

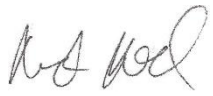
**CITY AND COUNTY OF SAN FRANCISCO**

**BOARD OF SUPERVISORS**

**BUDGET AND LEGISLATIVE ANALYST**

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September 12, 2025

**TO:** Budget and Finance Committee  
**FROM:** Budget and Legislative Analyst   
**SUBJECT:** September 17, 2025 Budget and Finance Committee Meeting

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**Item 2**  
**File 25-0944**

**Department:**  
Recreation and Parks Department (REC)

## **EXECUTIVE SUMMARY**

### **Legislative Objectives**

- The San Francisco Zoological Society (Zoological Society), in a September 10, 2025 letter to the Chair of the Budget and Finance Committee, has requested that \$3,000,000 in proposed Fiscal Year (FY) 2025-26 funds be released from reserve by the Budget and Finance Committee to support its operations from October through the end of FY 2025-26.

### **Key Points**

- On December 10, 2024 the Board of Supervisors approved a motion directing the Budget and Legislative Analyst to conduct a comprehensive performance audit of the San Francisco Zoo, which is owned by the City and operated by the Zoological Society. The Zoological Society is an independent nonprofit organization.
- On June 2, 2025, Dan Goncher, a Principal with the Budget and Legislative Analyst's Office, sent a letter to the former Executive Director of the Zoological Society as well as selected members of the Board of Supervisors, indicating that Zoological Society management was not fully cooperating with the performance audit.
- During the Board's budget process in June 2025, the Budget and Appropriations Committee placed \$3,000,000 of the \$4,000,000 in annual financial support on reserve pending full cooperation by Zoological Society management with the Budget and Legislative Analyst's performance audit of the San Francisco Zoo.

### **Fiscal Impact**

- The proposed release of reserves would enable the Recreation and Parks Department to provide monthly installments of the annual financial support after September 30, 2025 and throughout the remainder of the fiscal year. The Budget and Appropriations Committee placed \$3,000,000 or 75 percent of the annual subsidy on reserve.

### **Policy Consideration**

- The Budget and Legislative Analyst notes that Zoological Society management has shown much greater cooperation since the \$3,000,000 was put on reserve in June 2025.

### **Recommendation**

- Approve the requested release of reserves.

**MANDATE STATEMENT**

City Administrative Code Section 3.3(j) states that the Budget and Finance Committee of the Board of Supervisors has jurisdiction over the City's budget and may reserve proposed expenditures to be released at a later date subject to Board of Supervisors approval. The practice of the Board of Supervisors is for the Budget and Finance Committee to approve release of funds placed on reserve by the Committee, without further Board of Supervisors approval.

**BACKGROUND**

The San Francisco Zoological Society (Zoological Society), a 501(c)(3) non-profit organization, operates the San Francisco Zoo on behalf of the City. The Zoological Society has managed the Zoo since 1993 under a lease and management agreement. The lease and management agreement provides for financial support from the City to the Zoological Society in the amount of \$4,000,000 per year, which is provided through the Recreation and Parks Department in monthly installments for general operating needs.

In December 2024, the Board of Supervisors approved a motion (File 24-1027) directing the Budget and Legislative Analyst to conduct a comprehensive performance audit of the San Francisco Zoo.

On June 2, 2025, Dan Goncher, a Principal with the Budget and Legislative Analyst's Office, sent a letter to the former Executive Director of the Zoological Society as well as selected members of the Board of Supervisors, indicating that Zoological Society management was not fully cooperating with the performance audit.

In June 2025, the Budget and Appropriations Committee put \$3,000,000 of the \$4,000,000 annual financial support on reserve pending full cooperation from Zoological Society management with the Budget and Legislative Analyst's performance audit team.

**DETAILS OF PROPOSED LEGISLATION**

The Chief Financial Officer and Co-CEO of the Zoological Society sent a letter to the Chair of the Budget and Finance Committee on September 10, 2025 requesting a release of reserves in the amount of \$3,000,000 from the FY 2025-26 budget. As noted above, this amount is part of an annual \$4,000,000 of financial support from the City to the Zoological Society, which is provided through the Recreation and Parks Department budget.

The letter asserts that the Zoological Society has been working diligently to fully comply with the audit over the summer and since the funds were frozen.

**FISCAL IMPACT**

The proposed release of reserves would enable the Recreation and Parks Department to provide monthly installments of the annual financial support after September 30, 2025 and throughout

the remainder of the fiscal year. The Budget and Appropriations Committee placed \$3,000,000 or 75 percent of the annual subsidy on reserve.

The lease and management agreement between the City and the Zoological Society stipulates that \$4,000,000 be provided each fiscal year to support the Zoo's operational needs.

