agreements.

Homekey Agreement

The proposed Standard Agreement for Homekey+ funds requires that the funding be used for permanent supportive housing or interim housing costs and that rents are no more than 30 percent of HCD median income. The agreement has a fifteen-year term but requires that the property remain income restricted housing for at least 55 years. According to HSH staff, the grant's expenditure deadlines will be specified in the final version of the Standard Agreement and are anticipated to be March 14, 2027 for the capital award and March 14, 2037 for the operating award. The City is required to provide matching funds of $16,270,093 for capital and five years of operating subsidies. Under the Local Operating Subsidy Program, the City has already committed up to 15 years of operating subsidies, subject to budget appropriations.

Building Improvements

The building was constructed in 1929, and the rehabilitation budget is currently estimated at $30.4 million. The scope of work includes seismic upgrades, new ground floor offices, conversion of 12 existing units to six accessible units, window replacements, life safety upgrades, and other improvements. Construction is expected to begin in January 2026. When the Board approved the lease and property management agreement for this site in December 2022, HSH expected the renovation program to begin in Summer 2024. The project timeline has been extended while HSH pursued unanticipated Homekey+ funding for the project in order to offset the City's contribution.

Tenant Relocation

According to the May 2025 MOHCD evaluation memo of the proposed loan, prior to construction start, 82 tenants will need to be permanently relocated to other permanent supportive housing units within HSH's portfolio. HSH anticipates these tenants will be relocated to comparable single-room occupancy units at the Granada (1000 Sutter Street). Fourteen tenants that were residing in the property when the City purchased it (legacy tenants) will receive financial relocation assistance and will have the right to return to the property after rehabilitation.

Ground Lease

HSH is proposing to terminate the existing lease and property management agreement and enter into a long-term ground lease to align with affordable housing ownership and operating structures used by MOHCD. Under Article 13 of the proposed ground lease, ownership of the building will be transferred to Five Keys for the term of the agreement. When the agreement expires, ownership of the building will be returned to the City. The City maintains ownership of the land and leases the land to Five Keys during the term of the agreement.

The property and any future maintenance or repair work performed by Five Keys will not be classified as public work or improvement. Therefore, contracts entered into by Five Keys to complete maintenance and repair work will not be subject to Administrative Code Chapter 6 requirements. The proposed ground lease requires Five Keys to comply with Administrative Code Chapter 23.6 requirements, including prevailing wage and apprenticeship and local hiring requirements.

Five Keys will be responsible for property management, including building maintenance. These costs will be funded by the project's operating budget and a LOSP contract. Five Keys will also continue to provide supportive services for 835 Turk under a separate grant agreement with HSH.

Loan and Grant Agreement

Under the proposed Loan and Grant Agreement, the City would provide a loan of $12,922,000 and a grant of $13,720,907 from Homekey+ Grant funds. Key terms of the loan and grant are summarized in Exhibit 1 below.

Exhibit 1: Loan and Grant Summary for 835 Turk

Terms	Existing
Loan Terms	
Loan Amount	$12,922,000
Loan Term	55 years, ending in 2080
Loan Annual Interest Rate	0%
Loan Repayment	Annual Payments, equal to 50% of Residual Receipts per MOHCD's Residual Receipts policy
Grant Terms	
Grant Amount	$13,729,907 ($1,000,000 for relocation and $12,729,907 for rehab)
Grant Term	55 years, ending in 2080
Grant Repayment	n/a
Units and Affordability	
Units	106 single-room occupancy
Maximum Income Level	30% of HCD median income

Source: Proposed Loan and Grant Agreement

Loan Documents

The proposed resolution also approves the following associated loan documents:

- The form of the Declaration of Restrictions, which requires the project sponsor to maintain the housing affordability levels defined in the loan agreement for the life of the project, even after the loan is paid in full or otherwise satisfied;
- The Secured Promissory Note for the loan; and
- The Deed of Trust, which secures the loan.

Sponsor Capacity for Project Development

While the existing program at 835 Turk Street is performing well according to FY 2023-24 monitoring results (summarized below), Five Keys does not have experience in building rehabilitation and asset management according to the MOHCD loan evaluation of the proposed loan. Due to limited development experience, Five Keys is contracting with Tenderloin Neighborhood Development Corporation (TNDC) to serve as a development consultant for the project. TNDC is responsible for development and construction of the project and project management until construction completion. TNDC will also oversee Transystems, the relocation consultant. Five Keys will manage the property after construction and is responsible for asset management during and after construction. Five Keys must submit an asset management plan to MOHCD in January 2026.

Program Performance and Fiscal Monitoring

HSH conducted FY 2023-24 program monitoring of Five Keys' property management and support services in October 2024. HSH staff report that HSH will conduct FY 2024-25 program monitoring 60 days after the program closes for rehabilitation of the site so that the monitoring may capture FY 2024-25 and subsequent months prior to closing.

According to FY 2023-24 program monitoring results, Five Keys met most of their objectives for both property management and support services, including:

- at least 90 percent of residents maintain housing for at least 12 months (or exit the program to other permanent housing or a more appropriate placement)
- at least 85 percent of lease violations were resolved without loss of housing to residents,
- at least 75 percent of residents complete an annual survey
- at least 80 percent of residents completing the survey indicate they are satisfied or very satisfied with property management services and support services.

Five Keys' occupancy rate of 94 percent was slightly below the goal of 97 percent. Five Keys did not meet the following two property management objectives:

- Collect at least 90 percent of residents' monthly rent
- Submit all required asset management and program reports to HSH and other funders.

Five Keys most recently underwent Fiscal and Compliance Monitoring in FY 2022-23, and there were no findings. Five Keys received a one-year waiver from fiscal and compliance monitoring in

FY 2023-24 due to good performance. Five Keys received another one-year waiver in FY 2024-25 due to good performance.

FISCAL IMPACT

The City will provide a loan amount not to exceed $12,922,000 and a grant amount of $13,729,907 from Homekey+ grant funds for the rehabilitation of the project. The City previously funded the acquisition and is also providing approximately $3.8 million for predevelopment under the existing Lease and Property Management Agreement. The total cost to acquire and rehabilitate the property is approximately $56.1 million. Exhibit 2 below shows the sources and uses for rehabilitation of the project.

Exhibit 2: Total Acquisition and Rehabilitation Budget for 835 Turk Street

Sources and Uses	Amount
Sources	
Proposition C Revenues	$32,772,299
2020 Health & Recovery GO Bond	9,629,000
HCD Homekey+ Grant	13,729,907
Total Sources	**$56,131,206**
Uses	
Acquisition	25,701,300
Hard Costs (incl. 28% in allowances and contingency)	20,275,720
Soft Costs (incl. 10% contingency)	8,187,121
Reserves	1,168,278
Developer Consultant Fees (to TNDC)	798,787
Total Uses	**$56,131,206**

Source: MOHCD

Acquisition & Rehabilitation Funding Sources

Existing City funding of approximately $29.5 million for the acquisition ($25.7 million) and predevelopment ($3.8 million) of the project is from Homelessness Gross Receipts Tax (Proposition C) revenues.

