

CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst



SUBJECT: May 13, 2026 Budget and Finance Committee Meeting

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Item 2
File 26-0393
(Continued from May 6 meeting)

Department:
 Recreation and Park Department (RPD)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize the Recreation and Park Department (RPD) General Manager to execute an agreement to loan the San Francisco Zoological Society (SFZS), the nonprofit organization that manages the San Francisco Zoo, for up to \$8.5 million.

Key Points

- SFZS is projecting a two-year net operating cash deficit of \$11.89 million between January 2026 and December 2027. As of June 2025, the Zoo had \$9.2 million in net assets without donor restrictions and that figure is lower as of this writing due to an ongoing draw on that balance. Beginning in calendar year 2028, SFZS is projecting a net operating cash surplus due primarily to the anticipated arrival of two giant pandas and corresponding revenue increases. To cover its projected operating cash deficit between January 2026 and December 2027, SFZS has requested a loan from the City.
- According to the draft loan agreement, the loan is expected to be executed in FY 2025-26 with an initial disbursement of \$2.5 million. The remaining loan amounts will be disbursed in FY 2026-27 as SFZS meets various milestones, including completion of a financial sustainability plan and strategic plan.

Fiscal Impact

- RPD anticipates the loan will be entirely General Fund supported.

Policy Consideration

- No collateral secures the loan. SFZS's ability to repay the loan will be compromised if it is not able to execute the plan to bring pandas to the Zoo, if the plan is substantially delayed, or if its actual resulting revenues are not sufficient to generate an operating cash surplus.

Recommendation

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

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) any modification of such contracts of more than \$500,000 is subject to Board of Supervisors approval.

Charter Section 9.105 states that amendments to the Annual Appropriation Ordinance are subject to Board of Supervisors approval by ordinance, after the Controller certifies the availability of funds.

BACKGROUND

The San Francisco Zoological Society (SFZS), a nonprofit, has managed and operated the San Francisco Zoo since 1993 under a Lease and Management Agreement between SFZS and the City, acting through the Recreation and Park Commission. The City leases the Zoo premises, including all permanent structures, facilities, and animals, to SFZS for a term not to exceed 99 years. Under the terms of the agreement, SFZS is responsible for Zoo operations and management, all required permits and accreditations, and maintaining the Zoo in a clean, safe, and attractive condition. In exchange for these services, the City pays SFZS a management fee of \$4 million annually, disbursed in monthly installments. The City remains the owner of Zoo land, improvements, and animals.

The agreement is automatically extended every five years. The City and SFZS have never renewed or amended the 1993 agreement in any way, and the \$4 million management fee has not increased since it was established in 1993.

The Recreation and Park Commission is the City's representative party in the agreement and is responsible for reviewing and approving certain Zoo matters such as admission fee increases, SFZS's annual budgets, and major capital improvements to the Zoo. The Joint Zoo Committee, an advisory subcommittee of the Recreation and Park Commission made up of three Commission members, three members of the SFZS Board of Directors, and one to two animal welfare advisors, reviews Zoo matters, receives public comment, and elevates issues and actionable items to the Recreation and Park Commission.

Through a motion (M24-125) passed on December 10, 2024, the Board of Supervisors directed the Budget and Legislative Analyst's Office to conduct a comprehensive performance and management audit of the San Francisco Zoo based on a recommendation made in an October 10, 2024 report by the Joint Zoo Committee animal welfare advisors. The audit report was released on May 1, 2026 and contains 11 findings related to SFZS's financial condition, strategic and capital planning, the Lease and Management Agreement, Zoo facilities condition and maintenance, contracting and procurement, SFZS Board of Directors oversight, worker safety, workplace culture, fiscal management and internal controls, animal care and welfare, and organizational impact and guest experience.

