

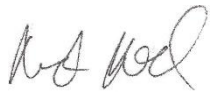
# CITY AND COUNTY OF SAN FRANCISCO

## BOARD OF SUPERVISORS

### BUDGET AND LEGISLATIVE ANALYST

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October 10, 2025

**TO:** Budget and Finance Committee  
**FROM:** Budget and Legislative Analyst   
**SUBJECT:** October 15, 2025 Budget and Finance Committee Meeting

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**Item 2**  
**Files 25-0984**
**Department:** Department of Public Health (DPH), Real Estate Division (RED)

**EXECUTIVE SUMMARY**
**Legislative Objectives**

- The proposed resolution would approve a new lease with DPH (as tenant) and Chinese Hospital Association (as landlord) for the 11,894 square foot premises on 845 Jackson Street, for a three-year term with one extension option for one-year, and an annual base rent of \$499,548, or \$42 per square foot. The lease term would commence upon Board of Supervisors' approval.

**Key Points**

- In November 2024, San Francisco voters approved Proposition B, the 2024 Healthy, Safe and Vibrant San Francisco General Obligation Bond. In June 2025, the Board of Supervisors approved the first issuance of those bonds and appropriated \$71.1 million of bond proceeds to fund a seismic retrofit and renovation of the Chinatown Public Health Center. Services at the center must be relocated while the existing space undergoes construction. DPH and RED selected the Chinese Hospital as the temporary relocation space. All the services at the Chinatown Public Health Center will be relocated to the hospital, except for dental services.
- DPH is proposing an initial lease term of three years (and one option to extend) to coincide with the temporary relocation of the Chinatown Public Health Center while the existing space is renovated and seismic retrofitted. According to DPH, the anticipated completion date of the renovation project is February 2029.
- Because the hospital plans to reduce its licensed bed count by leasing the fourth floor, it must obtain temporary change of use approvals (permits) from both the California Department of Health Care Access and Information (HCAI) and the California Department of Public Health (CDPH). Until these permits are secured, DPH is not authorized to use or occupy the space. Under the proposed lease, the rent commences when temporary use permits from the state are secured. DPH anticipates that rent will commence in April 2026 after both permits are secured.
- Under the proposed lease, DPH will reimburse the Chinese Hospital up to \$300,000 for tenant improvements needed to obtain temporary change of use permits as required by the State. The scope has not been finalized but may include installation of fire alarm strobe devices, addition of self-closing door mechanisms, and updates to room signage.

**Fiscal Impact**

- Over the initial three-year term and optional one-year extension of the proposed lease, total rent to be paid by DPH is \$2,089,923 and the total cost (which includes operating expenses, utilities, and wireless access points) is estimated to be \$3,080,292. The lease provides for three percent annual rent increases. The total cost would be paid from the City's General Fund, subject to Board of Supervisors' appropriation approval in DPH's annual budget.

**Recommendation**

- Approve the proposed resolution.

**MANDATE STATEMENT**

Administrative Code Section 23.27 states that the Board of Supervisors shall approve all leases on behalf of the City as tenants by resolution for which the term is longer than a year and costs over \$15,000 per month.

**BACKGROUND**

In November 2024, San Francisco voters approved Proposition B, the 2024 Healthy, Safe and Vibrant San Francisco General Obligation Bond. In June 2025, the Board of Supervisors approved the first issuance of those bonds and appropriated \$71.1 million of bond proceeds to fund a seismic retrofit and renovation of the Chinatown Public Health Center, which is owned by the Department of Public Health (DPH) and located at 1490 Mason Street (File 25-0349). The center provides primary care/family medicine services, specialty services (e.g., podiatry, acupuncture), health education, a nurse clinic, pharmacy services, behavioral services, and dental services, among others. The renovation project will also co-locate the Chinatown Child Development Center at the Chinatown Public Health Center, which primarily serves limited or non-English speaking patients, immigrants and low-income residents from the Chinese and Asian American community. Consequently, services at the center must be relocated while the existing space undergoes construction. DPH and the Real Estate Division (RED) initially selected the Chinese Hospital as the temporary relocation space due to its status as a licensed healthcare facility and central location within the Chinatown area. RED stated that other spaces were investigated when an agreement on the specific leased premises could not be reached with the Chinese Hospital; however, both parties were able to ultimately reach consensus to use the fourth floor of the hospital for services. Consequently, RED negotiated a proposed new lease with the Chinese Hospital for the temporary relocation, which is now under consideration for approval by the Board of Supervisors.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would approve a new lease with DPH (as tenant) and Chinese Hospital Association (as landlord) for the 11,894 square foot premises on 845 Jackson Street, for a three-year term with one extension option for one-year, and an annual base rent of \$499,548, or \$42 per square foot. The lease term would commence upon Board of Supervisors' approval. The proposed lease also authorizes RED to make further immaterial amendments to the leases.

Exhibit 1 below summarizes the terms and conditions of the lease provisions.

**Exhibit 1. Summary of Proposed Lease**

|                                                   | <b>Proposed Lease</b>                                                                                                                                                                                                                                                                                                                                                                  |
|---------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Premises</b>                                   | 11,581 square feet (4 <sup>th</sup> Floor), 181 square feet (1 <sup>st</sup> Floor Common Area), and 132 square feet (2 <sup>nd</sup> Floor Common Area) for a total of 11,894 square feet at the Chinese Hospital located at 845 Jackson Street                                                                                                                                       |
|                                                   | \$499,548 (\$42.00 per square foot)                                                                                                                                                                                                                                                                                                                                                    |
| <b>Base Rent (annual)</b>                         | Rent commences when temporary use permits from the state are secured.                                                                                                                                                                                                                                                                                                                  |
| <b>Base Rent Adjustment Amount</b>                | Three percent annually                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Term</b>                                       | Three years                                                                                                                                                                                                                                                                                                                                                                            |
| <b>Options to extend</b>                          | One option to extend for one year. After the expiration of the extension option, the lease will convert to month-to-month.                                                                                                                                                                                                                                                             |
| <b>Services and Utilities</b>                     | City pays for utilities (electricity, water, sewer, and natural gas if applicable) at a fixed monthly rate of \$10,780, increased by three percent annually. City pays for 13 wireless access points at fixed monthly rate of \$325. City pays for janitorial services.                                                                                                                |
| <b>Operating Costs</b>                            | City pays percentage share of Building Common Area Maintenance Expenses at monthly rate of \$8,636.36 for the initial year. Annual increases will be based on actual building expenses but not to exceed three percent. Operating costs include security services, ambassadors/patient navigators, elevator maintenance, HVAC maintenance, and building maintenance.                   |
| <b>City's Percentage Share of Operating Costs</b> | 9.04%                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Tenant Improvements</b>                        | City will reimburse landlord up to \$300,000 for tenant improvements necessary to obtain temporary change of use permits as required by the State. The scope has not been finalized but may include installation of fire alarm strobe devices, addition of self-closing door mechanisms, and updates to room signage. City will also pay for AT&T fiber and IT equipment installation. |

Source: Proposed Lease Agreement

Note: Lease term commences upon approval of the proposed resolution.

**Lease Term**

DPH is proposing an initial lease term of three years (and one option to extend) to coincide with the temporary relocation of the Chinatown Public Health Center while the existing space is renovated and seismic retrofitted. According to DPH, the anticipated completion date of the renovation project is February 2029.<sup>1</sup> RED states that the lease cannot be terminated early if the project completes sooner than anticipated, though DPH states that the work will not be completed before the end of the initial term. At the end of the initial term, DPH can exercise the one-year option if needed or continue as a month-to-month tenancy (under Section 24.12 of the

<sup>1</sup> According to our report in the first issuance of the 2024 Vibrant GO bonds, DPH estimated that the Chinatown Public Health Center renovation would be complete by November 2027. According to DPH, the timeline has been extended to February 2029 for the following reasons: (1) The Department of Building Inspection requested a third party structural review which led to a redesign of seismic upgrades and delayed the DBI permit approval process, (2) Construction delays were caused by complicated seismic work within a tunnel, and (3) Chinese Hospital did not anticipate needing change of use approvals from HCAI, which was requested by CDPH.

proposed lease) if the project does not require a full additional year. After the expiration of the extension option, the lease will convert to month-to-month.

### **Change of Use Permits**

DPH's leased premises include 11,581 square feet on the 4th Floor, 181 square feet on the 1st Floor Common Area, and 132 square feet on the 2nd Floor Common Area<sup>2</sup> for a total of 11,894 square feet at the Chinese Hospital. The fourth floor of the Chinese Hospital is currently licensed as hospital space. According to DPH, because the hospital plans to reduce its licensed bed count<sup>3</sup> by leasing this space, it must obtain temporary change of use approvals<sup>4</sup> (permits) from both the California Department of Health Care Access and Information (HCAI) and the California Department of Public Health (CDPH). Until these permits are secured, DPH is not authorized to use or occupy the space. DPH states that the Chinese Hospital is anticipated to secure HCAI approval by December 2025 and CDPH approval by March 2026. Under the proposed lease, the rent commences when temporary use permits from the state are secured. DPH anticipates that rent will commence in April 2026 after both permits are secured. DPH's move into the hospital is tentatively scheduled for May 2026.

### **Site Usage**

As previously mentioned, the leased premises will be used as a temporary Chinatown Public Health Center during construction of its existing space. According to DPH, all the services at the Chinatown Public Health Center will be relocated, except for dental services.<sup>5</sup> According to DPH, 40 staff will be relocated to the leased premises. DPH states that the center anticipates similar patient volume and service utilization experienced in 2023; this includes approximately 4,300 patients served, 555 behavioral health appointments, and almost 20,000 total appointments across all services.