New City funding provided under the proposed loan of $12.9 million is from:

- An additional $3,293,000 in Homelessness Gross Receipts Tax revenues (for a total of approximately $32.8 million including existing funding)
- $9,629,000 in 2020 Health and Recovery General Obligation Bond funds.

The HCD Homekey+ grant is funded by State Proposition 1 general obligation bond funds for behavioral health infrastructure and services.

City Subsidy for Rehabilitation

The City's subsidy for the acquisition and rehabilitation of the project is $42.4 million, or $400,012 per residential unit, as shown in Exhibit 3 below.

Exhibit 3: City Subsidy per Unit

	Acquisition	Rehabilitation	Total
Total Development Cost	$25,701,300	$30,429,906	$56,131,206
Total City Subsidy	25,701,300	16,699,999	42,401,299
Total Cost per Residential Unit	$242,465	$287,075	$529,540
City Subsidy per Residential Unit	242,465	157,547	400,012

Source: MOHCD

According to the MOHCD evaluation memo, construction costs for the projects are comparable to similar projects. MOHCD does not have subsidy guidelines for large preservation projects. The City's subsidy for the acquisition and rehabilitation of the project ($400,000 per unit) exceeds Small Sites Guidelines for single-room occupancy units with in-unit bathrooms ($300,000 per unit) which apply to buildings with up to 40 units funded by the Small Sites Program. We also note that the total development cost of approximately $530,000 per unit is less expensive than typical total development costs for new construction (approximately $1.0 million per unit). However, the City's per unit subsidy is greater for the proposed project than what is typical for new construction because new construction projects can leverage non-City funding sources, such as tax credits.

Increase in Rehabilitation Budget

The current budget of $30.4 million is $21.3 million greater than the estimated budget of $9.1 million at the time of acquisition and $5.6 million greater than the estimated budget of $24.8 million in our December 2022 report on the lease and property management agreement (File 22-1158). According to our report on the purchase of this property, a licensed consultant conducted a visual inspection of the building in June 2021 and November 2021 (File 22-0015). The inspection identified approximately $9.1 million in immediate repair needs, including $5.5 million in voluntary seismic upgrades. As noted in that report, this inspection did not assess the building systems, hazardous materials, or a geotechnical assessment, which would inform structural upgrades.

According to HSH, the budget has increased by $5.6 million since December 2022 due to an expansion in the scope of work as a result of a better understanding of the building's condition. In particular, the updated budget provides for a major seismic retrofit, the installation of a new HVAC system, and the construction of a new office and tenant services suite. Although the rehab budget has increased, the City's contribution has decreased due to the Homekey+ grant award.

Operating Budget

HCD is providing a Homekey+ grant of $3,561,599 to Five Keys to support operating costs for the first five years. As noted above, the City has already committed up to 15 years of operating subsidies, subject to budget appropriations. In addition, HSH is funding support services (through a separate grant agreement with Five Keys), and DPH's Permanent Housing Advance Clinical Services team is providing behavioral health support services.

The City's annual costs to support the project in Year 1 (2027) total approximately $1.8 million, or $17,242 per unit: including

- $920,928 in LOSP subsidy payments
- $765,254 in support services based on Five Keys' FY 2025-26 grant budget plus a one percent cost of doing business increase, and
- $149,074 in DPH costs to fund 0.75 full time equivalent positions to support the project.

The LOSP subsidy increases to approximately $2.5 million in Year 6 when the Homekey+ operating subsidy expires. Five Keys' property management costs are funded by the project's operating budget rather than a separate grant agreement.

LOSP subsidies are funded by the General Fund. Support services are funded by Homelessness Gross Receipts Tax revenues. DPH costs are also funded by Homelessness Gross Receipts Tax revenues, as well as other DPH sources such as Enhanced Care Management, a MediCal billable service.

Project Budget

According to the 20-year cash flow analysis for the project, the project will have sufficient revenues to cover operating expenses and management fees. Project revenues consist of tenant rent and rental subsidies funded by the City's Local Operating Subsidy Program. A portion of net income after operating expenses (residual receipts) would be used to repay the MOHCD loan. However, the project is not expected to generate any residual receipts or make loan payments to MOHCD, as the LOSP payments are sized to fill the operating gap in the project budget.

Exceptions from MOHCD Guidelines

- The **construction management fee** of $150,000 exceeds MOHCD underwriting guidelines due to the expertise of the owner's representative and the importance of the role given the limited experience of the owner.
- The **property management staffing** level is greater than normal due to 6.0 FTE ambassador staffing for 24-hour desk coverage based on Five Keys current staffing model.

RECOMMENDATION

Approve the proposed resolutions.

Item 9 **File 25-1130**	**Department:** Public Health

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the first amendment to the contract between DPH and Priority Healthcare Distribution, Inc. (d/b/a CuraScript Specialty Distribution). The amendment would extend the contract term by four years from November 30, 2026 to November 30, 2030 for a total term of December 1, 2023 through November 30, 2030, and would increase the not-to-exceed amount by $89,480,168 for a total not-to-exceed amount of $98,480,168.

Key Points

- Under the existing agreement, DPH purchases three types of specialty drugs from CuraScript: (1) long-acting injectable buprenorphine for opioid use disorder, (2) drugs to treat pulmonary arterial hypertension, and (3) implantable birth control. DPH received a waiver from competitive solicitation requirements to procure this contract because these drugs are not available from other providers.
- Patients receiving long-acting injectable buprenorphine are more likely to take their medication as prescribed compared to other medication alternatives due to the reduced frequency of administration and because the long-acting injectables allow for lower rates of withdrawal symptoms.
- As a result of increased utilization, DPH has fully spent the existing not to exceed amount of $9 million with one year remaining under the existing term. According to DPH, the per unit cost of long-acting injectables has been relatively flat over the last five years, increasing by less than 1.5 percent each year; whereas, utilization by patients is projected to increase 10 to 20 percent annually over the next five years. These drugs have accounted for 82 percent of contract spending to date.

Fiscal Impact

- Driven by increased utilization of long-acting injectables for substance use disorder, annual spending is expected to increase by between 19 and 26 percent annually over a five-year period from $10.3 million in FY 2025-26 to $22.0 million in FY 2029-30.
- Assuming a 95 percent insurance reimbursement rate, the net cost to the City from this amended agreement would be approximately $4.5 million (5 percent of $89 million) over five years. Net costs would be funded by the General Fund.