Plans to Bring Giant Pandas to the Zoo

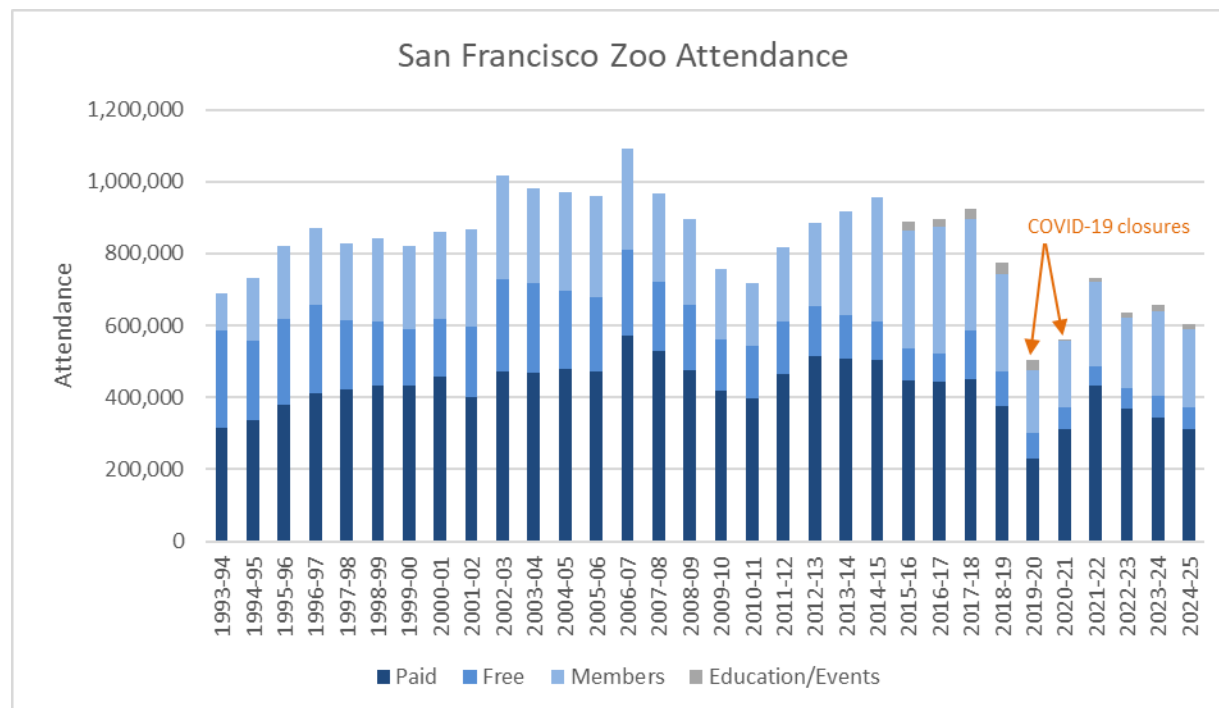
SFZS is currently working to bring giant pandas to the Zoo. According to Cassandra Costello, SFZS Chief Executive Officer, the technical agreement with China has not yet been executed. If the panda project is successful, two pandas would be loaned to SFZS for a 10-year period. SFZS is currently projecting the pandas will be on exhibit by the first quarter of calendar year 2028.

SFZS Financial Condition and Attendance Decreases

SFZS has operated with a structural deficit in its general unrestricted fund since at least FY 2018-19. Between FY 2018-19 and FY 2024-25, SFZS's total operating revenues decreased from \$22.3 million to \$19.8 million, by \$2.4 million or 11 percent, while operating expenditures increased from \$24.5 million to \$27.8 million, by \$3.3 million or 14 percent. SFZS's operating deficit grew by \$5.8 million, from \$2.2 million to \$8.0 million, during this period. To cover its annual operating deficits, SFZS has relied on non-operating revenue sources, many of which are highly variable and one-time such as federal COVID-19 relief and estate bequests, and has also drawn on its investment reserves.

The primary cause of SFZS's growing structural deficit is decreasing attendance. Attendance-driven revenue, including admissions, retail commissions, retail sales, and parking, accounts for roughly half of SFZS's total operating revenue. Exhibit 1 below shows total Zoo attendance between FY 1993-94, when SFZS assumed responsibility for the management and operations of the Zoo, and FY 2024-25.