#### **POLICY CONSIDERATION**

The Budget and Legislative Analyst notes that Zoological Society management has shown much greater cooperation since the \$3,000,000 was put on reserve in June 2025.

#### **RECOMMENDATION**

Approve the request to release the \$3,000,000 in reserved funds for the San Francisco Zoo.

**Item 3**  
**File 25-0876**

**Department:**  
Controller

## **EXECUTIVE SUMMARY**

### **Legislative Objectives**

- The proposed resolution would set the combined property tax rate for FY 2025-26 at \$1.18268325 per \$100 of assessed value for FY 2025-26 for taxing entities within the City and County of San Francisco including (a) the City; (b) the San Francisco Unified School District; (c) the San Francisco County Office of Education; (d) the San Francisco Community College District; (e) Bay Area Rapid Transit District; and (f) the Bay Area Air Quality Management District.

### **Key Points**

- The Board of Supervisors annually sets the combined property tax rate that provides revenues for the taxing entities noted above. The California Constitution provides for base property tax rates of up to one percent and increases in assessed values of up to two percent, unless there is a change in ownership. Any amount over the base of one percent tax rate is used to pay for debt service on voter-approved general obligation bonds.
- The proposed resolution would also set the property tax pass-through rates that landlords can pass through to tenants in FY 2025-26.

### **Fiscal Impact**

- The FY 2025-26 property tax rate of \$1.18268325 is \$0.01124762, or 0.96 percent more than the FY 2024-25 tax rate of \$1.17143563 per \$100 of assessed value. This would increase property taxes by \$260 on a single-family residence with an assessed value of \$761,870 in FY 2025-26 and increase the maximum allowable pass-through to tenants by \$43.
- This year's 0.96 percent property tax rate increase and the allowable two percent increase in the assessed value of a home results in a three percent higher tax bill.

### **Recommendation**

- Approve the proposed resolution.

**MANDATE STATEMENT**

California Revenue and Taxation Code Section 2151 requires the Board of Supervisors to fix the rates of county and district property taxes and to levy the property taxes for the County and Districts.

San Francisco Administrative Code Section 3.3(m) requires the Board of Supervisors to adopt the property tax rate for the City and County of San Francisco by September 30.

City Charter Section 16.107-109 requires that portions of the City's annual property tax levy be set aside for specific uses including \$0.0250 for the Library Preservation Fund; \$0.0400 for the Children's Fund; and \$0.0250 for the Open Space Fund per \$100 of assessed value.

San Francisco Administrative Code Section 37.3(a)(6)(A-E), the Residential Rent Stabilization and Arbitration Ordinance allow landlords to pass-through to tenants a portion of property tax increases that result from certain voter-approved general obligation bonds.

**BACKGROUND**

The Board of Supervisors annually sets the combined property tax rate that provides revenues for affected taxing entities: (1) General Operations, (2) specific Charter-required activities for the City and County of San Francisco such as services for children, acquiring open space, or constructing, maintaining, and operating the public library; and (3) paying debt service on voter-approved general obligation bonds that were issued by the City, the San Francisco Unified School District, the San Francisco Community College District, and the Bay Area Rapid Transit District.

Under the California Constitution Article XIII(A), the base property tax rate that the City can levy on property owners is one percent. Any amount over the base of one percent is used to pay for debt service on voter-approved general obligation bonds.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution sets the property tax rate for FY 2025-26 for taxing entities<sup>1</sup> within the City and County of San Francisco including (a) the City; (b) the San Francisco Unified School District; (c) the San Francisco County Office of Education; (d) the San Francisco Community College District; (e) Bay Area Rapid Transit District; and (f) the Bay Area Air Quality Management District.

The proposed resolution would also set the property tax pass-through rates that landlords can pass through to tenants in FY 2025-26, as allowed in Chapter 37.3 of the City Administrative Code. The pass-through to tenants may only be imposed on a tenant's anniversary date and does not

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<sup>1</sup> Taxing entities are located within the City that have taxing authority but may not be part of the City government.

become part of a tenant's base rent. The allowable tenant pass-through rate is based on the portion of the landlord's property tax liability that comes from general obligation bond debt service for certain periods and consists of three factors outlined in Chapter 37.3 of the Administrative Code, as shown in Exhibit 1 below.

**Exhibit 1: Percent of Property Tax Increases for General Obligation Bond Debt Service Allowed for Pass-Through to Tenants**

| <b>Entity</b>                                                                     | <b>Date of GO Bond Approval</b> | <b>Pass-Through Rate</b> |
|-----------------------------------------------------------------------------------|---------------------------------|--------------------------|
| City and County of San Francisco                                                  | 11/1/1996 – 11/30/1998          | 100%                     |
| City and County of San Francisco                                                  | 11/14/2002 – Present            | 50%                      |
| San Francisco Unified School District or San Francisco Community College District | 11/1/2006 – Present             | 50%                      |

Source: Administrative Code Section 37.3(6)

In April 2024, the Board of Supervisors approved an ordinance that limited the allowable tenant pass-through rate to the difference in the current eligible entities' tax rate amount and the eligible entities' tax rate in the year that the tenant had moved in or 2005, whichever is later, multiplied by a factor representing allowed pass-through bonds' debt service divided by the total debt service of general obligation bonds issued by eligible entities (File 24-0174).