### **Base Rent Determination**

Because the proposed rent is less than \$45 per square foot, the lease does not require an appraisal under Administrative Code Chapter 23. RED staff determined that the proposed base rent rate of \$42.00 per square foot is at or below the market rate based on a review in October 2025 of comparable leases in the Van Ness/Chinatown area. The base rent will be escalated three percent annually.

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<sup>2</sup> These are the common areas or paths of travel through the building that will be used by DPH. The common areas include 1,999 square feet on the 1st Floor (lobby entrance/hallway to elevator) and 1,459 square feet on the 2nd Floor (elevator to loading dock). The City's proportionate share (9.04%) of the common areas are 181 square feet and 132 square feet respectively, which are included in the calculation of the Base Rent and operating costs.

<sup>3</sup> DPH states that the licensed bed count will be reduced by 19 because of the temporary relocation. The floor is currently being used for patient acute care.

<sup>4</sup> DPH states that the change of use permit process is a regulatory prerequisite to ensure compliance with state licensing and operational standards

<sup>5</sup> Dental services will be continued at other DPH clinics (Silver Avenue Family Health Center, Southeast Family Health Center, Maria X Martinez Health Resource Center and Potrero Hill Health Center) that offer dental services.

**Utilities, Services and Operating Costs**

Under the proposed lease, DPH will pay for utilities (electricity, water, sewer, and natural gas if applicable) at a fixed monthly rate of \$10,780,<sup>6</sup> increased by three percent annually. DPH will pay for 13 wireless access points at a fixed monthly rate of \$325, for a total of \$3,900 annually. DPH is also responsible for janitorial services.

Under the proposed lease, DPH would pay its percentage share (9.04 percent) of the costs to maintain the Building Common Areas, which would be a monthly rate of \$8,636.36<sup>7</sup> for the initial year. Annual increases will be based on actual building expenses but capped at three percent. These operating costs include security services, ambassadors/patient navigators, elevator maintenance, HVAC maintenance, and building maintenance.

**Tenant Improvements**

Under the proposed lease, DPH will reimburse the Chinese Hospital up to \$300,000 for tenant improvements needed to obtain temporary change of use permits as required by the State. According to DPH, the tentative scope of tenant improvements includes the installation of fire alarm strobe devices in rooms reclassified as common areas, addition of self-closing door mechanisms for rooms being converted from hospital bedrooms to office use, and room signage updates. DPH states that the final scope will be defined by the construction drawings approved by HCAI, which is anticipated to be submitted by the Chinese Hospital and their architect in October 2025. According to DPH, the up to \$300,000 reimbursement amount was determined based on anticipated construction expenses from the tentative scope of improvements, as well as an Architectural and Engineering professional service fee (estimated \$64,000). In addition, under the proposed lease, the City will pay up to \$1,600 for laminated room signage and directory signage, as well as possible other signage such as accessibility room signage.

The proposed lease also stipulates that the City will pay for AT&T fiber and IT equipment installation at the Chinese Hospital. DPH states that the department will work with AT&T directly for this installation, and DPH's IT team will install the IT equipment.<sup>8</sup>

**FISCAL IMPACT**

As shown in Exhibit 2 below, over the initial three-year term plus optional one-year extension of the proposed lease, total rent to be paid by DPH is \$2,089,923 and the total cost (which includes operating expenses, utilities, and wireless access points) is estimated to be \$3,080,292. The lease provides for three percent annual rent increases. As previously mentioned, the rent commences when temporary use permits from the state are secured, which is anticipated in April 2026.

<sup>6</sup> According to RED, the estimated monthly costs for water, sewer, and electricity for the entire building were \$119,250. The City's percentage share at 9.04% is \$10,780.

<sup>7</sup> RED stated that the Chinese Hospital Building Common Area Maintenance monthly average cost in 2025 was approximately \$95,535. Based on the space use, the City's proportionate share is 9.04%, which is \$8,636.36.

<sup>8</sup> According to DPH, AT&T will not charge for installation. The IT equipment is estimated to cost \$122,094.

**Exhibit 2. Total Estimated Costs by Year Under Proposed DPH Lease**

| <b>Lease Year</b> | <b>Annual Rent</b> | <b>Operating Expenses</b> | <b>Utilities</b> | <b>Wireless Access Points</b> | <b>Total</b>       |
|-------------------|--------------------|---------------------------|------------------|-------------------------------|--------------------|
| Year 1            | \$499,548          | \$103,636                 | \$129,360        | \$3,900                       | \$736,444          |
| Year 2            | 514,534            | 106,745                   | 133,241          | 3,900                         | 758,421            |
| Year 3            | 529,970            | 109,948                   | 137,238          | 3,900                         | 781,056            |
| Year 4            | 545,870            | 113,246                   | 141,355          | 3,900                         | 804,371            |
| <b>Total</b>      | <b>\$2,089,923</b> | <b>\$433,576</b>          | <b>\$541,194</b> | <b>\$15,600</b>               | <b>\$3,080,292</b> |

Source: Lease Agreement

Note: Operating expenses and utilities include a three percent annual escalation. The lease has an initial three year term, plus one optional one-year extension.

Base rent is \$499,548 in Year 1, or \$42.00 per rentable square foot. As previously mentioned, under the proposed lease, DPH must reimburse the Chinese Hospital up to \$300,000 for tenant improvements needed to obtain temporary change of use permits as required by the State.

The total cost would be paid from the City's General Fund, subject to Board of Supervisors' appropriation approval in DPH's annual budget.

### RECOMMENDATION

Approve the proposed resolution.

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| <b>Item 3</b><br><b>File 25-0990</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | <b>Department:</b><br>Municipal Transportation Agency (MTA) |
| <b>EXECUTIVE SUMMARY</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                             |
| <p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>The proposed resolution would approve the First Amendment to the lease between San Francisco Municipal Transportation Agency (SFMTA) and Transbay Joint Powers Authority (TJPA) for continued Muni operations at the Salesforce Transit Center (Transit Center) through December 2050, with two 10-year options to extend, and an initial estimated annual operating charge of \$1,203,280.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>The Transit Center, located at First and Mission Streets, serves as a hub for various local and regional bus operators, including Muni, AC Transit, Golden Gate Transit, WestCAT, and Greyhound. In 2018, SFMTA entered into a lease with TJPA for a pilot program to use bus facilities for a term of three years with three one-year options to extend. The lease has expired and is now in holdover status. SFMTA has negotiated a lease amendment with TJPA.</li> <li>Under the lease, SFMTA and AC Transit are the primary tenants, with the share of operating charges proportional to the share of exclusive space granted to each tenant. AC Transit currently is granted 78.2 percent of exclusive space (the 3rd floor of the Transit Center) and Muni is granted 21.8 percent of exclusive space (the 1st floor). Operating charges are calculated based on the net operating expenses for the whole Transit Center, when operating expenses exceed revenues. Primary tenants may sublease a portion of their premises to other operators, as assigned by TJPA. SFMTA currently subleases a portion of its exclusive space to Golden Gate Transit and subleases a portion of exclusive space from AC Transit.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>Under the proposed lease amendment, SFMTA would pay an estimated operating charge of \$1,203,280 in FY 2025-26. Including the subleases to Golden Gate Transit and from AC Transit, the initial annual net projected cost to SFMTA is \$1,233,904. If these subleases continue and costs increase by three percent annually, the total cost to SFMTA over the 50-year initial term of the lease would be approximately \$139.2 million.</li> <li>TJPA projects that SFMTA's annual operating charge will slightly decrease to approximately \$1,180,790 in FY 2026-27 due to projections that revenues will increase more than expenditures (by 4.4 percent and 3.9 percent, respectively).</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>Approve the proposed resolution.</li> </ul> |                                                             |



**MANDATE STATEMENT**

City Charter Section 8A.102 states that the Municipal Transportation Agency has authority of leases and other property transactions but also must comply with City Charter Section 9.118.

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

**BACKGROUND**

The Salesforce Transit Center (Transit Center), located at First and Mission Streets, serves as a hub for various local and regional bus operators, including Muni, AC Transit, Golden Gate Transit, WestCAT, and Greyhound. The Transit Center has below-grade space to accommodate future Caltrain and California High Speed Rail service. The Transit Center is owned by the Transbay Joint Powers Authority (TJPA), an agency formed by the City, AC Transit, and Caltrain.

In June 2018, the San Francisco Municipal Transportation Agency (SFMTA) Board approved a lease with the Transbay Joint Powers Authority (TJPA) for a pilot program to use bus facilities at the Transit Center for a term of three years, from approximately July 13, 2019 through July 13, 2022, with three one-year options to extend through July 13, 2025. The lease expired and is now in holdover status. To continue Muni operations at the Transit Center, SFMTA has negotiated a lease amendment with TJPA. In July 2025, the SFMTA Board approved the amendment.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would approve the First Amendment to the lease between SFMTA and TJPA for continued Muni operations at the Transit Center, for a term of approximately 25 years and two months through December 2050, with two 10-year options to extend through December 2070, and an estimated annual operating charge of \$1,203,280 in FY 2025-26. The resolution would also authorize the Director of Transportation to make further immaterial amendments to the lease.

The key terms of the lease are shown in Exhibit 1 below.