Exhibit 1: San Francisco Zoo Historical Attendance



Source: SFZS

According to an April 23, 2026 financial forecast prepared by SFZS, SFZS is projecting a two-year net operating cash deficit of \$11.89 million between January 2026 and December 2027. As of June 2025, the Zoo had \$9.2 million in net assets without donor restrictions and that figure is lower as of this writing due to an ongoing draw on that balance. Beginning in calendar year 2028, SFZS is projecting a net operating cash surplus due primarily to the panda exhibit and anticipated higher attendance, with corresponding increases in revenue from admissions, retail, camps, memberships, and contributions. To cover its projected operating cash deficit between January 2026 and December 2027, SFZS has requested a loan from the City. The *Performance and Management Audit of the San Francisco Zoo* recommends that the Budget and Appropriations Committee consider increasing City support to SFZS on a one-time basis in FY 2026-27 and FY 2027-28, conditional upon SFZS's demonstrated good-faith efforts to implement the recommendations in the audit report.

DETAILS OF PROPOSED LEGISLATION

File 26-0393 is a proposed resolution that would authorize the General Manager of the Recreation and Park Department (RPD) to (1) execute a loan agreement with SFZS for \$6.5 million, with an additional \$2 million in reserve, for a total loan of up to \$8.5 million and (2) enter into additions, amendments, or modifications to the loan agreement that the General Manager determines, at their discretion, are necessary, in the best interest of the City, and do not materially affect the City's obligations, payments, or benefits. The loan agreement must be "substantially similar" to the term sheet included in the legislative file for this item.

The proposed resolution states that the Board of Supervisors finds it appropriate and in the public interest for the City to loan funds to SFZS.

Loan Terms

The proposed resolution summarizes key loan terms and conditions and states that the terms of the loan will be in accordance with a draft loan term sheet negotiated by RPD and SFZS. When the resolution was originally scheduled at the May 6, 2026 Budget & Finance meeting, the loan agreement had not yet been drafted. The resolution was continued one week to allow for the loan to be drafted. Since that time, a draft loan agreement has been added to the legislative file.

The draft loan agreement terms are summarized in Exhibit 2 below.

Exhibit 2: Loan Terms and Conditions

Terms and Conditions	
SFZS Requirements	• Engage a specialized zoo strategic and financial planning consultant • Engage in a long-term visioning process with the City and other partners • Produce the following: ○ Financial sustainability plan, including a loan repayment strategy ○ Five-year strategic plan ○ Quarterly reports on basic outputs (attendance, efficiencies, new members, fundraising), progress on financial sustainability plan, and progress on panda project • Make immediate expense reductions of a minimum of 10 percent³ • Not take on new liabilities or animals, except for pandas, that require habitat or staffing investments unless a dedicated outside funding source is secured¹ • Improve the capacity of the SFZS Board of Directors to support the Zoo: ○ Adequately staff the finance committee³ ○ Add a Board member with substantial financial management experience ○ Double the Board's annual contribution goal each year and eventually reach a goal of 10 percent of SFZS's annual operating budget³ • Achieve Association of Zoos and Aquariums (AZA) accreditation² • Address concerns identified in the <i>BLA Performance and Management Audit of the San Francisco Zoo</i> • Meet specific milestones tied to release of loan funds (see Exhibit 3 below)
Total Loan Amount	\$6.5 million, disbursed according to specific milestones (see Exhibit 3 below), with an additional \$2 million in reserve. The \$2 million in reserve may be loaned to SFZS after a successful AZA accreditation review in 2027 if the City determines that SFZS has made sufficient progress towards financial sustainability and its long-term goals.
Loan Source	General Fund or debt financing at the City's discretion, according to the draft loan term sheet. The proposed resolution indicates the source of funds is General Fund.
Interest Rate	• If General Fund: City's pooled investment rate (currently 3.7 percent)³ • If debt financing: rate will match the City's debt issuance and financing costs (estimated 6.5 percent)³
Repayment Period	10 years following final disbursement of loan
Repayment	The City will decrease the management fee paid to SFZS. The repayment schedule will be determined once the final disbursement of the loan has occurred.
Termination	The City may terminate the loan at any time without cause
Allowable Uses	Zoo operations and work to achieve Milestones. Loan funds may not be used to acquire animal or for capital improvements

Source: File 26-0393; draft loan term sheet and draft loan agreement

¹ Requirement applies until SFZS is deemed financially sustainable by the Controller.