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 original agreement between the Department of Public Health (DPH) and Priority Healthcare Distribution, Incorporated (doing business as CuraScript Specialty Distribution) for the procurement of specialty drugs has a term from December 1, 2023 through November 30, 2026 and a not-to-exceed amount of $9 million. Prior to the initial procurement, in August 2022, DPH submitted a request to waive the Administrative Code Section 21.5(d) related to competitive solicitation requirements for the procurement of specialty drugs, and the Office of Contract Administration approved the waiver request. Under the agreement, DPH procures three types of specialty drugs from CuraScript—long-acting injectables for substance use disorder, drugs to treat pulmonary arterial hypertension, and implantable birth control. These drugs are not available from McKesson, the provider of the vast majority of drugs to DPH.

Expanded Use of Specialty Drugs for Substance Use Disorder

The Department has increased utilization of long-acting injectables for substance use disorder due to the policy priority of the Mayor and DPH to provide medication-assisted treatment for opioid use disorder plus new clinical data on the effectiveness of long-acting injectables for substance use disorder. [1] Patients receiving long-acting injectables are more likely to take their medication as prescribed compared to other medication alternatives due to the reduced frequency of administration and because the long-acting injectables allow for lower rates of withdrawal symptoms. Further, long-acting injectables allow patients to begin treatment with a long-acting injectable rather than first stabilizing on oral medication before transitioning to an injection, broadening the accessibility of this medication according to DPH staff.

According to DPH, the per unit cost of long-acting injectables has been relatively flat over the last five years, increasing by less than 1.5 percent each year; whereas, utilization by patients is projected to increase 10 to 20 percent annually over the next five years. As a result of increased utilization, DPH has fully spent the existing not to exceed amount of $9 million with one year remaining under the existing term and anticipates increased rates of spending in FY 2025-26 and future years as discussed below.

[1] Overall, the drug buprenorphine used for medication-assisted treatment for substance use disorder decreases mortality by 50 percent, according to DPH.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the first amendment to the contract between DPH and Priority Healthcare Distribution, Inc. (d/b/a CuraScript Specialty Distribution). The amendment would extend the contract term by four years from November 30, 2026 to November 30, 2030 for a total term of December 1, 2023 through November 30, 2030, and would increase the not-to-exceed amount by $89,480,168 for a total not-to-exceed amount of $98,480,168.

According to DPH, CuraScript is the only supplier of the specialty drugs that the department is seeking to purchase, including:

- Long-acting injectables for opioid use disorder (brand names: Sublocade and Brixadi) are forms of the medication buprenorphine. The drug is used as part of a comprehensive treatment program for moderate to severe opioid use disorder to reduce opioid cravings and ease withdrawal symptoms. DPH reports that these drugs are used in the Community Behavioral Health System, Jail Health System, and at the Zuckerberg San Francisco General (ZSFG) campus.
- Drugs to treat pulmonary arterial hypertension (brand names: Flolan, Uptravi, and Ambrisentan), a condition of high blood pressure in the arteries of the lungs often due to heart failure, lung disorder, and/or blood clots. DPH reports that these drugs are used at the ZSFG campus and in outpatient settings.
- Implantable birth control (brand name: Nexplanon) is used in primary care and teen clinics, according to DPH.

FISCAL IMPACT

The proposed resolution would increase the not-to-exceed amount by $89,480,168 to $98,480,168. Because of health care insurance reimbursements, the net cost to the City is roughly $4.5 million for the contract extension, as shown in Exhibit 1 below.

Exhibit 1: Summary of Fiscal Impact

	Current (3-year agreement)	Proposed (4-year extension)	Total
CuraScript Agreement	$9,000,000	$89,480,168	$98,480,168
Avg. Spending Per Year	4,500,000 (spent in first two years of contract)	17,896,033 (reflects five years of spending)	14,068,595
Assumed Insurance Reimbursement (95%)[1]	8,550,000	85,006,160	93,556,160
Net Cost to City	**$450,000**	**$4,474,008**	**$4,924,008**

Source: DPH and BLA

[1] The assumed reimbursement rate of 95 percent is based on BLA review of cost recovery for outpatient non-acute settings (see Cost Recovery section below), and the actual reimbursement rate may vary from this assumption.

Exhibit 2 below shows the spending plan for the proposed CuraScript contract amendment. According to DPH, the total budget from the original agreement of $9 million over three years has been fully expended within the first two years of the agreement due to increased utilization of the high-cost long-acting injectables for substance use disorder. Specifically, actual expenditures in FY 2024-25 were $4,204,989 and are projected to more than double in FY 2025-26 to $10,288,909. According to DPH, a total of $1,585,932 (18 percent) of the $9,000,000 original budget was spent on the other two drugs—medications to treat pulmonary arterial hypertension or implantable birth control. The balance of $7,414,068 (82 percent) was spent on long-acting injectables for substance use disorder. In the Jail Health System, long-acting injectables for substance use disorder began to be used in May 2025 due to the Medi-Cal waiver program known as CalAIM, which now covers these drugs in jail settings. The Curascript contract amendment assumes greater utilization of long-acting injectables, with expenditures increasing by 26 percent in FY 2026-27, 19 percent in FY 2027-28 and in FY 2028-29, and 20 percent in FY 2029-30.

Exhibit 2: Proposed Budget for CuraScript Amendment

	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	Total
Behavioral Health	$5,000,000	$6,500,000	$7,475,000	$8,596,250	$9,885,688	$37,456,938
General Hospital	3,000,000	3,900,000	5,070,000	6,591,000	8,568,300	27,129,300
Primary Care	298,879	358,655	430,386	516,463	619,756	2,224,139
Jail Health	1,990,030	2,182,356	2,400,592	2,640,651	2,904,716	12,118,344
Subtotal	10,288,909	12,941,011	15,375,978	18,344,364	21,978,459	78,928,721
Contingency (13%)						10,551,447
Total						**$89,480,168**

Source: DPH

Cost and Utilization of Long-Acting Injectables for Substance Use Disorder

As discussed above, the Department has increased utilization of long-acting injectables for substance use disorder due to changes in policy and new research on the drug's effectiveness. The proposed contract spending from FY 2025-26 through FY 2029-30 assumes an increase in annual utilization by patients in each of the four health care settings where the drug is used:

- Community Behavioral Health System has an assumed annual utilization rate increase of 15 percent;
- General Hospital and Primary Care each have an assumed annual utilization rate increase of 20 percent; and
- Jail Health System has an assumed annual utilization rate increase of 10 percent.