**Exhibit 1: Key Terms of Proposed Lease Amendment**

|                               |                                                                                                                                                                                                                                                                                                                                      |
|-------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Premises</b>               | Approximately 50,436 square feet of exclusive space                                                                                                                                                                                                                                                                                  |
| <b>Term</b>                   | Approximately 25 years and two months, from the date of execution by both parties through December 2050                                                                                                                                                                                                                              |
| <b>Options to Extend</b>      | Two 10-year options to extend through December 2070                                                                                                                                                                                                                                                                                  |
| <b>Operating Charge</b>       | SFMTA pays 21.8% of Transit Center net operating expenses (estimated at \$1,203,280 in FY 2025-26)                                                                                                                                                                                                                                   |
| <b>Option to Terminate</b>    | SFMTA may terminate if projected operating charge exceeds \$3,000,000 for a fiscal year                                                                                                                                                                                                                                              |
| <b>Subleasing</b>             | SFMTA shall not unreasonably object to sublease a portion of premises to other operators. Public entity subtenants would pay pro-rata share of SFMTA costs. Private entity subtenants would pay the greater of 2.1% of Transit Center net operating expenses per bus bay or \$330,221 (with 3% escalation) per bus bay. <sup>1</sup> |
| <b>Utilities and Services</b> | Provided by TJPA                                                                                                                                                                                                                                                                                                                     |

Source: Original Lease, Proposed Lease Amendment

Under the lease, SFMTA and AC Transit are the primary tenants, with the share of operating charges proportional to the share of exclusive space granted to each tenant. AC Transit currently is granted 78.2 percent of exclusive space (the 3<sup>rd</sup> floor of the Transit Center) and Muni is granted 21.8 percent of exclusive space (the 1<sup>st</sup> floor). Operating charges are calculated based on the net operating expenses for the whole Transit Center, when operating expenses exceed revenues. Operating expenses include management, janitorial, security, maintenance and repairs, utilities, insurance, taxes, and expenses incurred to operate the Transit Center, but exclude debt service and ongoing expenses for engineering, design, and construction of the future rail extension. Revenues include retail leasing, advertising space, event space rentals, regional funding measures, and Salesforce naming rights, but exclude public operator payments.

TJPA provides SFMTA and AC Transit an annual budget with projected operating costs and revenues for the Transit Center and subsequent operating charges for each primary tenant. SFMTA and AC Transit may review the proposed budget, audit financial records, and provide any comments, modifications, or objections. If objections persist beyond TJPA's written response, TJPA must meet with SFMTA and AC Transit and make a good faith effort to resolve any objections. Anticipated operating charges paid by the tenants are reconciled with actual Transit Center net operating expenses on a quarterly basis. If the annual operating charge is projected to be greater than \$3 million for a fiscal year, SFMTA has the option to terminate the lease.

Under the lease, primary tenants may sublease a portion of their premises to other operators. Public entity subtenants pay the pro-rata share of the primary tenant's operating charge, and private-entity operators pay the greater of 2.1 percent of Transit Center net operating expenses per bus bay or \$330,221 annually per bus bay (subject to three percent escalation). SFMTA currently subleases a portion of its exclusive space to Golden Gate Transit, for an annual amount

<sup>1</sup> The amount was \$268,500 per bus bay in the original lease for FY 2018-19. With three percent annual escalation, the current amount is \$330,221 per bus bay.

of \$194,376, and subleases a portion of exclusive space from AC Transit, for an annual cost of \$225,000.<sup>2</sup> TJPA makes the final determination on assigning subleases.

### **FISCAL IMPACT**

Under the proposed lease amendment, SFMTA would pay an estimated operating charge of \$1,203,280 in FY 2025-26. Including the subleases to Golden Gate Transit and from AC Transit, the initial annual net projected cost to SFMTA is \$1,233,904. If these subleases continue and costs increase by three percent annually, the total cost to SFMTA over the 50-year initial term of the lease would be approximately \$139.2 million. Under this scenario, SFMTA would be eligible to terminate the lease in approximately Year 32 of the lease (2056), when the projected net operating charge exceeds \$3,000,000. Over the initial six years of the lease, the annual operating charge has ranged from \$1,201,150 (in FY 2022-23) to \$1,765,648 (in FY 2020-21). Operating charges are paid by SFMTA's Operating Fund.

TJPA projects that SFMTA's annual operating charge will slightly decrease to approximately \$1,180,790 in FY 2026-27 due to projections that revenues (excluding primary tenant operating charges) will increase more than expenditures (by 4.4 percent and 3.9 percent, respectively). According to SFMTA, TJPA has been working with Colliers International since 2018. The Transbay Center's retail occupancy rate is approximately 70 percent. TJPA is working with Colliers to continue seeking tenants for the remaining 30 percent of space. The potential future extension of Caltrain and California High Speed Rail, which is tentatively anticipated in at least 2035 but not fully funded, would increase ridership at the Transit Center and boost retail demand.

### **RECOMMENDATION**

Approve the proposed resolution.

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<sup>2</sup> SFMTA subleases a portion of the 3<sup>rd</sup> floor from AC Transit to accommodate the 25-Treasure Island route, due to a ramp connecting from the Bay Bridge and Interstate 80 to the 3<sup>rd</sup> floor.

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                         |
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| <b>Item 5</b><br><b>File 25-0871</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | <b>Department:</b><br>Public Utilities Commission (PUC) |
| <b>EXECUTIVE SUMMARY</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                         |
| <p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>The proposed resolution would approve Amendment No. 3 to the power scheduling agreement between the San Francisco Public Utilities Commission (SFPUC) and APX, Inc., extending the term by approximately three years through May 2030, and increasing the not-to-exceed amount by \$365,749,222, for a total not to exceed \$1,261,492,022.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>The California Independent System Operator (CAISO) operates the transmission of electric power over California’s electric transmission system. State and Federal regulations govern payments made to CAISO. The SFPUC does not meet the CAISO requirement for a “scheduling coordinator,” an entity that is allowed to complete power transactions on the CAISO network and is able to make payments to CAISO for power transactions, so SFPUC has contracted for these services with APX.</li> <li>In 2022, the Board of Supervisors approved a power scheduling coordination services agreement with APX for a term of five years, from June 2022 through May 2027, and an amount not to exceed \$134,742,800. Due to significant wholesale energy market price increases, SFPUC and the Board of Supervisors approved two amendments to the contract, increasing the not-to-exceed amount to \$895,742,800. Energy prices have since stabilized, and SFPUC now seeks to extend the APX contract by three years through May 2030, for a total term of eight years, which is the maximum term authorized under the solicitation. The proposed Amendment No. 3 would not change the scope of services of the contract.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>The proposed Amendment No. 3 would increase the not-to-exceed amount of the APX contract by \$365,749,222, for a total not to exceed \$1,261,492,022. Over 99 percent of contract expenditures are pass-through costs to CAISO, and less than one percent are APX administrative costs.</li> <li>While it is unlikely that SFPUC will expend the full not-to-exceed amount, the energy market is volatile. CAISO charges are non-negotiable and certain charges are posted only one day in advance. The contract is funded by CleanPowerSF and Hetch Hetchy Power ratepayer revenue.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>Approve the proposed resolution.</li> </ul> |                                                         |

**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 San Francisco Public Utilities Commission's (SFPUC) Power Enterprise is responsible for the generation, procurement, and delivery of power to electric customers of the City, including wholesale customers, CleanPowerSF customers, City departments and other public entities, entities providing service for tenants on City property (i.e. at the Port and Airport), and the Hunters Point Shipyard and other redevelopment projects.

The California Independent System Operator (CAISO)<sup>1</sup> controls and operates the transporting of electric power over California's electric transmission system. State and Federal regulations govern payments made to CAISO. The SFPUC does not meet the CAISO requirement for a "scheduling coordinator," an entity authorized to complete power transactions on the CAISO network and is able to make payments to CAISO for power transactions, so SFPUC has contracted for these services.<sup>2</sup>

In July 2021, SFPUC issued a Request for Proposals (RFP) to award a scheduling coordinator contract. APX, Inc., which had been SFPUC's existing provider, was the only proposer and met the minimum qualifications specified in the RFP. In March 2022, the Board of Supervisors approved a power scheduling coordination services agreement with APX for a term of five years, from June 2022 through May 2027, and an amount not to exceed \$134,742,800 (File 22-0074).

In January 2023, SFPUC executed Amendment No. 1 to the contract, increasing the not-to-exceed amount by \$125,000,000, for a total not to exceed \$259,742,800.<sup>3</sup> In March 2023, the Board of Supervisors approved Amendment No. 2 to the contract, increasing the not-to-exceed amount by \$636,000,000, for a total not to exceed \$895,742,800 (File 23-0091). These increases were due to significant wholesale energy market price increases, driven by supply chain delays,

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<sup>1</sup> CAISO is a nonprofit public benefit corporation that is regulated by the Federal Energy Regulatory Commission (FERC) to manage the flow of electricity across the high-voltage long distance power lines that make up 80% of California's power grid. CAISO is responsible for ensuring that there is sufficient, safe, reliable, and equal access to power transmission lines and facilitating competitive wholesale power markets to diversify resources and lower prices.

<sup>2</sup> According to Section 4.5.3 of the August 2025 CAISO Tariff, the duties of a scheduling coordinator include paying fees to CAISO, submitting qualified bids and interchange schedules for power, coordinating and modifying demand for power at the direction of CAISO, tracking and setting trades, and assuming financial responsibility for all requested transactions. The primary obstacles to SFPUC achieving scheduling coordinator status are the lack of a real-time operations desk for SFPUC's energy portfolios and the inability to consistently make timely payments under CAISO's challenging deadlines.

<sup>3</sup> Amendment No. 1 did not require Board of Supervisors approval because of the delegated authority provided to SFPUC under Administrative Code Section 21.43 for power contracts with annual expenditures less than \$150 million per year (File 22-0562). This ordinance was not in effect when the initial APX contract was approved.