**FISCAL IMPACT**

The proposed resolution would set the combined property tax rate for FY 2025-26 at \$1.18268325 per \$100 of assessed value. The FY 2025-26 property tax rate of \$1.18268325 is \$0.01124762, or 0.96 percent more than the FY 2024-25 tax rate of \$1.17143563 per \$100 of assessed value. Exhibit 2 below shows the proposed tax rates for all taxing jurisdictions in the City, as determined by the Controller and by the Bay Area Rapid Transit District Board for their general obligation bond tax rate factor.

**Exhibit 2: Current and Proposed Tax Rates per \$100 of Assessed**

| <b>Tax/Entity</b>                               | <b>FY 2024-25</b>   | <b>FY 2025-26</b>   | <b>Change</b>         |
|-------------------------------------------------|---------------------|---------------------|-----------------------|
| <b>City &amp; County of San Francisco</b>       |                     |                     |                       |
| General Fund                                    | \$0.80918319        | \$0.80918319        | No change             |
| Library Preservation Fund                       | \$0.02500000        | \$0.02500000        | No change             |
| Children's Fund                                 | \$0.04000000        | \$0.04000000        | No change             |
| Open Space Fund                                 | \$0.02500000        | \$0.02500000        | No change             |
| General Obligation Bond Debt Service            | \$0.10600267        | \$0.11051006        | \$0.00450739          |
| <b>City Subtotal</b>                            | <b>\$1.00518586</b> | <b>\$1.00969325</b> | <b>\$0.00450739</b>   |
| <b>San Francisco Unified School District</b>    |                     |                     |                       |
| General Operations                              | \$0.07698857        | \$0.07698857        | No change             |
| General Obligation Bond Debt Service            | \$0.03345173        | \$0.04004005        | \$0.00658832          |
| <b>SFUSD Subtotal</b>                           | <b>\$0.11044030</b> | <b>\$0.11702862</b> | <b>\$0.00658832</b>   |
| <b>San Francisco County Office of Education</b> | <b>\$0.00097335</b> | <b>\$0.00097335</b> | <b>No change</b>      |
| <b>San Francisco Community College District</b> |                     |                     |                       |
| General Operations                              | \$0.01444422        | \$0.01444422        | No change             |
| General Obligation Bond Debt Service            | \$0.01718123        | \$0.01693314        | (\$0.00024809)        |
| <b>SFCCD Subtotal</b>                           | <b>\$0.03162545</b> | <b>\$0.03137736</b> | <b>(\$0.00024809)</b> |
| <b>Bay Area Rapid Transit District</b>          |                     |                     |                       |
| General Operations                              | \$0.00632528        | \$0.00632528        | No change             |
| General Obligation Bond Debt Service            | \$0.01480000        | \$0.01520000        | \$0.00040000          |
| <b>BART Subtotal</b>                            | <b>\$0.02112528</b> | <b>\$0.02152528</b> | <b>\$0.00040000</b>   |
| <b>Bay Area Air Quality Management District</b> | <b>\$0.00208539</b> | <b>\$0.00208539</b> | <b>No change</b>      |
| <b>Total Property Tax Rate</b>                  | <b>\$1.17143563</b> | <b>\$1.18268325</b> | <b>\$0.01124762</b>   |

Source: Proposed resolution

Note: The General Fund tax rate of \$0.80918319 includes \$0.25330113 to be shifted to the Educational Revenue Augmentation Fund for the benefit of San Francisco Unified School District, San Francisco County Office of Education, and the San Francisco Community College District.

**Tenant Pass-Through Tax Rate**

The proposed resolution would set the allowable property tax rate that landlords can be pass through to tenants at an amount ranging from \$0.00 to \$0.0176 per \$100 of assessed value, depending on the tenancy commencement date. An overview of allowable pass-through rates is shown in Exhibit 3 below.