The contract's cost growth is mostly driven by increased utilization of long-acting injectables for substance use disorder, rather than per unit cost increases of the drug, which have been less than 1.5 percent annually over the last five years, according to DPH. The Department reported that it is working to have a better understanding of the number of unique patients using long-acting injectables in each of the four health care settings. For the Jail Health System, DPH reported that the number of unique patients grew from 150 in FY 2024-25 to 259 in FY 2025-26 to date (through November 20, 2025). For the Community Behavioral Health System, DPH reported 165 unique patients in FY 2023-24, increasing to 316 unique patients in FY 2024-25. Across the two health care settings, the number of unique patients in FY 2024-25 was 466.

While the per unit cost has been relatively stable, the annual cost per patient for long-acting injectables is high at roughly $21,000. DPH notes that the annual cost varies by patient because dosing and treatment duration varies by patient, depending on individual circumstances.

Cost Recovery

Costs for the amended agreement will be almost fully offset from health insurance payors, including Medi-Cal, Medicare, and private insurance. The Department reported the following patient mix: 60 percent Medi-Cal, 30 percent Medicare, 7 percent uninsured, and 3 percent private insurance.[2] Uninsured patients may benefit from patient assistance programs in which pharmaceuticals are provided for free by the manufacturer, according to DPH. For the Jail Health System, the department participates in Governor Gavin Newsom's California State Pharmaceutical Program to obtain discounts for Brixadi, one of the two brands of long-acting injectables for substance use disorder. For General Hospital, the department reported purchasing using the 340b Federal Drug Discount program whenever possible.

We assume a 95 percent insurance reimbursement rate based on a 2023 analysis[3] of pharmaceutical cost recovery for outpatient non-acute settings and anticipated reimbursement rates for long-acting injectables for substance use disorder provided by DPH. Assuming a 95 percent insurance reimbursement rate, the net cost to the City from this amended agreement would be approximately $4.5 million (5 percent of $89 million) over five years. Net costs would be funded by the General Fund.

RECOMMENDATION

Approve the proposed resolution.

[2] We note that this patient coverage mix will likely shift due to pending changes to Medi-Cal eligibility resulting from the passage of "One Big Beautiful Bill" (H.R. 1), including a requirement for many able-bodied adults to work, study, or complete community service and an increased frequency of eligibility redeterminations for childless adults. These changes are expected to begin at the end of 2026, with the possibility of a two-year delay.

[3] In 2023, the Department provided our office with an analysis of its pharmaceutical cost recovery for outpatient non-acute settings from FY 2019-20 through FY 2022-23, which indicates that the majority of pharmaceutical costs in this setting are reimbursed by payors, ranging from 85 percent to as much as 98.7 percent.

Item 10 **File 25-1131**	**Department:** Public Health

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves the second amendment to the agreement between the Department of Public Health (DPH) and Hyde Street Community Services, Inc., to extend the contract term by two years, from June 30, 2026, to June 30, 2028, resulting in a total term of ten years (July 1, 2018, through June 30, 2028) and increase the contract amount by $11,758,765, for a new total amount not to exceed $38,789,762.

Key Points

- On July 1, 2018, DPH and Hyde Street Community Services, Inc. agreed to a contract for mental health services, not to exceed $9,474,439, lasting until December 31, 2020. In December 2020, the Board of Supervisors approved the first amendment (File 20-1244), extending the term to June 2026 and increasing the maximum expenditure by $17,556,558, raising the total to $27,030,997.
- Hyde Street operates two programs: the Tenderloin Clinic (outpatient behavioral health services) and the Full-Service Partnership (intensive, 24/7 case management for high-need adults).
- The organization offers four key services: crisis intervention, medication support services, mental health services (individual/group therapies), and targeted case management (assistance accessing community resources).
- Hyde Street's program monitoring for FY 2023-24 resulted in a 4/4 score from DPH. However, it was exempt from unit-of-service monitoring and was advised to improve client satisfaction survey response rates despite high satisfaction scores (100% for intensive case management and 97.9% for outpatient services).

Fiscal Impact

- The proposed amendment increases the contract amount by $11,758,765 for a total not-to-exceed amount of $38,789,762 over the ten-year term (July 1, 2018, through June 30, 2028). Approximately 28 percent of the contract is funded by the General Fund and the remaining costs are funded by state and federal sources, including Medi-Cal.
- The program budget for the proposed amendment increases the FY 2025-26 program budget by one percent.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

BACKGROUND

The Department of Public Health (DPH) contracts with community-based organizations to provide behavioral health services. Hyde Street Community Services, Inc. (Hyde Street) operates a Tenderloin Clinic that provides a continuum of behavioral health services to adult residents of San Francisco. The provider targets populations with complex issues, including homelessness, criminal justice involvement, and trauma. Hyde Street specifically offers specialized cultural expertise in serving African American, Arab-speaking/Muslim, and Southeast Asian communities

Procurement and Contractor Selection

On August 23, 2017, and June 12, 2017, respectively, DPH issued two Requests for Proposals: RFP 08-2017, to procure adult mental health outpatient services, and RFP 11-2017 for intensive case management services. Hyde Street Community Services, Inc. submitted a proposal and scored 6th out of 14 on RFP 08-2017 (Outpatient) and 2nd out of 2 on RFP 11-2017 (Case Management). DPH subsequently awarded contracts to Hyde Street and all other proposers in both RFPs.

On July 1, 2018, DPH and Hyde Street Community Services, Inc. entered into an agreement for mental health services for a term of July 1, 2018, to December 31, 2020, and a not-to-exceed amount of $9,474,439.

In December 2020, the Board of Supervisors approved the first amendment to the contract, to extend the term by five years and six months to June 2026 and to increase the maximum expenditure for mental health services by $17,556,558, to $27,030,997 (File 20-1244).

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves the second amendment to the agreement between the Department of Public Health (DPH) and Hyde Street Community Services, Inc., to extend the contract term by two years, from June 30, 2026, to June 30, 2028, resulting in a total term of ten years (July 1, 2018, through June 30, 2028) and increase the contract amount by $11,758,765, for a new total amount not to exceed $38,789,762.

Scope of Work

Hyde Street operates two programs under this agreement: (1) Hyde Street Outpatient Services (the Tenderloin Clinic), which provides behavioral health services to adults, primarily in the Tenderloin area, and (2) the Hyde Street Full-Service Partnership, an intensive case management team targeting high-need adults who require more intensive services than standard outpatient programs. The case managers are available for emergencies 24 hours a day, 7 days a week.

The target population includes individuals with acute and chronic behavioral health issues, often complicated by social, economic, housing, and substance abuse problems. Clients primarily reside in the Tenderloin area, though services are provided citywide. The intensive case management program specifically targets adults requiring additional services due to complex issues, including homelessness or risk thereof, history of criminal justice involvement, and history of trauma.