Russia's invasion of Ukraine, heat waves, and drought conditions impacting hydroelectric energy outputs. The rising costs impacted passthrough payments APX makes to CAISO on behalf of SFPUC, which pays for the increasing cost of electricity generation and transmission.

Energy prices have since stabilized, and SFPUC now seeks to extend the APX contract by three years through May 2030, for a total term of eight years, which is the maximum term authorized under the RFP. In July 2025, the SFPUC Commission approved Amendment No. 3 to the contract.

### DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Amendment No. 3 to the power scheduling coordination services agreement between SFPUC and APX, extending the term by approximately three years through May 2030, and increasing the not-to-exceed amount by \$365,749,222, for a total not to exceed \$1,261,492,022.

According to Rafferty Kwok, SFPUC Utility Specialist, SFPUC is requesting this extension approximately two years in advance of contract expiration to provide continuity of service and allow SFPUC to strengthen internal capacity in advance of issuing a new Request for Offers (RFO). SFPUC hopes that enhancing in-house resources will allow SFPUC to refine the scope and technical requirements of the solicitation and attract a more competitive bidding pool. In the 2021 RFP used to procure this contract, APX was the sole respondent.

The scope of work under the agreement would not change and includes: (1) submitting day-ahead and real-time interchange schedules and bids to CAISO; (2) managing communications between CAISO and SFPUC schedulers and operators; (3) managing CAISO settlements<sup>4</sup> and processing payments of CAISO charges; (4) managing CAISO and California Public Utilities Commission (CPUC) Resource Adequacy<sup>5</sup> requirements; (5) managing access to CAISO systems for meter, outage, settlement, scheduling, and bid/award data; and (6) submitting Settlement Quality Meter Data (SQMD) to CAISO on behalf of SFPUC. Optional services, to be provided at the request of SFPUC, include market analyses, energy trading, development of revenue strategies, and training of SFPUC staff.

### FISCAL IMPACT

The proposed Amendment No. 3 would increase the not-to-exceed amount of the APX contract by \$365,749,222, for a total not to exceed \$1,261,492,022, as shown in Exhibit 1 below. The APX contract costs include the value of electricity transactions for the SFPUC Power Enterprises (pass-through charges) and direct charges for APX operating costs. The proposed increase is to pay for pass-through charges related to the cost of electricity generation and transmission, as well as payments to APX for services provided over the three-year extension period.

<sup>4</sup> The settlement process includes calculating the amount owed to CAISO, billing, and invoicing processes.

<sup>5</sup> State law requires all electric service providers, including CleanPowerSF, to maintain certain quantities of Resource Adequacy (RA) capacity to ensure sufficient electric generation resources are available on the grid to meet unusually high levels of customer demand.

**Exhibit 1: APX Contract Amount**

|                   | <b>Pass-Through</b> | <b>APX Costs</b> | <b>Total Amount</b> |
|-------------------|---------------------|------------------|---------------------|
| Original Contract | \$130,000,000       | \$4,242,800      | \$134,742,800       |
| Amendment No. 1   | 225,500,000         | 4,242,800        | 259,742,800         |
| Amendment No. 2   | 891,500,000         | 4,242,800        | 895,742,800         |
| Amendment No. 3   | 1,254,144,222       | 7,347,800        | 1,261,492,022       |

Source: Contract documents

Actual and projected contract expenditures are shown in Exhibit 2 below.

**Exhibit 2: Actual and Projected Contract Expenditures**

| <b>Year</b>                                 | <b>CleanPowerSF<br/>Passthrough</b> | <b>Hetch Hetchy<br/>Power<br/>Passthrough</b> | <b>APX<br/>Administrative<br/>Costs</b> | <b>Total</b>           |
|---------------------------------------------|-------------------------------------|-----------------------------------------------|-----------------------------------------|------------------------|
| 1 (6/2022-5/2023, Actual)                   | \$139,144,354                       | \$33,586,742                                  | \$653,399                               | \$173,384,495          |
| 2 (6/2023-5/2024, Actual)                   | 46,406,802                          | 32,716,227                                    | 720,000                                 | 79,843,029             |
| 3 (6/2024-5/2025, Actual)                   | 36,780,922                          | 28,495,622                                    | 738,606                                 | 66,015,150             |
| <i>Subtotal, Actual Expenditures</i>        | <i>\$222,332,078</i>                | <i>\$94,798,591</i>                           | <i>\$2,112,005</i>                      | <i>\$319,242,674</i>   |
| 4 (6/2025-5/2026, Projected)                | 93,000,000                          | 78,000,000                                    | 848,560                                 | 171,848,560            |
| 5 (6/2026-5/2027, Projected)                | 79,000,000                          | 85,000,000                                    | 848,560                                 | 164,848,560            |
| 6 (6/2027-5/2028, Projected)                | 82,337,447                          | 38,543,961                                    | 1,035,000                               | 121,916,408            |
| 7 (6/2028-5/2029, Projected)                | 82,337,447                          | 38,543,961                                    | 1,035,000                               | 121,916,408            |
| 8 (6/2029-5/2030, Projected)                | 82,337,447                          | 38,543,961                                    | 1,035,000                               | 121,916,408            |
| <i>Subtotal, Projected<br/>Expenditures</i> | <i>\$419,012,341</i>                | <i>\$278,631,883</i>                          | <i>\$4,802,120</i>                      | <i>\$702,446,344</i>   |
| <b>Total</b>                                | <b>\$641,344,419</b>                | <b>\$373,430,474</b>                          | <b>\$6,914,125</b>                      | <b>\$1,021,689,018</b> |

Source: SFPUC

According to SFPUC Utility Specialist Kwok, the annual projected passthrough costs are based on historical averages and include a 15 percent contingency. As shown above, over 99 percent of contract expenditures are pass-through costs to CAISO, and less than one percent are APX administrative costs.

The total actual and projected expenditures of \$1,021,689,018 are approximately \$240 million less than the proposed not-to-exceed amount of \$1,261,492,022. While it is unlikely that SFPUC will expend the full amount, the energy market is volatile. CAISO charges are non-negotiable and certain charges are posted only one day in advance. The contract is funded by CleanPowerSF and Hetch Hetchy Power ratepayer revenue.

**RECOMMENDATION**

Approve the proposed resolution.

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                           |
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| <b>Items 6 &amp; 7</b><br><b>Files 25-0968 &amp; 25-0969</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | <b>Department:</b><br>Department of Early Childhood (DEC) |
| <b>EXECUTIVE SUMMARY</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                           |
| <p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>The proposed resolutions would retroactively approve new contracts between the Department of Early Childhood (DEC) and (1) Children’s Council of San Francisco for a not to exceed amount of \$436,382,686 and three year and six-month term from July 1, 2025 to December 31, 2028 (File 25-0968); and (2) Wu Yee Children’s Services for a not to exceed amount of \$237,770,265 and three year and six-month term from July 1, 2025 to December 31, 2028 (File 25-0969).</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>In December 2024, the Department of Early Childhood (DEC) issued a Request for Grant Applications (RFGA) to select providers for the administration of federal, state and local childcare subsidy programs and resources and referral services in support of implementing the Citywide Plan for Early Care and Education. Children’s Council and Wu Yee were the two highest-scoring respondents and were selected to receive funding.</li> <li>Under the proposed contracts, Children’s Council and Wu Yee will provide the following services: (1) intake and referral for families seeking childcare, preschool, and other early care and education programs, (2) enrolling eligible families in early care and education programs, and (3) subsidy administration. Subsidies are paid directly to early care providers on behalf of families.</li> <li>Based on DEC’s program monitoring for FY 2024-25, Children’s Council and Wu Yee were found in compliance with the terms of the contract and there were no plans for correction. However, while Wu Yee was found to be in conformance with City standards, Children’s Council was found to not yet be in conformance due to unallowable expenses. Children’s Council provided a corrective action plan and will reclassify the expenses to non-city and state sources.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>The proposed Children’s Council contract has a not-to-exceed amount of \$436,382,686, and the Wu Yee contract has a not-to-exceed amount of \$237,770,265 (both include a ten percent contingency). Approximately 76.6 percent of expenditures over the contract term for the Children’s Council are funded by City funds, and approximately 23.4 percent are funded by state and federal funds. Expenditures for the Wu Yee contract are entirely funded by City funds.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>Approve the proposed resolutions.</li> </ul> |                                                           |



## 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

In December 2024, the Department of Early Childhood (DEC) issued a Request for Grant Applications (RFGA) to select providers for the administration of federal, state and local childcare subsidy programs and resources and referral services in support of implementing the Citywide Plan for Early Care and Education.<sup>1</sup> The proposed term in the RFGA was three and a half years from July 1, 2025 to December 31, 2028 with an option to extend through December 31, 2030. The RFGA's scope of work outlines three service areas: (1) Early Care and Education (ECE) Information and Family-Child-Program Connection, (2) Enrollment and ECE Program Reimbursement, and (3) Public Child Care Subsidies Administration and Early Learning For All System Supports. Proposers were required to apply to all three service areas. Proposals were evaluated based on program approach (50 points), organizational capacity (25 points), and budget proposal (25 points), for a total possible score of 100 points for each service area. The Children's Council of San Francisco (Children's Council) and Wu Yee Children's Services (Wu Yee) were the two highest-scoring respondents (out of three proposers) in all three service areas<sup>2</sup> and were selected to receive funding based on a review by a selection panel.<sup>3</sup>

Both organizations had provided similar services under grant agreements since 2017 (Files 17-0589 and 17-0590). In September 2022, the Board of Supervisors approved contracts with Children's Council for an amount not to exceed \$364,091,448 (File 22-0801) and Wu Yee for an amount not to exceed \$144,496,672 (File 22-0802). Each contract had a two-year term, from July 2022 through June 2024. In July 2024, DEC approved a first amendment to both contracts to extend the term for one year to June 30, 2025 with no change to the amount. Under the terms of the RFP, each contract could be extended for one year through June 2025.