**Exhibit 3: Allowable Tenant Pass-Through Rates**

| <b>Tenancy Commencement Date</b> | <b>Allowable Pass-Through Rate (per \$100 of Assessed Value)</b> |
|----------------------------------|------------------------------------------------------------------|
| 6/30/2006 and Earlier            | \$0.0151                                                         |
| 7/1/2006 - 6/30/2007             | \$0.0176                                                         |
| 7/1/2007 - 6/30/2008             | \$0.0160                                                         |
| 7/1/2008 - 6/30/2009             | \$0.0063                                                         |
| 7/1/2009 - 6/30/2010             | \$0.0066                                                         |
| 7/1/2010 - 6/30/2011             | \$0.0030                                                         |
| 7/1/2011 - 6/30/2012             | \$0.0000                                                         |
| 7/1/2012 - 6/30/2013             | \$0.0012                                                         |
| 7/1/2013 - 6/30/2017             | \$0.0000                                                         |
| 7/1/2017 - 6/30/2018             | \$0.0016                                                         |
| 7/1/2018 - 6/30/2019             | \$0.0053                                                         |
| 7/1/2019 - 6/30/2022             | \$0.0000                                                         |
| 7/1/2022 - 6/30/2023             | \$0.0008                                                         |
| 7/1/2023 - 6/30/2024             | \$0.0015                                                         |
| 7/1/2024 - 6/30/2025             | \$0.0051                                                         |
| 7/1/2025 - 6/30/2026             | \$0.0000                                                         |

Source: Proposed resolution

Residential tenants may be eligible for partial or full relief from the property tax pass-through under Section 37.3(a)(6)(F) of the Administrative Code by filing a financial hardship application with the Rent Board.

**Impact of the Combined Property Tax Rate and Allowable Pass-Through**

Under Proposition 13, the City may annually increase the assessed value of a property by a State-determined inflation factor or two percent, whichever is less. For FY 2025-26, the California Consumer Price Index adjustment authorized by the State is two percent. The median assessed value of a single-family residence was \$746,931 in FY 2024-25, as shown in Exhibit 4 below. The taxable assessed value on that same home, with the assessed value increased by the State-determined inflation factor of two percent and a homeowner's exemption, would be \$761,870 in FY 2025-26.

**Exhibit 4: Estimated Property Tax for Single-Family Residence with Median Assessed Value**

|                                                                        | <b>Single Family<br/>Residence</b> | <b>Allowable Tenant<br/>Pass-Through<sup>2</sup></b> |
|------------------------------------------------------------------------|------------------------------------|------------------------------------------------------|
| <b>Fiscal Year 2024-25</b>                                             |                                    |                                                      |
| Assessed Value                                                         | \$746,931                          | \$746,931                                            |
| Less Homeowner's Exemption                                             | \$7,000                            | \$0                                                  |
| Total Taxable Assessed Value                                           | \$739,931                          | \$746,931                                            |
| Property Tax Rate                                                      | 1.17143563%                        | 0.0122%                                              |
| <b>Property Taxes Payable in 2024-25</b>                               | <b>\$8,668</b>                     | <b>\$91</b>                                          |
| <b>Proposed FY 2025-26</b>                                             |                                    |                                                      |
| Prior Year Assessed Value                                              | \$746,931                          | \$746,931                                            |
| CPI Increase (2%)                                                      | \$14,939                           | \$14,939                                             |
| Subtotal, Assessed Value + CPI Increase                                | \$761,870                          | \$761,870                                            |
| Less Homeowner's Exemption                                             | \$7,000                            | \$0                                                  |
| <b>Total Taxable Assessed Value</b>                                    | <b>\$754,870</b>                   | <b>\$761,870</b>                                     |
| Property Tax Rate                                                      | 1.18268325%                        | 0.0176%                                              |
| <b>Property Taxes Payable in 2025-26</b>                               | <b>\$8,928</b>                     | <b>\$134</b>                                         |
| Total Change in Property Taxes Payable in FY 2025-26 versus FY 2024-25 | \$260                              | \$43                                                 |

Source: Controller's Office

As shown in Exhibit 4, the proposed FY 2025-26 property tax rate of \$1.18268325 per \$100 of assessed value would increase property taxes by \$260 on a single-family residence with an assessed value of \$761,870 in FY 2025-26 and increase the maximum allowable pass-through to tenants by \$43. This year's 0.96 percent property tax rate increase and the allowable two percent increase in the assessed value of a median valued home results in a three percent higher tax bill.

### RECOMMENDATION

Approve the proposed resolution.

<sup>2</sup> For FY 2025-26, the pass-through rate shown is the maximum allowable rate of \$0.0176 per \$100 of assessed value for tenancies commencing from July 2006 through June 2007.