Hyde Street provides four key services: (1) crisis intervention, which offers immediate services lasting less than 24 hours for conditions requiring a more timely response than a scheduled visit; (2) medication support services, which include prescribing, administering, dispensing, and monitoring psychiatric medications; (3) mental health services, which encompass individual or group therapies; and (4) targeted case management, which assists clients in accessing medical, educational, social, vocational, or other community services.

Clients of the outpatient clinic are discharged when it is deemed that they no longer require services, when they request discharge, or when they have dropped out of services for 60 days without contact (this amendment reduces that threshold from 120 days to 60). These clients are discharged to outpatient clinics in a "step-down" transition process or to other social, residential, or medical services.

Service Delivery and Targets

Under the proposed contract, the billing methodology has changed to conform to new Medi-Cal billing codes, as required by CalAIM, an ongoing State initiative to improve delivery of Medi-Cal services. The proposed agreement continues to bill on a fee-for-service model for most services and shifts the remaining services from cost reimbursement to fee-for-service. Additionally, to reflect a realignment of service levels and provider capacity, the contract reduces the targeted number of unduplicated outpatient clients (UDC) from 600 to 540, while retaining 50 budgeted clients for intensive case management services.

Performance Monitoring

The contract requires annual program monitoring, with performance objectives established by DPH Adult and Older Adult System of Care. According to DPH's FY 2023-24 program monitoring report, DPH conducted a site visit on May 14, 2025, where Hyde Street was found to generally be in compliance with the contract's program objectives, outcomes, and compliance requirements. DPH's program monitoring resulted in Hyde Street receiving an overall program score of 4/4 or "commendable/exceeds standards." A breakdown of performance objective goals and results is detailed in Exhibit 1 below.

Hyde Street was exempt from unit of service monitoring for FY 2023-24 due to the implementation of CalAIM Behavioral Health Payment Reform and a migration in the Department's electronic health records system from Avatar to Epic, which made it difficult to track the start and end dates of services for certain clients during the fiscal year between the two different systems. In this contract, units of service generally refer to client interactions.

The intensive case management program did not achieve a client satisfaction survey return rate of greater than 50 percent; however, it received an overall satisfaction score of 100 percent, while outpatient services achieved a 43.1 percent client satisfaction survey return rate and an overall satisfaction score of 97.9 percent. The DPH Business Office Contract Compliance recommended that the program collaborate with the DPH staff to improve return client satisfaction survey rates and reduce submission errors, ensuring data is not invalidated.

Exhibit 1: Performance Monitoring Goal and Result FY 2023-24

Program	Objective	Goal	Result	Percent
Intensive Case Management	Unduplicated Clients	50	67	134%
Intensive Case Management	Inpatient Readmission	80% of psychiatric inpatient hospital discharges will not be followed by a readmission within 90 days.	N/A (No eligible clients)	N/A
Intensive Case Management	Problem List Timeliness	90% of clients with an open episode will have the Problem List finalized in Avatar within 60 days of episode opening.	15/15	100%
Intensive Case Management	Care Plan Compliance	On any date, 100% of clients receiving targeted case management will have a current finalized Care Plan in Avatar.	39/59	66.1%
Intensive Case Management	Initial Assessment Timeliness	On any date, 90% of clients will have an initial finalized Assessment in Avatar within 60 days of episode opening.	15/15	100%
Outpatient	Unduplicated Clients	500*	455	91%
Outpatient	Inpatient Readmission	80% of psychiatric inpatient hospital discharges will not be followed by a readmission within 90 days.	N/A (No eligible clients)	N/A
Outpatient	Psychiatry Appt Recording	100% of new referrals to a prescriber must have the referral date and first offered appointment recorded in Avatar.	65/66	98.5%
Outpatient	Medication Support Access	100% of new clients referred to a prescriber must receive a medication support service within 15 business days of the referral date.	64/64	100%
Outpatient	Problem List Timeliness	90% of clients with an open episode will have the Problem List finalized in Avatar within 60 days of episode opening.	90/90	100%
Outpatient	Initial Assessment Timeliness	On any date, 90% of clients will have an initial finalized Assessment in Avatar within 60 days of episode opening.	81/90	90%
Outpatient	Care Plan Compliance	On any date, 100% of clients receiving targeted case management will have a current finalized Care Plan in Avatar.	187/208	89.9%
Outpatient	CSI Assessment Recording	100% of clients with new episodes will have the referral date and first offered appointment date recorded in Avatar via the CSI Assessment.	151/151	100%

Source: DPH

Note: Performance data reflects an internal FY 2023-24 budget revision that reduced the UDC target to 500, below the original contract figure of 600. According to DPH, this revision was implemented to align monitoring goals with updated operational capacity.

Fiscal Monitoring

DPH reviewed Hyde Street's compliance with the City's fiscal and compliance standards for non-profits in FY 2024-25. A final status letter dated July 18, 2025, by DPH found that Hyde Street was in conformance with all City standards.

FISCAL IMPACT

The proposed amendment increases the contract amount by $11,758,765 for a total not-to-exceed amount of $38,789,762 over the ten-year term (July 1, 2018, through June 30, 2028), including a contingency of $1,649,966, which the contractor cannot access without a formal modification or an approved budget revision.

Exhibit 2 details the actual and projected annual funding allocations from FY 2018-19 to FY 2027-28.

Exhibit 2: Historical and Projected Budget Allocations

Fiscal Year	Program Budget	Change
FY 2018-19 (Actual)	$768,481	
FY 2019-20 (Actual)	$3,275,590	-1.2%
FY 2020-21 (Actual)	$3,396,705	3.7%
FY 2021-22 (Actual)	$3,421,237	0.7%
FY 2022-23 (Actual)	$4,034,802	17.9%
FY 2023-24 (Actual)	$4,114,191	2.0%
FY 2024-25 (Actual)	$4,379,071	6.4%
FY 2025-26 (Projected)	$4,422,862	1.0%
FY 2026-27 (Projected)	$4,593,651	3.9%
FY 2027-28 (Projected)	$4,733,206	3.0%
Contingency (12% of Projected)	1,649,966	
Total	**$38,789,762**	

Source: DPH

The 17.9 percent budget increase in FY 2022-23 reflects both program expansion and technical accounting adjustment. First, the Department added $200,000 in State Behavioral Health Service Act funding to intensive case management. Second, the figure captures the cost of doing business adjustments for two fiscal years. Due to pandemic-era administrative processes, the FY 2021-22 adjustment payment was issued via direct voucher outside the contract; this expenditure authority was subsequently recorded in the FY 2022-23 contract period.