In June 2024, DEC announced a plan to expand eligibility for childcare subsidies to families earning up to 150% of the Area Median Income (AMI). In its initial year, the tuition credit program

<sup>1</sup> This is the strategic plan for San Francisco's early care and education (ECE) system, which was developed in response to an ordinance passed in April 2015 that required OECE to develop and submit a plan for approval by the Board of Supervisors.

<sup>2</sup> Scoring for all three service areas consisted of the following (out of 100): Service Area 1 – 94 for Children's Council, 89.7 for Wu Yee, and 60.3 for Wah Mei, Service Area 2 – 85.3 for Children's Council, 70.3 for Wu Yee, and 60 for Wah Mei, and Service Area 3 – 85.3 for Wu Yee, 85 for Children's Council, and 60 for Wah Mei.

<sup>3</sup> The selection panels for all three service areas consisted of the following: Service Area 1 – DEC analyst, Education Director at a nonprofit, and an SFUSD program manager, Service Area 2 – DEC analyst, HSA analyst, and DEC analyst, and Service Area 3 – DEC analyst, Executive Director of San Francisco-based non-profit with children's programming, and an HSA analyst.

expended \$1.5 million. At the time, families making up to 110% AMI were eligible for full tuition. DEC estimates that up to 25,000 families are now eligible for childcare subsidies.

#### **DETAILS OF PROPOSED LEGISLATION**

The proposed resolutions would retroactively approve new contracts between the Department of Early Childhood (DEC) and (1) Children's Council for a not to exceed amount of \$436,382,686 and three year and six-month term from July 1, 2025 to December 31, 2028 (File 25-0968); and (2) Wu Yee for a not to exceed amount of \$237,770,265 and three year and six-month term from July 1, 2025 to December 31, 2028 (File 25-0969). The proposed resolutions would also authorize DEC to make further immaterial amendments to the contracts.

According to DEC, the resolutions are retroactive primarily because of delays caused by limited staff capacity due to the hiring and contract freeze in the first half of 2025, as well as the time needed for the City Attorney's Office to conduct its review.

#### **Services**

Under the proposed contracts, Children's Council and Wu Yee will provide the following services (1) intake and referral for families seeking childcare, preschool, and other early care and education programs, (2) enrolling eligible families in early care and education programs, and (3) subsidy administration. Subsidies are paid directly to early care providers on behalf of families. Exhibit 1 below summarizes the tuition subsidy programs that are administered by Children's Council and Wu Yee.

**Exhibit 1: Overview of Early Care Tuition Subsidy Programs**

| <b><i>Local Subsidies</i></b>                                                       | <b><i>Benefit</i></b>                                                                                                                                                                       |
|-------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ELFA Fully Funded Vouchers (for families up to 110% AMI)                            | Full tuition subsidy                                                                                                                                                                        |
| ELFA Tuition Credit Vouchers (for families 111 – 150% AMI)                          | Partial (50%) tuition subsidy                                                                                                                                                               |
| ELFA Maximum Reimbursement Amount (MRA) Funded Vouchers (for families 0 – 150% AMI) | Provides full or partial tuition subsidy, depending on family income (see above). Local funding may also be used as gap funding for tuition subsidies also funded by state/federal sources. |
| <b><i>State/Federal Subsidies</i></b>                                               |                                                                                                                                                                                             |
| CalWORKs Stage 1                                                                    | Full tuition subsidy for CalWORKs families (up to 24 months)                                                                                                                                |
| CalWORKs Stage 2                                                                    | Full tuition subsidy for families transitioning off of CalWORKs Stage 1 (up to 24 months)                                                                                                   |
| California Alternative Payment Program                                              | Full tuition subsidy for families not on CalWORKs                                                                                                                                           |
| Family and Children's Services – Federal                                            | Federally funded tuition subsidy for children in foster care, justice involved, or receiving other welfare services                                                                         |
| Family and Children's Services – Foster Care Bridge                                 | Time-limited tuition subsidy to facilitate immediate placement of children entering the foster care system into a stable child care and development setting.                                |

Source: BLA and DEC

Note: According to DEC, the ELFA voucher and ELFA Maximum Reimbursement Amount (MRA) are different mechanisms to fund childcare providers with local funding. The Maximum Reimbursement Amount is upfront funding that is given to the larger programs based on their enrollment projections and reconciled based on actual enrollments. For smaller programs, the voucher payment is based on actual enrollment.

The prior contract with Children's Council included funding for childcare workers' stipends. The stipend program continues to be funded by DEC but under a separate agreement with Children's Council focused specifically on the early care and education workforce.

Exhibit 2 below shows the estimated annual number<sup>4</sup> of subsidy-funded slots for each program to be administered by Children's Council and Wu Yee.

<sup>4</sup> Annual numbers represent the estimated average monthly enrollment. Enrollments are tracked on a monthly basis.

**Exhibit 2: Estimated Annual Number of Subsidy-Funded Slots by Program*****Local Subsidies***

|                                                                                     | <b>Children's Council</b> | <b>Wu Yee</b> |
|-------------------------------------------------------------------------------------|---------------------------|---------------|
| ELFA Fully Funded Vouchers (for families up to 110% AMI)                            | 1300 – 1500               | 1300 – 1500   |
| ELFA Tuition Credit Vouchers (for families 111 – 150% AMI)                          | N/A                       | 250           |
| ELFA Maximum Reimbursement Amount (MRA) Funded Vouchers (for families 0 – 150% AMI) | 1700                      | N/A           |

***State/Federal Subsidies***

|                                                     |     |     |
|-----------------------------------------------------|-----|-----|
| CalWORKs Stage 1                                    | 900 | N/A |
| CalWORKs Stage 2                                    | 450 | N/A |
| California Alternative Payment Program              | 140 | N/A |
| Family and Children's Services – Federal            | 90  | N/A |
| Family and Children's Services – Foster Care Bridge | 80  | N/A |

Source: DEC and Proposed Contracts

According to DEC, the number of eligible subsidy-funded slots for the proposed contracts was determined based on the level of services in FY 2024-25, ongoing enrollment trends, the number of childcare sites in San Francisco's network of eligible programs, and state/federal program provisions. DEC provided actual enrollment data for FY 2022-23, FY 2023-24, and FY 2024-25. The enrollment data is generally consistent with the enrollment targets in the proposed contracts.

**Performance Monitoring****FY 2024-25 Performance**

FY 2024-25 performance monitoring found the following for each of the contracts:

**Children's Council:** DEC staff completed program monitoring on the existing Children's Council contract for FY 2024-25 in June 2025. Based on the monitoring, Children's Council was found in compliance with the terms of the contract and there was no plan for correction. Specifically, Children's Council achieved the following service and outcome objectives, as detailed in their FY 2024-25 Contract Monitoring Report:

- In FY 2024-25, Children's Council served 1,523 new families. Of these 1,523 families, 1,261 were identified as Tier 3 (families with income levels up to 110 percent AMI and identified with specific characteristics<sup>5</sup>), 251 were identified as Tier 2 (families with income levels up to 110 percent AMI), and 11 as Tier 1 (higher income families with AMI greater than 110 percent and ineligible for subsidies).

<sup>5</sup> This includes families identifying as African American, Latino, Native American, Pacific Islanders and/or Immigrant and may be experiencing one or more of the following: being at-risk, children with special needs, experiencing domestic violence and or homeless

- Structured check-ins of families (representing 273 new referrals) receiving a subsidy at 30 and 90 days post-enrollment found that 92 percent of families reported satisfaction at 30 days and 84 percent at 90 days.<sup>6</sup>
- A survey conducted on childcare providers on the satisfaction with Children’s Council subsidy administration services found the following: (1) 97 percent had their issues resolved, (2) 85 percent were satisfied with support, and (3) 74 percent reported improved financial stability. However, the survey response rate was 21 percent<sup>7</sup>, which did not meet the outcome objective of 65 percent.

In addition, as reflected in Exhibit 3 below, Children’s Council met the service targets for the following programs: CalWORKs Stage 2, Early Learning System (childcare subsidies, the program is now referred to as Early Learning for All, or ELFA), and Family Children’s Services/Foster Care Bridge. The agency did not meet service targets for the CalWORKs Stage 1 program, California Alternative Payment Program, and the emergency backup care<sup>8</sup> pre-registration program. According to DEC, these programs receive referrals from HSA. According to the Children’s Council contract monitoring report, the agency only pre-registered 13 families (with a service target of 350) for the backup care program because most families were uninterested despite being provided with program information and the pre-registration invitation.