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| <b>Item 4</b><br><b>File 25-0774</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | <b>Department:</b><br>San Francisco International Airport (Airport) |
| <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 Modification No. 15 to the Airport's project management support services contract with WCME JV, increasing the amount of the contract by \$76 million for a total not to exceed \$126 million, and extending the term by an additional five years from December 31, 2025, for a total term of April 12, 2016 through December 12, 2030.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>Under the Terminal 3 West Modernization Project, the Airport is expanding and renovating portions of Terminal 3 by providing a seismic retrofit, replacing end of life building systems, installing additional swing gates and a new TSA Checked Baggage Inspections System, expanding concessions, upgrading the terminal façade, and constructing the core and shell for a new building in Courtyard 4.</li> <li>In February 2016, the Airport Commission awarded a contract to WCME JV (WCME) in an amount of \$8,100,000 for one year from April 4, 2016 through April 3, 2017 to provide project management services to the Terminal 3 West Modernization Project. Since then, there have been 14 modifications to the contract. The Board of Supervisors approved modifications 4 and 6 (Files 18-0422 and 19-0017).</li> <li>Under the contract, WCME would support Airport staff with project management and oversight, as well as reporting on program data. The contract's scope of services includes project controls, managing project cost and schedule information, providing project budget analysis and cost estimating services, and preparing monthly project status reports.</li> <li>The most recent performance evaluation completed in July 2025 found that WCME met or exceeded expectations in all areas reviewed.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>The proposed modification would increase the amount of the WCME contract by \$76 million for a total not to exceed \$126 million. The proposed contract increase will fund 50.1 FTE in 2026 during the construction phase which decreases to 26.1 FTE during the project closeout period in 2030. The contract is funded by Airport revenue bonds.</li> <li>The contract increase is driven by increases in the overall project budget, which has quadrupled due to scope expansion. The proposed contract as a share of the total project budget (4.5 percent) is comparable to the share estimated in the 2015 RFP (4.3 percent).</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****Terminal 3 West Modernization Project**

The San Francisco International Airport (Airport) has four terminals: Terminal 1, Terminal 2, Terminal 3, and the International Terminal. Built in the 1970s, Terminal 3 consists of the main terminal building, which is separated into the eastern and western sides, and Boarding Areas E and F. The Airport determined that Terminal 3 was a seismically vulnerable facility that was no longer capable of accommodating passenger growth.

Adopted in October 2023, the Airport's FY 2023-24 – FY 2024-25 \$11 billion Capital Improvement Plan consists of two programs: (1) the \$8 billion Ascent Program – Phase 1.5<sup>1</sup> and (2) the \$3 billion Infrastructure Projects Plan.<sup>2</sup> The Terminal 3 West Modernization Project is a part of the Ascent Program and aims to expand and renovate portions of Terminal 3 by providing a seismic retrofit, replacing end of life building systems, installing additional swing gates to create a secure connection to customs, installing a new TSA Checked Baggage Inspections System, expanding concessions, and upgrading the terminal façade to improve the passenger experience. The project also includes constructing the core and shell for a new seven-story building in Courtyard 4 for airline lounge and operational functions.

According to the Airport, the current total Terminal 3 West Modernization Project budget is \$2.8 billion.<sup>3</sup> The total approved budget, which includes the proposed \$126 million contract for project management services, is detailed in Exhibit 1 below.

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<sup>1</sup> This consists of a fixed set of 27 projects (within 17 project categories) with an estimated completion in FY 2029-30.

<sup>2</sup> This consists of a dynamic set of projects that can be updated bi-annually to include newly emerging needs. The total budget of the program is approximately \$3 billion over two years and currently consists of 218 projects (within 29 project categories)

<sup>3</sup> According to the FY 2023-24 Airport Capital Improvement Plan, the total budget for Terminal 3 Project is \$2,646,200,000. The Airport states the current total budget of \$2.8 billion includes additional scope items, such as the construction of a self bag drop system, a baggage transfer line from Terminal 2 to 3 and from Terminal 3 to the International Terminal, and an expanded concessions program.

**Exhibit 1: Terminal 3 West Modernization Project Budget**

| <b>Activity</b>                                                    | <b>Budget</b>          |
|--------------------------------------------------------------------|------------------------|
| Airport Design, Engineering, Permitting, and Other Soft Costs      | \$115,644,816          |
| Design-Build Contract (Designer Portion)                           | 179,262,000            |
| Design Build Contract (Builder Portion)                            | 2,186,264,000          |
| Design Build Contingency <sup>4</sup>                              | 205,046,184            |
| Project Management Support Services ( <i>proposed resolution</i> ) | 126,000,000            |
| <b>Total</b>                                                       | <b>\$2,812,217,000</b> |

Source: Airport

As of July 31, 2025, the Airport has spent \$593,806,948 and has encumbered an additional \$71,363,627 for a total of \$665,170,575 (approximately 24 percent of the total project budget). The Airport plans to spend the remaining \$2,147,046,425 by the project closeout date of December 12, 2030.<sup>5</sup> According to the Airport, approximately 16 percent of construction has been completed to date for the project.