The program budget for the proposed amendment increases the FY 2025-26 program budget by one percent, the non-profit cost of doing business increase approved for that year's budget.

Future years assume an escalation based on inflation. The amendment funds 28 Full-Time Equivalent (FTE) staff: 15.19 FTE for Outpatient services, 10.10 FTE for FSP services, and 2.71 FTE for indirect administrative roles. A detailed budget breakdown for FY 2024-25 is provided in Exhibit 3 below.

Exhibit 3: FY 2024-25 Budget Summary by Program

Expense Category	Outpatient	Intensive Case Management	Total
Salaries	$1,858,697	$965,849	$2,824,546
Employee Benefits	$338,305	$167,476	$505,781
Subtotal Personnel	*$2,197,002*	*$1,133,325*	*$3,330,327*
Operating Expenses	$323,794	$170,354	$494,148
Subtotal Direct Expenses	*$2,520,796*	*$1,303,679*	*$3,824,475*
Indirect Expenses (14.5%)	$364,968	$189,628	$554,596
Total	**$2,885,764**	**$1,493,307**	**$4,379,071**

Source: DPH

Funding Sources

To date, the contract has been funded from the following mix of sources: Federal Medi-Cal (34 percent), General Fund (28 percent), State Realignment funds (19 percent), Behavioral Health Service Act funding (17 percent), and Medicare (2 percent)[1].

RECOMMENDATION

Approve the proposed resolution.

[1] While Medi-Cal is a funding source, the provider does not bill the State directly. Instead, the provider records billable units in the City's electronic health record system, and the Department submits the claims for reimbursement. This allocation is included in the contract to track the required local match and to establish the provider's revenue generation targets.

Item 13 **File 25-0929**	**Department:** Treasurer-Tax Collector

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would repeal the cannabis business tax that is scheduled to take effect on January 1, 2026. It would also remove all related language from the Business and Tax Regulations Code by deleting Article 30.

Key Points

- Although recreational cannabis has been legal in California since 2018, the illicit market continues to account for the majority of cannabis supply statewide.
- San Francisco's total taxable cannabis sales fell by more than 25 percent from $261 million in 2021 to $191 million in 2024. The same trend persists statewide, with total taxable sales declining from about $5.8 billion to $4.9 billion in the same period, despite an increase in unit sales across product categories. According to a 2024 report prepared for the California Department of Cannabis Control, this trend is primarily driven by falling retail prices associated with the expansion of the licensed market.
- The Board of Supervisors suspended imposition of the Cannabis Business Tax through December 2025. In January 2026, cannabis businesses currently operating in San Francisco must pay an annual tax on cannabis gross receipts from one to five percent, with an exemption for the first $1 million of gross receipts and receipts from the retail sale of medical cannabis.

Fiscal Impact

- Repealing the Cannabis Business Tax would result in foregone General Fund revenues currently projected at approximately $24.8 million over a four-year period, from FY 2026–27 through FY 2029–30. Annual revenue losses are estimated at $3.7 million in FY 2026–27, $8.7 million in FY 2027–28, and $6.2 million in both FY 2028–29 and FY 2029–30.

Policy Consideration

- Lower cannabis retail prices have reduced sales revenue for licensed cannabis retailers while their overhead (such as staffing and leased space) have not declined. Without a local tax, the effective tax rate on cannabis retail sales (from the State excise tax and sales tax) in San Francisco is 25 percent, and cannabis retailers must also pay the City's Gross Receipts Tax of 0.1 to 1.0 percent. Repealing the Cannabis Business Tax would prevent an increase in the combined state and local tax burden on licensed cannabis retailers, which may support the competitiveness of the regulated market relative to the illicit market.

Recommendation

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

MANDATE STATEMENT

According to City Charter Section 2.105, all legislative acts shall be by ordinance and require the affirmative vote of at least a majority of the members of the Board of Supervisors.

BACKGROUND

In November 2016, California voters approved the Control, Regulate and Tax Adult Use of Marijuana Act (AUMA), legalizing and regulating recreational cannabis for adults 21 and over in California. The 2017 Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA) established a framework for oversight, licensing, and enforcement for cannabis businesses. Retail sales under this regime began on January 1, 2018.

Market Trends

According to the California Cannabis Market Outlook 2024 Report prepared by ERA Economics, LLC for the California Department of Cannabis Control (2024 ERA Economics Report), falling prices have reduced total taxable cannabis sales revenue despite rising unit sales. As Exhibit 1 shows, total taxable sales in the state fell from about $5.8 billion in 2021 to $4.9 billion in 2024, a decline of 15 percent. Simultaneously, unit sales increased across product categories, as seen in Appendix B.

Meanwhile, San Francisco's licensed market has mirrored statewide patterns with taxable sales declining, as visualized in Appendix C. Total taxable sales grew steadily through 2021 but have since fallen by more than 25 percent from $261 million in 2021 to $191 million in 2024.

Exhibit 1: Total Taxable Sales[1] (2018-2024)

Year	California	California % Change	San Francisco	San Francisco % Change
2018	$1,982,158,726		$180,136,649	
2019	2,805,025,867	42%	253,301,196	41%
2020	4,705,861,541	68%	259,957,380	3%
2021	5,777,356,812	23%	260,640,428	0%
2022	5,395,046,745	-7%	232,806,193	-11%
2023	5,188,399,664	-4%	216,067,560	-7%
2024	4,882,747,025	-6%	191,198,708	-12%
3-Year Change (2021-2024)	**-894,609,787**	**-15%**	**-69,441,720**	**-27%**

Source: California Department of Tax and Fee Administration

[1] CDTFA Total Taxable Sales includes sales of non-cannabis merchandise (e.g. pipes, rolling papers) and retail sales of medical cannabis

Wholesale and retail cannabis prices in California declined since 2020 due to the expansion of the licensed market. Between Q1 2020 and Q2 2024, the weighted average retail price of four leading product categories fell 36 percent, from $31.12 to $20.05 per unit, as shown in Appendix

A. Licensed cannabis production in California continued to rise through 2024, increasing supply and contributing to lower prices.

Although the licensed market has steadily expanded, with its share of statewide consumption rising from roughly 25 percent in 2019 to about 38 percent in 2024, unlicensed production still represents most of the supply. Ongoing activity in illicit markets continues to exert downward pressure on prices across states, which have experienced similar declines in wholesale prices, as shown in Appendix B.

State Tax Regime

California's cannabis tax system, administered by the California Department of Tax and Fee Administration (CDTFA), has shifted significantly since 2018, as shown in Exhibit 2 below.