**Exhibit 3: Children’s Council FY 2024-25 Service Objective Performance (Average Number of Monthly Enrolled Children)**

| Program                                                   | Target | Performance |
|-----------------------------------------------------------|--------|-------------|
| CalWORKs Stage 1                                          | 942    | 915         |
| CalWORKs Stage 2                                          | 389    | 417         |
| CA Alternative Payment Program                            | 148    | 136         |
| Early Learning System (Childcare Subsidies)               | 1,100  | 1,296       |
| Family and Children’s Services/Foster Care Bridge         | 96     | 98          |
| Mildly Ill/Emergency Backup Care Pre-Registration Program | 350    | 13          |

Source: FY 2024-25 Children’s Council Contract Monitoring Report

**Wu Yee:** DEC staff completed program monitoring on the existing Wu Yee contract for FY 2024-25 in June 2025. Based on the monitoring, Wu Yee was found in compliance with the terms of the contract and there was no plan for correction. Specifically, Wu Yee achieved the following service and outcome objectives, as detailed in their FY 2024-25 Contract Monitoring Report:

- Wu Yee’s Early Learning For All (ELFA) served 2,404 children and 2,086 families and enrolled 992 new children, including 803 in the Fully Funded Tuition program and 189

<sup>6</sup> According to Children’s Council contract monitoring report, the decrease reflects families not yet in care or not yet surveyed.

<sup>7</sup> According to DEC, the survey response rate was low because surveys provided to families are voluntary and families may not have the time or bandwidth to prioritize completing a survey.

<sup>8</sup> This provides emergency childcare services to families if their current provider is closed for planned or unplanned reasons or if the child is mildly ill.

through the Tuition Credit program. This was close meeting the service target of 1,065 children.

- A survey conducted on families receiving a subsidy 60 days after enrollment found that 95 percent of families rated the quality of care provided by their child care provider as high; 96 percent of families reported a positive overall impact on their family since enrollment; and 89 percent of families shared that both they and their provider support their child's developmental growth and school readiness extremely well or well;
- A survey conducted on childcare providers on the satisfaction with Wu Yee's subsidy administration services found the following: (1) Over 91% rated staff as providing good or excellent service; (2) Over 91% were satisfied or very satisfied with the Specialists' knowledge and their ability to address questions and concerns; (3) Over 97% stated that staff addressed their questions and concerns within 48 hours; and (4) Over 97% rated staff as providing adequate timeliness of services and accuracy of payment. Wu Yee achieved a survey response rate of 66 percent, which met the outcome objective of 65 percent.

#### Proposed Performance Measures

Unlike the existing contracts for both agencies which included a mix of qualitative and quantitative service and outcome objectives and survey administration requirements, the proposed contracts include only quantifiable performance measures for each service area (as previously described above) with a narrative section on successes and challenges. Program reporting on performance measures will be on a quarterly basis.

#### **Fiscal and Compliance Monitoring**

DEC conducted fiscal and compliance monitoring for Wu Yee and Children's Council contracts from May to July 2025 and found Wu Yee to be in conformance with City standards. According to the July 2025 final status letter, Children's Council was found to not yet be in conformance on the standard regarding tested expenses on invoices appear to be reasonably associated with the program budget. According to the letter, Children's Council acknowledged unallowable expenses<sup>9</sup>, provided a corrective action plan, and will reclassify the expenses to non-city and state sources. The letter also stated that proof of revised fiscal policies, staff training and purchasing controls, as well as the submitted corrective action plan, will be assessed in next year's monitoring cycle.

#### **FISCAL IMPACT**

The proposed Children's Council contract has a not-to-exceed amount of \$436,382,686, and the Wu Yee contract has a not-to-exceed amount of \$237,770,265 (both include a ten percent contingency). The proposed annual budgets for both contracts generally remain flat for the three-

<sup>9</sup> According to DEC, staff had clarifying inquiries on \$30,015 of salaries and the allocation of a number of FTEs, which resulted in Children's Council providing correct documentation to reconcile. DEC found \$459.09 of unallowable expenses (such as tips/gratuities, sugary beverages, personal expenses) which Children's Council reclassified to non-city funds.

year and six-month contract period. Sources and uses of the proposed spending for both Children's Council and Wu Yee from FY 2025-26 through FY 2027-28 are summarized below.

**Exhibit 4: Proposed Sources and Uses of Funds for Children's Council Contract**

|                             | FY 2025-26           | FY 2026-27           | FY 2027-28           | Total                |
|-----------------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Sources</b>              |                      |                      |                      |                      |
| Local Funds                 | \$101,352,614        | \$101,309,668        | \$101,309,668        | \$303,971,950        |
| State Funds                 | 12,577,833           | 12,577,833           | 12,577,833           | 37,733,499           |
| Federal Funds               | 18,335,361           | 18,335,361           | 18,335,361           | 55,006,083           |
| <b>Total Sources</b>        | <b>\$132,265,808</b> | <b>\$132,222,862</b> | <b>\$132,222,862</b> | <b>\$396,711,533</b> |
| <b>Expenditures</b>         |                      |                      |                      |                      |
| Salaries & Benefits         | \$6,405,514          | \$6,368,169          | \$6,368,169          | \$19,141,852         |
| Operating Expenses          | 1,491,652            | 1,491,652            | 1,491,652            | 4,474,956            |
| Professional Services       | 126,312              | 126,312              | 126,312              | 378,936              |
| Indirect Cost Rate (15%)    | 1,203,522            | 1,197,920            | 1,197,920            | 3,599,362            |
| Pass-through                | 123,038,809          | 123,038,809          | 123,038,809          | 369,116,427          |
| <b>Total Expenditures</b>   | <b>\$132,265,809</b> | <b>\$132,222,862</b> | <b>\$132,222,862</b> | <b>\$396,711,533</b> |
| Contingency (10%)           |                      |                      |                      | 39,671,153           |
| <b>Not to Exceed Amount</b> |                      |                      |                      | <b>\$436,382,686</b> |

Source: Proposed Children's Council Contract

**Exhibit 5: Proposed Sources and Uses of Funds for Wu Yee Contract**

|                             | FY 2025-26          | FY 2026-27          | FY 2027-28          | Total                |
|-----------------------------|---------------------|---------------------|---------------------|----------------------|
| <b>Sources</b>              |                     |                     |                     |                      |
| Local Funds                 | \$72,046,307        | \$72,054,239        | \$72,054,239        | \$216,154,785        |
| <b>Total Sources</b>        | <b>\$72,046,307</b> | <b>\$72,054,239</b> | <b>\$72,054,239</b> | <b>\$216,154,785</b> |
| <b>Expenditures</b>         |                     |                     |                     |                      |
| Salaries & Benefits         | \$2,285,083         | \$2,331,883         | \$2,331,883         | \$6,948,849          |
| Operating Expenses          | 343,320             | 321,418             | 321,418             | 986,156              |
| Professional Services       | 37,536              | 19,536              | 19,536              | 76,608               |
| Indirect Cost Rate (15%)    | 399,890             | 400,924             | 400,924             | 1,201,738            |
| Pass-through                | 68,980,478          | 68,980,478          | 68,980,478          | 206,941,434          |
| <b>Total Expenditures</b>   | <b>\$72,046,307</b> | <b>\$72,054,239</b> | <b>\$72,054,239</b> | <b>\$216,154,785</b> |
| Contingency (10%)           |                     |                     |                     | 21,615,480           |
| <b>Not to Exceed Amount</b> |                     |                     |                     | <b>\$237,770,265</b> |

Source: Proposed Wu Yee Contract

The Children's Council contract funds salaries and fringe benefits for a total of 60.55 FTE program staff. The Wu Yee contract funds salaries and fringe benefits for a total of 21.58 FTE program staff. Operating expenses for each year reflect approximately one percent of the total budget for the Children's Council contract and 0.5 percent of the total budget for Wu Yee's contract and include expenses such as rent, materials/supplies, license fees/subscriptions, staff training/conferences, equipment/furniture, and other expenses.

As shown above, approximately 96 percent of the proposed budget for the Wu Yee contract and approximately 93 percent of the proposed budget for the Children's Council contract are a pass-through for subsidies and enrollment support.

Exhibit 6 below shows a breakdown of the annual estimated pass-through amounts for Children's Council and Wu Yee.



**Exhibit 6: Proposed Annual Pass-through for Children's Council and Wu Yee Contracts**

|                                                       | Children's Council   | Wu Yee              | Total                |
|-------------------------------------------------------|----------------------|---------------------|----------------------|
| <b>Subsidies/Payments for Enrollment<sup>10</sup></b> |                      |                     |                      |
| <u>State/Federal Funds</u>                            |                      |                     |                      |
| State/Federal Enrollment Subsidies <sup>11</sup>      | \$27,067,193         | -                   | \$27,067,193         |
| <u>Local Funds</u>                                    |                      |                     |                      |
| ELFA Subsidy (MRA)                                    | 40,000,000           | -                   | 40,000,000           |
| ELFA Subsidy (Fully-Funded Voucher)                   | 45,000,000           | 45,000,000          | 90,000,000           |
| ELFA Tuition Credit                                   | -                    | 23,980,478          | 23,980,478           |
| ELFA Gap <sup>12</sup>                                | 3,000,000            | -                   | 3,000,000            |
| Family Fees <sup>13</sup>                             | 500,000              | -                   | 500,000              |
| Local Workorder (TIDA CYO <sup>14</sup> )             | 65,000               | -                   | 65,000               |
| Local Workorder – FCS Non-Fed <sup>15</sup>           | 898,111              | -                   | 898,111              |
| <i>Subtotal</i>                                       | <i>\$116,530,304</i> | <i>\$68,980,478</i> | <i>\$185,510,782</i> |
| <b>Access &amp; Enrollment Support</b>                |                      |                     |                      |
| <u>State/Federal Funds</u>                            |                      |                     |                      |
| State/Federal CLPC Grant <sup>16</sup>                | \$167,097            | -                   | \$167,097            |
| State Supplemental Admin Support <sup>17</sup>        | 528,408              | -                   | 528,408              |
| Quality Block Grant (CSPP) <sup>18</sup>              | 813,000              | -                   | 813,000              |
| <u>Local Funds</u>                                    |                      |                     |                      |
| Program Capacity Supports <sup>19</sup>               | 5,000,000            | -                   | 5,000,000            |
| <i>Subtotal</i>                                       | <i>\$6,508,505</i>   | <i>-</i>            | <i>\$6,508,505</i>   |
| <b>Total</b>                                          | <b>\$123,038,809</b> | <b>\$68,980,478</b> | <b>\$192,019,287</b> |

Source: DEC

<sup>10</sup> This includes direct client pass-through amounts related to early care and education tuition support

<sup>11</sup> State/Federal programs include: CalWORKs Stage 1 and Stage 2, CA Alternative Payment Program, FCS, State Supplemental Payments (e.g., SB140)

<sup>12</sup> This is local funding for early childhood education programs to bridge the state reimbursement amount that programs receive when they leverage state dollars for subsidies.