² The San Francisco Zoo is currently AZA accredited. Its next upcoming accreditation visit will occur in spring 2027.

³ These provisions are in the loan term sheet but not in the draft loan agreement.

According to the draft loan agreement, funds will be released when SFZS reaches the milestones shown in Exhibit 3 below. Prior to the start of the loan, SFZS must provide its current plans for

increasing attendance and fundraising and a loan repayment plan. One year after the start of the loan, SFZS must provide its final financial sustainability plan and five-year strategic plan.

Exhibit 3: Loan Milestones

Timeline	Fiscal Year	Funds Released	Milestone Actions
			• Current plans for attendance and fundraising growth, expenditure reductions
Prior to loan start	2025-26	\$0	• Loan repayment plan
Loan start	2025-26	\$2.5 million	• Begin visioning process with City
Loan start + 3 months	2026-27	\$0	• Hire consultant • First-quarter data
Loan start + 6 months	2026-27	\$1.4 million	• Draft financial sustainability plan and draft strategic plan submitted to RPD and Controller's Office • Second-quarter data
Loan start + 9 months	2026-27	\$1.3 million	• Third-quarter data
By March 2027	2026-27	\$0	• Achieve AZA accreditation
Loan start + 12 months	2026-27	\$1.3 million	• Final financial sustainability plan and strategic plan submitted to Joint Zoo Committee • Fourth quarter data
If needed	2027-28 (anticipated)	\$2 million in reserve	• \$2 million in reserve may be released if City determines sufficient progress has been made towards financial sustainability and long-term goals
As established in audit or with the City	varies	\$0	• Address audit concerns and recommendations

Source: Draft loan

FISCAL IMPACT

As shown in Exhibit 2 above, the loan term document states that the City may use either debt financing or General Fund support to pay for the loan. However, according to Antonio Guerra, RPD Director of Administration of Finance, RPD anticipates the loan will be entirely General Fund supported. An ordinance (File 26-0360) pending Board of Supervisors approval would de-appropriate \$2.5 million from the Open Space Acquisition Reserve and appropriate this funding to the Park, Recreation and Open Space Fund in FY 2025-26. This \$2.5 million would be used for the initial loan disbursement, anticipated to occur in FY 2025-26, that coincides with the

beginning of the loan. According to Director Guerra, RPD anticipates that a \$2.5 million General Fund transfer to restore the funding to the Open Space Acquisition Reserve will be included in the Mayor's proposed FY 2026-28 budget, subject to Board of Supervisors approval. RPD anticipates that General Fund support for the remainder of the loan disbursements (\$6 million, inclusive of the \$2 million reserve) will be included in the Mayor's proposed FY 2026-28 budget, subject to Board of Supervisors approval.

According to Director Guerra, while RPD considered the use of certificates of participation to fund the loan payments, this scenario was determined to be more costly to SFZS. The use of certificates of participation would have resulted in a higher interest rate and transaction costs to SFZS.

Planned Uses of the Open Space Acquisition Reserve

Charter Section 16.107 establishes the Park, Recreation and Open Space Fund, which is administered by RPD to provide park and recreational services and facilities. The City is required, though a voter-approved spending requirement, to deposit an annual property tax set-aside amount into the fund. According to Charter Section 16.107(g)(3), five percent of monies deposited into the fund annually are to be dedicated to the acquisition of real property, and any unspent or uncommitted amounts are carried forward to the following fiscal year.

According to RPD staff, the Open Space Acquisition Reserve fund balance is currently \$14 million. According to Director Guerra, given the large available appropriation in the fund, RPD operations would not be affected by the proposed \$2.5 million de-appropriation. Other future planned uses for the Open Space Acquisition Reserve include a potential acquisition in the Tenderloin, an upcoming acquisition of a PG&E parcel at India Basin, and future acquisition of open space at the Schlage Lock redevelopment site.