The original Terminal 3 West Modernization Project total budget amount was \$627 million as of April 2017. According to the Airport, the drivers for the quadrupling of the project's total budget from \$627 million to \$2.8 billion are the following scope additions: (1) \$58 million to replace the façade of the pre-security terminal,<sup>6</sup> (2) \$494 million to renovate the pre-security check-in lobby on the western side with new baggage handling technology, upgrade circulation and operational space, replace all building systems, and upgrade finishes (3) \$346 million to construct a seven-story Courtyard 4 building for airline lounge and operational functions, (4) \$506 million to replace and upgrade a building addition to the eastern side of the F Connector<sup>7</sup> to address safety and operational issues and inefficiencies and improve the passenger experience, and (5) \$377 million for additional infrastructure and building systems upgrades<sup>8</sup> to support Terminal 3.

**Procurement and Modifications of WCME Contract**

In August 2015, the Airport issued a Request for Proposals (RFP) to award a project management support services contract for the Terminal 3 West Modernization Project. The proposed term of

<sup>4</sup> According to the Airport, this is a separate contingency to address unforeseen conditions and field changes. The contingency amount for capital projects is typically 7.5 percent of the Design Build Contract budget. However, this project has an approximate additional one percent due to the complex nature of needing to cover temporary relocations to maintain operations during construction.

<sup>5</sup> The original end date for the project was October 2022. The timeline was extended because of the following: (1) the three-year suspension of the project due to the pandemic, (2) approximately two years was needed to revise and expand on pre-construction upon project restart, and (3) additional scope and phase of work (East Addition) that could not start until construction had completed for the West Addition phase of work

<sup>6</sup> This is a zone within an airport terminal that is accessible to the public without undergoing security screening and typically contains amenities like restaurants, shops, waiting areas, check-in counters, etc.

<sup>7</sup> The F Connector is a part of the post-security terminal, connecting the security checkpoint area with the Boarding Area F pier.

<sup>8</sup> The Airport states that this consists of 32 different scope items grouped together, primarily focusing on additional infrastructure and upgrading building systems such as electrical and baggage handling systems, etc.

the contract in the RFP was 60 months with an estimated total budget of \$32 million. In February 2016, the Airport Commission awarded a contract to WCME JV (WCME) in an amount of \$8,100,000 for one year from April 4, 2016 through April 3, 2017 to provide project management services to the Terminal 3 West Modernization Project. At the time, the Airport estimated the total cost of the contract to be \$48 million for a total contract term of five and a half years. The Airport Commission approved the initial contract for one year, which would be renewed each year based on the Airport's evaluation of WCME JV's quality of work and performance.<sup>9</sup> Since then, there have been 14 modifications to the contract, as detailed in Exhibit 2 below. The Board of Supervisors approved modifications 4 and 6 (Files 18-0422 and 19-0017). Because of the pandemic's impact on Airport finances, the Airport suspended work on the project in April 2020. This suspension ended in January 2023.

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<sup>9</sup> According to the Airport, this practice changed because the Airport enacted a policy change on November 9, 2018, in which project management support services contracts with budgets over ten million must receive Airport Commission and Board of Supervisors authorization for the full contract amount and duration.

**Exhibit 2: WCME Contract Modifications**

| <b>Date</b> | <b>Modification #</b> | <b>Description</b>                                                                                                                                                                                                       |
|-------------|-----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3/21/17     | 1                     | Extended the term for an additional year to April 3, 2018, updated overhead rates and modified the Appendix B: Calculation of Charges                                                                                    |
| 10/1/2017   | 2                     | Updated the contractor's labor rates to reflect CPI increase and revised overhead rates                                                                                                                                  |
| 3/6/2018    | 3                     | Increased the not-to-exceed amount by \$1,890,000 to \$9,990,000 and extended the term to August 30, 2018, updated labor rates and modified the Appendix B: Calculation of Charges                                       |
| 3/6/2018    | 4                     | Increased the not-to-exceed amount by \$4,010,000 to \$14,000,000 and extended the term to April 4, 2019. Board approved the modification in July 2018 (File 18-0422).                                                   |
| 9/18/2018   | 5                     | Replaced a subcontractor and updated Appendix B: Calculation of Charges to reflect subcontractor overhead and billing rates                                                                                              |
| 11/20/2018  | 6                     | Increased the not-to-exceed amount by \$36,000,000 to \$50,000,000 and extended the term for an additional four years and six months to October 4, 2023. Board approved the modification in February 2019 (File 19-0017) |
| 3/20/2019   | 7                     | Allowed Contractor's joint venture member, Cooper Pugeda Management, Inc., to assign its membership in the joint venture to CPM Associates, Inc., and modified the Appendix B: Calculation of Charges                    |
| 9/16/2019   | 8                     | Added new subcontractors, updated overhead rates and standard contractual provisions                                                                                                                                     |
| 6/1/2020    | 9                     | Revised the Notices to Parties provision, updated Appendix B: Calculation of Charges, and updated standard contractual provisions                                                                                        |
| 11/14/2022  | 10                    | Revised the Appendix B: Calculation of Charges with updated labor rates and updated standard contractual provisions                                                                                                      |
| 2/20/2023   | 11                    | Acknowledged the contractor's joint venture member name change from CPM Associates, Inc. to Consor PMCM, Inc. and updated the Notices to Parties provision                                                               |
| 4/4/2023    | 12                    | Extended the term for services for an additional two years and three months to December 31, 2025                                                                                                                         |
| 9/12/2023   | 13                    | Updated standard contractual provisions, added a new subcontractor, and revised the Appendix B: Calculation of Charges with new classifications and range of rates                                                       |
| 11/5/2024   | 14                    | Updated standard contractual provisions, and revised the Appendix B: Calculation of Charges with new classifications and range of rates                                                                                  |