In 2018, the State assessed both an excise tax on retail sales and a cultivation tax on harvested cannabis. The cultivation tax, which applied at different rates to flowers, leaves, and fresh plant material, was eliminated by AB 195 effective July 1, 2022. Although removing this tax lowered wholesale prices, the legislation simultaneously increased the excise tax to offset the lost revenue. Effective July 1, 2025, the excise tax rose from 15 percent of gross receipts to 19 percent of gross receipts, although AB 564 will temporarily reduce it back to 15 percent from October 1, 2025 through June 30, 2028.

Exhibit 2: California State Excise and Cultivation Taxes 2018-2025

Effective Date	**State Excise Tax** (Tax Rate x Base x Markup Rate[1])	**State Cultivation Tax per lb.** (Flower / Leaves / Fresh Plant)
Jan 1, 2018	15% x Average Market Price x 1.6	\$9.25 / \$2.75 / \$1.29
Jan 1, 2020	15% x Average Market Price x 1.8	\$9.65 / \$2.87 / \$1.35
Jan 1, 2022	15% x Average Market Price x 1.8	\$10.08 / \$3.00 / \$1.41
Jul 1, 2022	15% x Average Market Price x 1.75	N/A
Jan 1, 2023	15% x Retailer's Gross Receipts	N/A
Jul 1, 2025	19% x Retailer's Gross Receipts	N/A
Oct 1, 2025	15% x Retailer's Gross Receipts	N/A

Source: CDTFA

[1] From 2018 through 2022, the excise tax was 15 percent of the average market price, defined as the wholesale cost for each product plus a mandatory state-determined markup. AB 195 eliminated the markup and applied the 15 percent excise tax directly to retailers' gross receipts rather than the average market price per unit, levied on the total amount including local taxes and fees.

The current excise tax is applied to retailers' gross receipts, including local cannabis taxes. Sales tax is assessed on the total amount, including the excise tax, creating a compounding effect of taxes on taxes. For example, a local tax on cannabis of five percent, the state excise tax of 15 percent, and a sales tax rate of 8.625 percent, results in an effective tax rate of approximately 31 percent on retail cannabis sales.

San Francisco Tax Regime

San Francisco local taxes have been approved but have not yet come into effect. In 2018, San Francisco voters approved Proposition D, the Cannabis Business Tax, which applies to activities directly related to cannabis or cannabis products including cultivation, possession, manufacture, processing, storing, labeling, distribution, or sale for consideration, including businesses that do not have a physical presence in the city. It establishes an annual tax on gross receipts from 1 to 5 percent, with an exemption for the first $1 million of gross receipts and receipts from the retail sale of medical cannabis. Exhibit 3 summarizes the Cannabis Business Tax Rates.

Exhibit 3: San Francisco Cannabis Business Tax Rates

Cannabis Business Activity	$0 to $1M	$1M to $1.5M	Over $1.5M
Medicinal Sales	exempt	exempt	exempt
Retail Sales	exempt	2.5%	5.0%
All Other Cannabis Sales	exempt	1.0%	1.5%

Source: Treasurer and Tax Collector
[1] Tax currently suspended through 2025

Although originally approved to take effect on January 1, 2021, the Board of Supervisors suspended imposition of the Cannabis Business Tax through December 2025 (Files 20-0357, 21-1150, and 22-1070). As a result, cannabis businesses currently operating in San Francisco will become subject to the Cannabis Business Tax on January 1, 2026 and the first collection of cash and recognition of revenue will occur in FY 2026-27.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance amends the Business and Tax Regulations Code to repeal the Cannabis Business Tax beginning on January 1, 2026, and remove references to the tax from the common administrative provisions of the Code. The proposed ordinance deletes Article 30 (Cannabis Business Tax) of the Business and Tax Regulations Code in its entirety.

FISCAL IMPACT

According to the March 2025 Budget Outlook Update, Cannabis tax revenues are projected to be around $6.2 million per year, which translates to estimated fiscal year collections of $3.7 million per year in FY 2026-27, $8.7 million in FY 2027-28, and $6.2 million in both FY 2028-29 and FY 2029-30. Therefore, the total foregone revenue through FY 2029-30 is projected to be $24.8 million.

We consider approval of the proposed ordinance to be a policy matter for the Board of Supervisors because it would reduce General Fund revenues.

POLICY CONSIDERATION

Lower cannabis retail prices have reduced sales revenue for licensed cannabis retailers while their overhead (such as staffing and leased space) have not declined. Without a local tax, the effective tax rate on cannabis retail sales (from the State excise tax and sales tax) in San Francisco is 25 percent. Imposing a local tax rate of five percent would result in an effective tax rate of approximately 31 percent for cannabis business customers. Cannabis retailers must also pay the City's Gross Receipts Tax of 0.1 to 1 percent of gross receipts under Proposition M (2024). Cannabis sellers in the illicit market do not pay any taxes and can sell cannabis products at lower prices compared to licensed sellers.

Repealing the Cannabis Business Tax would prevent an increase in the combined state and local tax burden on licensed cannabis retailers, which may support the regulated market's price competitiveness and operating margins. By preventing an increase in the cost of legal purchases, the repeal could help licensed transactions remain more attractive to consumers relative to the illicit market. Lower legal cannabis prices may also lead to an overall increase in cannabis consumption.

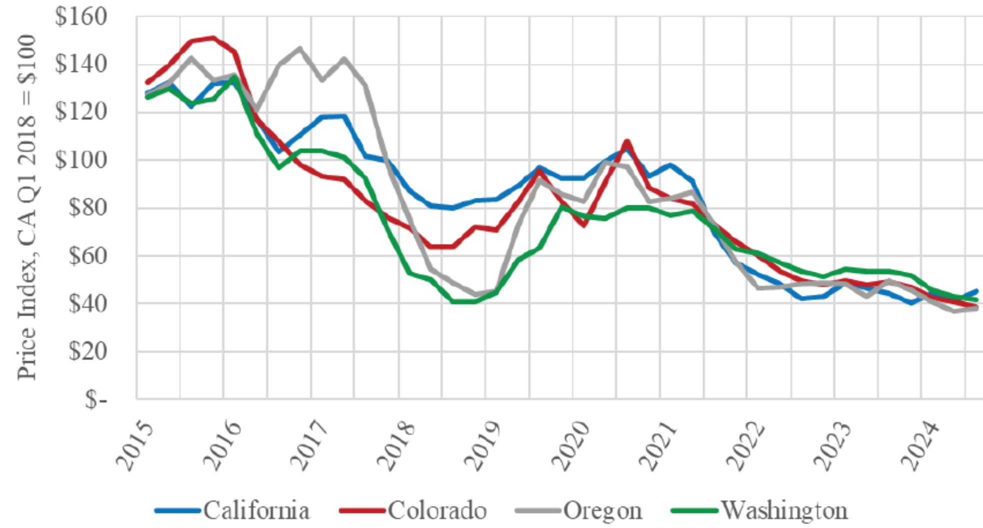
The proposed ordinance does not make any changes to the City's regulations regarding cannabis businesses, such as land use restrictions, required permits, and the pause on new retail permits through December 2027 (File 20-0144). Loosening these restrictions may also help expand the legal cannabis market in San Francisco, though doing so may also reduce the financial feasibility of existing cannabis businesses.