POLICY CONSIDERATION

Panda Scenario Uncertainty

As discussed earlier in this report, SFZS is projecting a net operating cash surplus beginning in 2028 due to higher attendance resulting from the panda exhibit and corresponding increases in revenue from admissions, retail, camps, memberships, and contributions. SFZS's projected surplus would allow it to repay the loan via monthly decreases in the management fee paid by the City. However, SFZS's ability to repay the loan will be compromised if it fails to execute the panda agreement with China, if the exhibit is substantially delayed, or if actual attendance levels, memberships, and contributions are not sufficient to generate an operating cash surplus. If SFZS does not achieve financial stability by 2028, when the loan repayment period begins, the reduction in the monthly management fee paid by the City could cause further financial distress to SFZS and could compromise its ability to operate the Zoo and to repay the full amount of the loan.

According to RPD staff, no collateral secures the loan.

Lease and Management Agreement and Role of Joint Zoo Committee

The Budget and Legislative Analyst's *Performance and Management Audit of the San Francisco Zoo* contains recommendations designed to improve the operations, accountability, and long-term financial sustainability of SFZS and the Zoo overall. SFZS management has agreed with all the audit recommendations directed to SFZS, and execution of these recommendations is included as a requirement in the draft loan term sheet. However, the audit report also directs several recommendations to the Recreation and Park Department, including a recommendation that the RPD General Manager initiate negotiations for a new Lease and Management Agreement because the current agreement has become outdated and ineffective. In their response to this recommendation, the RPD Interim General Manager responded that although they agree that any agreement between SFZS and the City would need stronger enforcement mechanisms and updated roles and responsibilities, RPD disagrees that a new Lease and Management Agreement is immediately necessary, as the draft loan agreement between the City and SFZS will require SFZS to meet more robust performance benchmarks and reporting requirements and require City approval of certain plans that did not previously require approval.

The audit report also recommends the RPD General Manager dissolve the Joint Zoo Committee upon the execution of a new Lease and Management Agreement and establish a more direct working relationship between the Recreation and Park Commission and SFZS. The RPD Interim General Manager agrees with this recommendation. If this recommendation is implemented, the loan term that requires SFZS to present its final financial sustainability plan and strategic plan to the Joint Zoo Committee should be revised to replace Joint Zoo Committee with the Recreation and Park Commission.

Costs of Inaction

The April 7, 2026 BLA report *Projected Fiscal Impact from Cessation of San Francisco Zoological Society Operations* estimated that if SFZS is no longer able to operate the Zoo and the City must assume responsibility for Zoo animals and grounds, the three-year cost to the City could total between \$42.5 and \$64.9 million, with ongoing annual costs thereafter.

RECOMMENDATION

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

Item 5 File 26-0417	Department: Airport
EXECUTIVE SUMMARY	
Legislative Objectives - The proposed resolution would approve the 2023 Lease and Use Agreement between the Airport and AirZeta Co., Ltd. to conduct flight operations through June 30, 2033. Key Points - In 2022, the Airport negotiated a new lease and use agreement (2023 Lease) with signatory airlines that operate at the Airport. The 2023 Lease replaced the 2011 Lease, which was set to expire on June 30, 2023. In June 2023, the Board of Supervisors approved the 2023 Lease with 40 airlines (Files 23-0204, 23-0342). - AirZeta, which began cargo flight operations at the Airport on August 1, 2025 under a permit, has now signed on to the 2023 Lease. In April 2026, the Airport Commission approved the Lease with AirZeta Co., Ltd. Fiscal Impact - Over the term of the lease, the Airport anticipates total revenue of approximately \$15 million from AirZeta. - Projected revenue from AirZeta's cargo operations is expected to grow steadily over the term of the lease, reflecting consistent annual operations and increasing landing fee rates. Recommendation - Approve the proposed resolution.	

MANDATE STATEMENT

Section 2A.173 of the City’s Administrative Code authorizes the Airport to negotiate and execute leases of Airport lands and space in Airport buildings without undergoing a competitive bid process, as long as the original term of the lease does not exceed 50 years.