Source: WCME Contract Documents

In July 2025, the Airport Commission approved Modification No. 15 to the contract to extend the contract by an additional five years through December 12, 2030 and increase the not to exceed amount to \$126 million.

### DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Modification No. 15 to the Airport's project management support services contract with WCME JV, increasing the amount of the contract by \$76 million for a total not to exceed \$126 million, and extending the term by an additional five

years from December 31, 2025, for a total term of April 12, 2016 through December 12, 2030. WCME is a joint venture between PGH Wong Engineering, Inc., Consor PMCM, Inc., MCK Americas, Inc., and Environmental and Construction Solutions, Inc.

**Services**

Under the contract, WCME would support Airport staff with project management and oversight, as well as reporting on program data, for the Terminal 3 West Modernization Project. The contract's scope of services includes project controls, managing project cost and schedule information, providing project budget analysis and cost estimating services, and preparing monthly project status reports. Contract staff would also provide project management, administration and oversight services during the design, construction and closeout phases of the project, including conducting final field inspections. The proposed Modification No. 15 would not change the scope of services.

The Airport is increasing the contract amount and extending the term to address the project support needed to complete the Terminal 3 West Modernization Project, accommodate the expanded project scope, and align the five-year proposed extension with the anticipated project closeout date of December 2030.

**Local Business Enterprise Program**

The Contract Monitoring Division established a 20 percent Local Business Enterprise (LBE) subcontracting requirement for the contract. WCME committed to a 29 percent LBE participation goal. As of August 2025, WCME reports a 30.7 percent LBE achievement. Exhibit 2 shows the LBE percentage and tasks committed to each subcontractor.

**Exhibit 2: LBE Utilization to Date (August 2025)**

| <b>Subcontractors</b>         | <b>Tasks</b>                                                                                   | <b>LBE Commitment (%)</b> | <b>LBE Usage-to-Date (%)</b> |
|-------------------------------|------------------------------------------------------------------------------------------------|---------------------------|------------------------------|
| AMC Consulting Engineers      | Structural Review for Building Inspection Code Enforcement                                     | 0.8                       | 3.5                          |
| APEX Testing Laboratories     | Special Inspection Services                                                                    | 1.5                       | 2.9                          |
| Chaves & Associates           | Document Control, Administrative Support                                                       | 7.0                       | 9.2                          |
| CM Pros                       | Design Management, Resident and Office Engineer                                                | 4.0                       | 1.7                          |
| Hollins Consulting            | Project & Design Management, Special Systems, Estimating, Mechanical, Electrical, and Plumbing | 5.1                       | 7.7                          |
| PSC Associates                | Office Engineer                                                                                | 3.9                       | 0.1                          |
| Saylor Consulting             | Estimating, Office Engineer                                                                    | 6.0                       | 5.0                          |
| Stok (formerly Urban Fabrick) | Sustainability                                                                                 | 1.0                       | 0.6                          |
| <b>Total</b>                  |                                                                                                | <b>29.3</b>               | <b>30.7</b>                  |

Source: Airport

*Other Subcontractors*

Exhibit 3 below shows the other non-LBE subcontractors and their tasks for the contract.

**Exhibit 3: Subcontractors (non-LBE)**

| <b>Subcontractors</b>    | <b>Tasks</b>                                                                                   |
|--------------------------|------------------------------------------------------------------------------------------------|
| AECOM Technical Services | Project Management for Baggage Handling System, Special Systems, Wayfinding, Design Management |
| Veregy                   | Commissioning <sup>10</sup>                                                                    |

Source: Airport

<sup>10</sup> This is for building envelope (outer shell of building) commissioning, which is the verification that the constructed building and all systems meet the intended specified performance requirements.

### Performance Monitoring

Airport staff monitors contractor performance through semi-annual evaluations. The most recent performance evaluation was completed on July 14, 2025 for June 2025<sup>11</sup>. Airport staff found that WCME at least met or exceeded expectations in all areas reviewed<sup>12</sup>, which included project controls, data entry into the Unifier system, change order preparation, quality control, contract administration, teamwork and communication, project cost and schedule management, safety and security, and project management support services team resources management. No corrective actions were identified.