<sup>13</sup> This covers a state-mandated fee in which families must provide a co-payment for childcare services. San Francisco pays for this fee for qualifying families.

<sup>14</sup> This is funded by the Treasure Island Development Agency for a Catholic Charities Treasure Island childcare program.

<sup>15</sup> This is a federal and state program to support families who qualify for child welfare criteria and need childcare

<sup>16</sup> According to DEC, this is a state grant passed through Children's Council to the San Francisco Local Child Care and Development Planning Council

<sup>17</sup> DEC states that state legislation mandates appropriation of this funding as part of the cost of administrative support associated with implementing and maintaining on-going provisions of the MOU with the Family Child Care (FCC) Providers United.

<sup>18</sup> This is a California State Preschool Programs (CSPP) state grant to help implement quality rating and improvement systems to strengthen early childhood programs

As shown above, approximately 97 percent (\$186 million) of the total annual pass-through amount for both contracts (\$192 million) will fund subsidies and payments directly related to early care and education tuition.

Actual expenditures on the existing contract for Wu Yee and Children’s Council from FY 2022-23 to FY 2024-25 were approximately 30 percent less than the amount budgeted. According to DEC, the following factors contributed to the underspending: (1) Local programs very recently expanded and it takes time to connect with eligible families with 111 to 150 percent AMI who are not already in the City system, (2) The City was emerging from the pandemic and uptake has been gradual, and (3) program and budget parameters and provisions for some of the programs are set by the State, which can fluctuate and impact enrollment.

### **Sources of Funds**

As shown above, approximately 76.6 percent of expenditures over the contract term for the Children’s Council are funded by City funds, and approximately 23.4 percent are funded by state and federal funds. Expenditures for the Wu Yee contract are entirely funded by City funds. City funds comprise of the following for both contracts: Proposition C<sup>20</sup> (67 percent for Children’s Council and 79 percent for Wu Yee), the Public Education Enrichment Fund – PEEF<sup>21</sup> (19 percent for Children’s Council and 15 percent for Wu Yee), and local work orders (15 percent for Children’s Council and 6 percent for Wu Yee).

### **RECOMMENDATION**

Approve the proposed resolutions.

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<sup>19</sup> According to DEC, this supports the administrative and operational needs of childcare providers, who apply for this funding.

<sup>20</sup> Proposition C, also known as “Baby Prop C,” is a commercial rent tax passed by San Francisco voters in June 2018 that allocated 85 percent of revenues to early childhood education and childcare programs and 15 percent of revenues to the City’s General Fund

<sup>21</sup> In March 2004, San Francisco voters approved Proposition H, which established the Public Education Enrichment Fund (PEEF) as a General Fund set-aside. In 2014, San Francisco voters approved Proposition C, which reauthorized PEEF through FY 2040-41.

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                |
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| <b>Items 8 &amp; 9</b><br><b>Files 25-0890 &amp; 25-0891</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | <b>Department:</b> Mayor's Office of Housing and Community Development (MOHCD) |
| <b>EXECUTIVE SUMMARY</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                |
| <p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• <b>File 25-0890</b> is an ordinance that would temporarily exempt transfers of certain rent-restricted affordable housing from the Real Property Transfer Tax, retroactive to transfers on or after April 12, 2024.</li> <li>• <b>File 25-0891</b> is an ordinance that would: (1) exclude from the Gross Receipts Tax the gross receipts of low-income housing partnerships received from the lease of residential real estate beginning with the 2026 tax year; (2) suspend the Business Registration Certificate and fee requirement for those partnerships beginning with the registration year commencing April 1, 2026; (3) exempt the City from the Commercial Vacancy Tax retroactive to January 1, 2025; and (4) exempt persons holding property to be used for City-sponsored affordable housing projects from the Commercial Vacancy Tax retroactive to January 1, 2022 and refund commercial vacancy taxes paid by exempt persons.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• Developers and operators of affordable housing properties may be subject to paying the City's Real Property Transfer Tax (at a reduced rate), Gross Receipts Tax, Business Registration Fees, and Commercial Vacancy Tax. The City is not exempt from paying the Commercial Vacancy Tax, which may be assessed on future affordable housing sites. MOHCD has introduced legislation to reduce taxes and fees on affordable housing to ease financial challenges for development and reduce administrative burdens.</li> <li>• Under the proposed ordinances, certain affordable housing properties would be exempt from the Real Property Transfer Tax, with refunds for eligible taxes paid since April 12, 2024. Qualified lessors paying would be exempt from paying Gross Receipts Tax on rents received for residential real estate and from obtaining a business registration certificate and paying business registration fees for the lease of residential real estate. The City would be exempt from paying the Commercial Vacancy Tax, retroactive to January 1, 2025, and commercial property owners subject to a recorded restrictive covenant for developing affordable housing would also be exempt, retroactive to January 1, 2022.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The City would refund approximately \$4 million in received taxes, assuming that subjected property owners request refunds, and that all requests meet eligibility requirements. The annual fiscal impact is approximately \$3 million in foregone revenue, which may vary significantly on an annual basis.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approval of the proposed ordinances is a policy matter for the Board of Supervisors.</li> </ul> |                                                                                |

**MANDATE STATEMENT**

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

Business and Tax Regulations Code Section 2909 states that the Board of Supervisors may amend or repeal the Commercial Vacancy Tax with a two-thirds vote.

Business and Tax Regulations Code Section 2811 states that the Board of Supervisors may amend the Homelessness Gross Receipts Tax with a two-thirds vote.

**BACKGROUND****Real Property Transfer Tax**

The City's Real Property Transfer Tax imposes a one-time tax ranging from 2.25 percent of consideration or value for transfers with a consideration or value of \$5 to 10 million to six percent of consideration or value for transfers with a consideration or value of at least \$25 million.<sup>1</sup> The tax also applies to leases of 35 years or more. Prior to April 12, 2024, the Board of Supervisors had been authorized to partially exempt rent-restricted affordable housing from the Real Property Transfer Tax. Under this authority, the Board of Supervisors reduced the transfer tax on rent-restricted affordable housing on transactions over \$5 million to 0.75 percent, rather than the standard rates of 2.25 to 6.00 percent, through 2030 (File 23-1007). In March 2024, San Francisco voters approved Proposition C, which authorized the Board of Supervisors to amend or repeal the Real Property Transfer Tax by ordinance, effective April 12, 2024.<sup>2</sup>

**Transfer Taxes Applied to Affordable Housing Projects**

Examples of transactions involving affordable housing projects that may trigger the Real Property Transfer Tax are described below. If the property qualifies as "rent-restricted affordable housing", the following transactions may qualify for the reduced transfer tax rate:

1. Properties acquired under the Community Opportunity to Purchase Act;
2. Existing affordable housing multifamily projects that received Low-Income Housing Tax Credits, when the limited partner (tax credit investor) exits the partnership around Year 15 (Year 15 Exits), thus changing the ownership structure even if the nonprofit controlling the project does not change;
3. Existing affordable multifamily projects that receive Low-Income Housing Tax Credits when the project is refinanced to allow for capital improvement requiring a new limited partnership (resyndication) even if the nonprofit controlling the project does not change;

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<sup>1</sup> A smaller tax ranging from 0.5 percent to 0.75 percent of the consideration or value applies to transfers with consideration or value of over \$100 but under \$5 million.

<sup>2</sup> Proposition C was ostensibly a waiver of the Real Property Transfer Tax from transfers related to office to residential conversions. However, it also authorized the Board of Supervisors to amend or repeal the tax without voter approval (although increases to the tax would require voter approval).

4. Existing affordable multifamily projects that are sold to another nonprofit operator when the existing operator can no longer operate the site because they are going out of business or for another reason; or
5. HOPE SF accelerated conversion units, when the San Francisco Housing Authority rehabilitated and then sold remaining public housing units at HOPE SF sites (such as Sunnydale and Potrero) to a nonprofit affiliate (SFHA Housing Corporation).

### **Other Business Taxes and Fees**

Other business taxes and fees that may apply to affordable housing developers and operators include the Gross Receipts Tax, Business Registration Fees, and Commercial Vacancy Tax.

#### Gross Receipts Tax and Business Registration Fees

In general, San Francisco businesses are required to pay a Gross Receipts Tax, including on gross receipts from real estate business activities. In 2026, the Gross Receipts Tax for this category of business activities ranges from 0.413 percent of San Francisco gross receipts up to \$1 million to 0.435 percent of San Francisco gross receipts over \$1 billion. Many affordable housing providers in San Francisco are limited liability companies (LLC) or limited partnerships (LP) that are required to pay the Gross Receipts Tax. These LLCs and LPs generally are also required to pay annual Business Registration Fees, which in 2026 range from \$55 for businesses with under \$100,000 in San Francisco gross receipts to \$60,000 for businesses with over \$200 million in San Francisco gross receipts. In the middle range, the fees range from \$625 for businesses with \$1-1.5 million in gross receipts to \$6,500 for businesses with \$15-25 million in gross receipts. Entities that receive City funding are required to be in tax compliance to receive payments under City loan agreements.