RECOMMENDATION

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

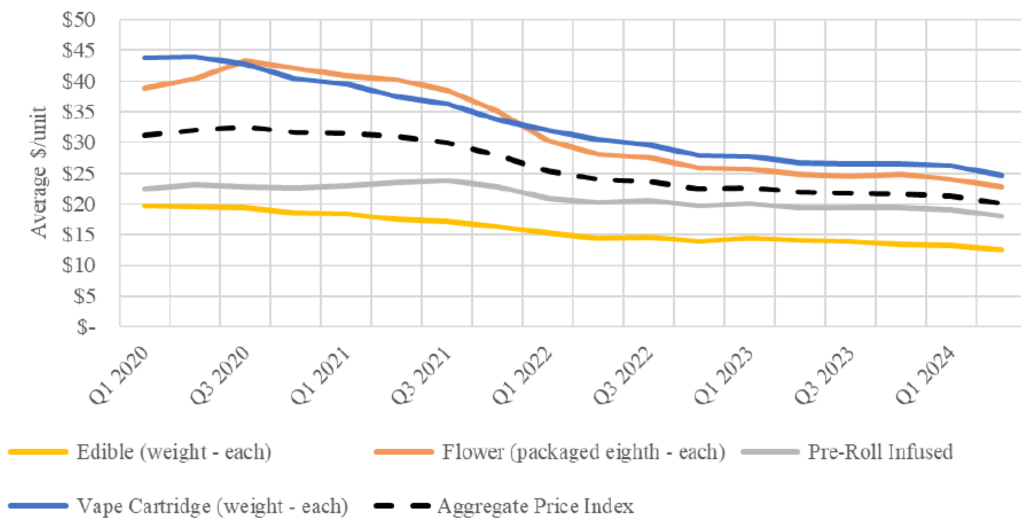
APPENDIX A: Statewide Wholesale and Retail Cannabis Prices Declining

Figure 10. Quarterly Wholesale Price Index (2018 = $100) by State, 2015–2024



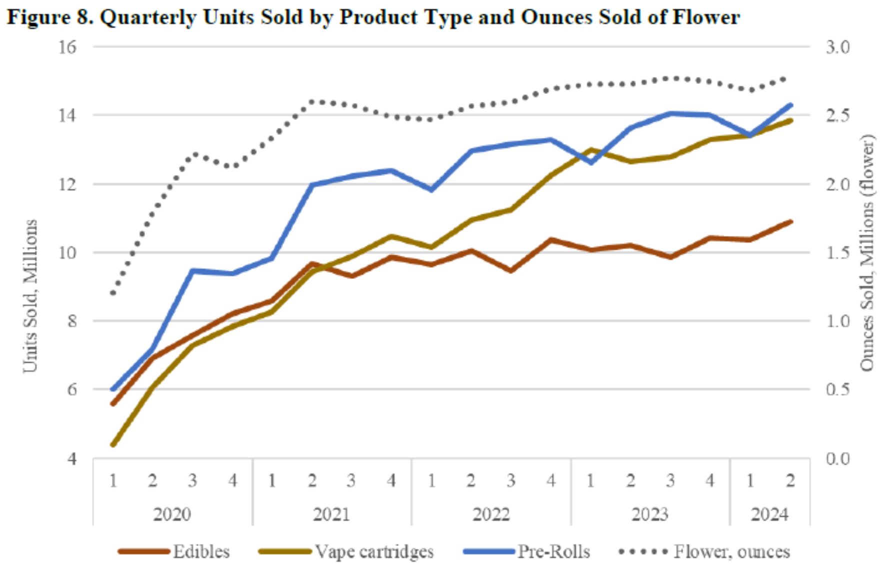
Note: Prices are inflation-adjusted and indexed with average prices in 2018 = $100; using Cannabis Benchmarks, CCTT data, and local wholesale price data.

Figure 11. Quarterly Retail Cannabis Prices



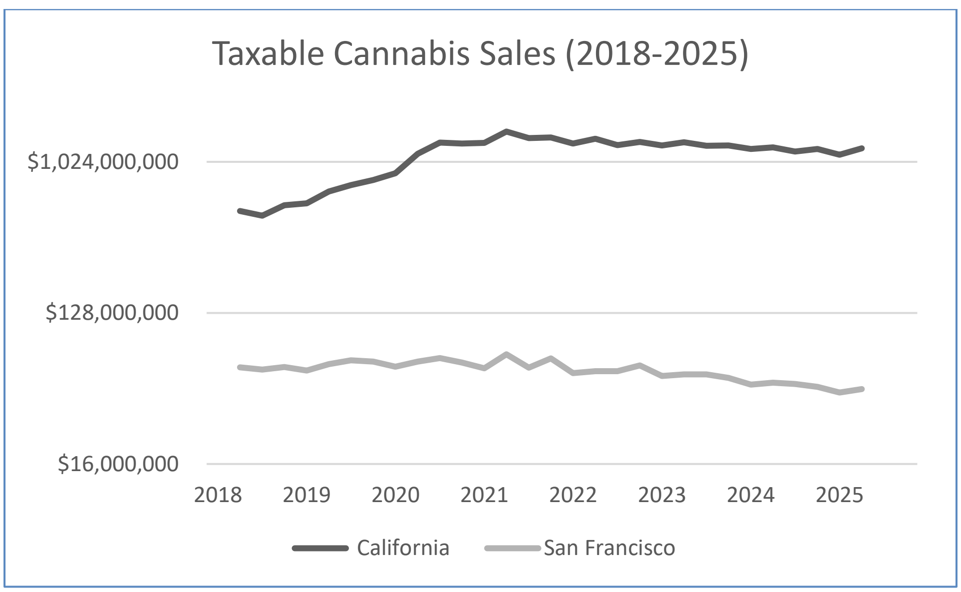
Source: California Cannabis Market Outlook 2024 Report

APPENDIX B: Quarterly Units Sold by Product Type and Ounce Sold of Flower in California



Source: California Cannabis Market Outlook 2024 Report

APPENDIX C: Taxable Cannabis Sales in California and San Francisco 2018-2025



Source: California Department of Tax and Fee Administration