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

BACKGROUND

In 2022, the San Francisco International Airport (Airport) negotiated a new lease and use agreement (2023 Lease) with signatory airlines that operate at the Airport. The 2023 Lease replaced the 2011 Lease, which was set to expire on June 30, 2023. In June 2023, the Board of Supervisors approved the 2023 Lease with 40 airlines (Files 23-0204, 23-0342). In January 2024, the Board of Supervisors approved the addition of eight additional airlines to the 2023 (Files 23-1038, 24-0011). In July 2024, the Board of Supervisors approved the addition of one airline to the 2023 Lease (File 24-0627). AirZeta Co., Ltd., which began cargo flight operations at the Airport on August 1, 2025 pursuant to Airline Operating and Space Permit No. 5155, has now signed on. In April 2026, the Airport Commission approved the Lease with AirZeta Co., Ltd.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the 2023 Lease and Use Agreement between the San Francisco International Airport (Airport) and AirZeta Co., Ltd. for flight operations through June 30, 2033. The proposed resolution would also affirm the Planning Department’s determination under the California Environmental Quality Act (CEQA) and authorize the Airport Director to make further immaterial amendments to the lease.

The key terms of the 2023 Lease are shown in Exhibit 1 below.

Exhibit 1: Key Terms of 2023 Lease

Term	Beginning from the first month following full approvals of the lease through June 30, 2033
Rate-Making Methodology	Existing residual rate setting methodology is maintained. Signatory airlines pay landing fees, terminal area rentals, and other usage fees that are adjusted annually by the Airport Commission so that total airline and non-airline revenues are equal to total Airport costs, including debt service.

Annual Service Payment	Existing Airport Annual Service Payment to the City's General Fund is maintained at the greater of 15% of Airport concession revenues or \$5 million.
Operating Reserve and Capital Improvement Fund	Creates an operating reserve and capital improvement fund totaling \$800 million over the 10-year term which is adjusted annually for inflation.
Shared Use Equipment	Increases rights of the Airport Commission to install shared use equipment in the Airport, including in exclusive use spaces of airlines, to improve operational efficiency.
Preferential Use Gate Allocation	Increases review period of airline seat capacity to allocate preferential use gates to promote consistent use of preferential use gates throughout the year.
Sustainable Aviation Fuel Working group	Creates a Sustainable Aviation Fuel Working Group of Airport staff and signatory airlines, chaired by the Airport Director, that would determine how the parties can work together to increase the uptake of sustainable aviation fuel at the Airport.
Ground Service Equipment Electrification	Establishes a mutual goal to accomplish 100% electric-powered ground service equipment at the Airport.
Digital Information Working Group	Creates a Digital Information Working Group chaired by the Airport Director and involving Airport staff and signatory airlines that will identify data on airport infrastructure and airline operations that could be exchanged to improve Airport operations and the experience of Airport guests.
Commercialization of Digital Assets	Acknowledgment that the Airport has the exclusive and sole right to manage, control, and use all Airport Proprietary Content.

Source: Airport staff memo to Airport Commission.

FISCAL IMPACT

Over seven years of operations, the Airport anticipates total revenue of approximately \$15 million from AirZeta Co., Ltd. as shown in Exhibit 2 below.

Exhibit 2: Projected Revenues by Fiscal Year

Fiscal Year	Customs Cargo Facility Fee	Landing Fee Rate	Operation Per Year	Landed Weight (000's)	Landing Fees
FY 2026-27	\$15,524	\$7.63	312	614	\$1,461,664
FY 2027-28	\$15,990	\$8.62	312	614	\$1,651,316
FY 2028-29	\$16,470	\$9.78	312	614	\$1,873,535
FY 2029-30	\$16,964	\$11.17	312	614	\$2,139,815
FY 2030-31	\$17,473	\$12.29	312	614	\$2,354,371
FY 2031-32	\$17,997	\$13.52	312	614	\$2,589,999
FY 2032-33	\$18,537	\$14.87	312	614	\$2,848,616
Total	\$118,953				\$14,919,316
Total					\$15,038,269

Source: Airport. FY 2027 revenues are projected for the full fiscal year.

Projected landing fee revenue increases each year as landing fee rates escalate from \$7.63 per thousand pounds in FY 2026-27 to \$14.87 in FY 2032-33, resulting in annual revenue rising from \$1.46 million to \$2.85 million.

Revenue projections assume consistent annual operations and landed weight.

RECOMMENDATION

Approve the proposed resolution.