#### Commercial Vacancy Tax

The City charges a Commercial Vacancy Tax on owners of certain vacant ground-level commercial spaces in certain commercial corridors. The tax ranges from \$250 to \$1,000 per linear foot of frontage depending on how long the space has been vacant. The City or affordable housing developers sometimes purchase properties that include vacant commercial space for future affordable housing development. While the Mayor's Office of Housing and Community Development (MOHCD) tries to fill these spaces with interim uses when feasible, they sometimes require extensive rehabilitation that would not make sense if the building would soon be demolished. The City is required to pay the Commercial Vacancy Tax on City-owned properties.

For example, MOHCD paid \$712,944 in FY 2021-22 through FY 2023-24 for the Commercial Vacancy Tax at 1979 Mission Street, the site of three future affordable housing projects. As a former Walgreens, the building would not have been usable for an interim activity without considerable repair to make it Code compliant. Those tax payments were drawn from the Housing Trust Fund.

MOHCD has introduced legislation to reduce taxes and fees on affordable housing to ease financial challenges for development and reduce administrative burdens.

## DETAILS OF PROPOSED LEGISLATION

**File 25-0890** is an ordinance that would amend the Business and Tax Regulations Code to temporarily exempt transfers of certain rent restricted affordable housing from the Real Property Transfer Tax, retroactive to transfers on or after April 12, 2024, and affirm the Planning Department's determination under the California Environmental Quality Act (CEQA).

**File 25-0891** is an ordinance that would amend the Business and Tax Regulation Code to:

1. Exclude from the Gross Receipts Tax and potentially the Homelessness Gross Receipts Tax<sup>3</sup> the gross receipts of low-income housing partnerships received from the lease of residential real estate beginning with the 2026 tax year;
2. Suspend the Business Registration Certificate and fee requirements for those partnerships beginning with the registration year commencing April 1, 2026;
3. Exempt the City from the Commercial Vacancy Tax retroactive to January 1, 2025; and
4. Exempt persons holding property to be used for City-sponsored affordable housing projects from the Commercial Vacancy Tax retroactive to January 1, 2022, and refund commercial vacancy taxes paid by exempt persons.

Because File 25-0891 amends the Commercial Vacancy Tax and potentially the Homelessness Gross Receipts Tax, approval requires at least a two-thirds affirmative vote of the Board of Supervisors.

### Real Property Transfer Tax (File 25-0890)

As discussed above, there are different scenarios where affordable housing developments may be subject to the Real Property Transfer Tax, with reduced rates applying in certain circumstances. To qualify for the complete exemption under the proposed ordinance, the transfer must have occurred on or after April 12, 2024, and at the time of the transfer the properties either: (1) had the welfare exemption under Section 214 of the California Revenue and Taxation Code<sup>4</sup> for at least 90 percent of residential units in the property; or (2) were wholly owned by one or more nonprofit organizations and were being transferred to one or more entities who intend to comply with the welfare exemption for at least 90 percent of residential units in the property and certify to MOHCD that an application for the welfare exemption will be submitted to the County Assessor within specified time limits. The property must have affordability restrictions for at least 55 years, with at least 35 years remaining in the term from the date of transfer. These affordability restrictions include, in addition to other restrictions, that all rent-restricted units must have an income limit at initial occupancy of no greater than 120 percent of Area Median Income (AMI), and the average of all units must not exceed a defined "Low Income Threshold" (generally defined as 80 percent of AMI).

<sup>3</sup> The proposed ordinance would only impact the Homelessness Gross Receipts Tax in the unlikely event that a low-income housing partnership receives more than \$25 million from leasing property in the residential building.

<sup>4</sup> Section 214 of the California Revenue and Taxation Code provides an exemption from property taxes (including for bonded indebtedness) for properties used exclusively for religious, hospital, scientific, or charitable purposes, which includes certain affordable housing.

According to the Assessor-Recorder's Office, 10 affordable housing providers have paid \$3,953,291 in transfer taxes since April 12, 2024, when the ordinance would retroactively go into effect. To obtain a waiver of the tax, or to request a refund for taxes paid during this period (without interest), the property owner must obtain a certificate from MOHCD confirming that the property transferred was for the type of rent-restricted affordable housing subject to this complete exemption. Requests for refunds must be made by June 30, 2026. The proposed ordinance would expire December 31, 2030.

### **Other Business Taxes and Fees (File 25-0891)**

As discussed above, affordable housing developers and operators may be subject to the Gross Receipts Tax, Business Registration Fees, and Commercial Vacancy Tax.

#### Gross Receipts Tax and Business Registration

Under the proposed ordinance, "qualified lessors" of residential real estate, defined as limited partnerships in which the managing general partner is an eligible nonprofit corporation or eligible limited liability company that have qualified for a welfare exemption under Section 214(g) of the California Revenue and Taxation Code would be exempt from paying Gross Receipts Tax on rents received for residential real estate. These qualified lessors would also no longer be required to obtain a business registration certificate and pay business registration fees for the lease of residential real estate. Gross receipts from other business activities, such as rent of commercial spaces, would not be exempt from the Gross Receipts Tax and would require these entities to obtain a business registration certificate and pay fees. The exemptions would be effective for the Gross Receipts Tax on January 1, 2026 and for the business registration year beginning April 1, 2026.

#### Commercial Vacancy Tax

Under the proposed ordinance, the City would be exempted from paying the Commercial Vacancy Tax, retroactive to January 1, 2025. In addition, commercial property owners subject to a recorded restrictive covenant for developing affordable housing, enforced by MOHCD, would be exempted from the Commercial Vacancy Tax, retroactive to January 1, 2022. Requests for refunds (without interest) must be filed by the later of one year of payment or June 30, 2026.

This ordinance does not have an expiration date.

### **FISCAL IMPACT**

Under the proposed ordinances, the City would forego certain General Fund revenue from real property transfer tax, business tax, and business registration fee revenue from affordable housing sites and also refund certain Gross Receipts and Commercial Vacancy Tax revenue already received. The primary beneficiaries are affordable housing developers and operators, and the City in its role of financing affordable housing. However, it may also accelerate payment on MOHCD permanent financing loans, which are repaid to the City from net income from affordable housing projects, after all other operating expenses, mortgage payments, and reserve deposits are made.

## Refunds

The proposed ordinances would require the City to refund Real Property Transfer Taxes from certain affordable housing properties paid on transfers since April 12, 2024 and Commercial Vacancy Taxes paid for tax years since January 1, 2022. According to the Assessor-Recorder's Office, the City has received \$3,953,291 in Real Property Transfer Taxes on affordable housing developments since April 12, 2024 that would potentially be subject to refund, depending on eligibility. According to the Treasurer-Tax Collector's Office, the City has received approximately \$30,000 in Commercial Vacancy Taxes from City-sponsored affordable housing sites since January 1, 2022. Overall, the City would refund approximately \$4 million, assuming that subjected property owners request refunds, and that all requests meet eligibility requirements.

## Annual Fiscal Impact

On an ongoing basis, the City would waive Real Property Transfer Taxes, Gross Receipts Taxes, Business Registration Fees, and Commercial Vacancy Taxes related to certain affordable housing sites and partnerships. These are all General Fund revenues, except for the Commercial Vacancy Tax, which is deposited into the Small Business Assistance Fund. Based on recent data from the Treasurer-Tax Collector's and Assessor-Recorder's Offices, the Budget and Legislative Analyst estimates that the annual fiscal impact is approximately \$3 million, as shown in Exhibit 1 below.

### Exhibit 1: Estimated Annual Tax and Fee Waivers

| <b>Tax/Fee</b>             | <b>Estimated Annual Amount<br/>Waived</b> |
|----------------------------|-------------------------------------------|
| Real Property Transfer Tax | \$2,790,558                               |
| Gross Receipts Tax         | 209,502                                   |
| Business Registration Fee  | 22,749                                    |
| Commercial Vacancy Tax     | 10,000                                    |
| <b>Total</b>               | <b>\$3,032,809</b>                        |

Source: BLA estimates based on Treasurer-Tax Collector's and Assessor-Recorder's Offices.

We note that these estimates may vary significantly on an annual basis. In particular, the Real Property Transfer Tax applies only to a small number of properties that change hands each year, so the annual revenue varies with the number of transactions of affordable housing properties. The Real Property Transfer Tax is already reduced by approximately 86 percent on certain affordable housing properties, so the impact of waiving the tax fully on a subset of those is relatively small. With the reductions in place, the average cost of the tax is approximately \$4,407 per unit.<sup>5</sup>

The proposed ordinances would also exempt the City from the Commercial Vacancy Tax. As currently implemented, the Commercial Vacancy Tax on affordable housing sites transfers funds from the Affordable Housing Trust Fund or other funding source for affordable housing to the Small Business Assistance Fund. Although this has no overall fiscal impact to the City, it does have

<sup>5</sup> According to the Planning Department's database, eight of the affordable properties that paid \$3,578,595 in Transfer Taxes contain approximately 812 units. For two properties that paid \$374,696 in Transfer Taxes, the number of units were not reported.



a negative fiscal impact on funding available for the production of affordable housing. The City paid (and received) approximately \$790,490 in Commercial Vacancy Tax in 2024 (although not all of this amount may be directly related to affordable housing sites).

**RECOMMENDATION**

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