### FISCAL IMPACT

The proposed Modification No. 15 would increase the amount of the WCME contract by \$76 million for a total not to exceed \$126 million. The estimated contract budget of \$126 million is shown in Exhibit 4 below.

#### Exhibit 4: Estimated Contract Budget

| Expenditure                      | 2016 - 2024         | 2025                | 2026 <sup>13</sup>  | 2027                | 2028                | 2029                | 2030               | Total                |
|----------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|--------------------|----------------------|
| Labor                            | \$32,790,000        | \$14,850,000        | \$20,119,560        | \$18,029,560        | \$16,709,560        | \$14,739,560        | \$5,954,760        | \$123,193,000        |
| Mark-up on sub-consultant labor  | 207,000             | 126,000             | 142,000             | 109,000             | 86,000              | 68,000              | 17,000             | 755,000              |
| <i>Subtotal, labor costs</i>     | <i>\$32,997,000</i> | <i>\$14,976,000</i> | <i>\$20,261,560</i> | <i>\$18,138,560</i> | <i>\$16,795,560</i> | <i>\$14,807,560</i> | <i>\$5,971,760</i> | <i>\$123,948,000</i> |
| Other direct costs <sup>14</sup> | 452,000             | 285,000             | 184,000             | 184,000             | 184,000             | 184,000             | 79,000             | 1,552,000            |
| Mobilization <sup>15</sup>       | 500,000             | -                   | -                   | -                   | -                   | -                   | -                  | 500,000              |
| <b>Total</b>                     | <b>\$33,949,000</b> | <b>\$15,261,000</b> | <b>\$20,445,560</b> | <b>\$18,322,560</b> | <b>\$16,979,560</b> | <b>\$14,991,560</b> | <b>\$6,050,760</b> | <b>\$126,000,000</b> |

Source: Airport

According to Airport staff, the increased amount was determined by assessing forecasted staff support projections needed through the end of the project in December 2030. Airport staff state that \$41.5 million has been invoiced as of July 2025, and \$84.5 million is projected to be expended by the end of the proposed term (December 12, 2030) for a total of \$126 million. The proposed contract increase will fund an average total of 50.1 FTE in 2026 during the construction phase which decreases to 26.1 FTE during the project closeout period in 2030, as shown in Exhibit 5 below.

<sup>11</sup> According to the Airport, this was an out of cycle performance evaluation conducted to assess the current status of the vendor for the proposed contract modification request and submitted to the Airport Commission.

<sup>12</sup> This excludes the item on responding quickly to audit requests (under the Contract Administration area), which was deemed not applicable.

<sup>13</sup> The Airport states that the budget will increase by approximately five million from 2025 to 2026 because CY 2026 will have the highest level of construction activities for the project.

<sup>14</sup> This includes costs such as office supplies, technology licenses, safety equipment (e.g., safety vests, glasses, gloves, etc.), facilitated partnering, and pre-authorized expenses such as project team travel (e.g., airfare, lodging, meals)

<sup>15</sup> Mobilization covered the contractor's initial costs to onboard project staff.

**Exhibit 5: Average Number of FTE Funded by Proposed Contract Modification**

| <b>Classification</b>                       | <b>2026</b> | <b>2027</b> | <b>2028</b> | <b>2029</b> | <b>2030</b> |
|---------------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Airline and Tenant Coordination and Support | 2           | 2           | 2           | 2           | 1.9         |
| Building Inspection Code Enforcement (BICE) | 4.6         | 4.6         | 4.6         | 4.3         | 3.5         |
| Commissioning, Activation & Simulation      | 1           | 1           | 1           | 1           | 1           |
| Construction Management                     | 10          | 10          | 10          | 7           | 4.5         |
| Design Management                           | 3.6         | 3.5         | 2.7         | 2.5         | 2           |
| Document Control/Administrative             | 2           | 2           | 2           | 2           | 2           |
| Estimating                                  | 2.6         | 1           | 1           | 1           | 0           |
| Program Management                          | 1           | 1           | 1           | 1           | 1           |
| Project Controls                            | 5           | 5           | 5           | 4           | 3           |
| Project Management                          | 8.5         | 8           | 8           | 8           | 6           |
| Scheduling                                  | 1           | 1           | 1           | 1           | 0           |
| Special Inspections                         | 5.8         | 3.8         | 3.5         | 2           | 0           |
| System Specialization                       | 3           | 3           | 3           | 2.1         | 1.2         |
| <b>Average Total</b>                        | <b>50.1</b> | <b>45.9</b> | <b>44.8</b> | <b>37.9</b> | <b>26.1</b> |

Source: Airport

The contract is funded by Airport revenue bonds. According to the Airport, there are no impacts on operating costs as a result of the contract.

**Labor and Overhead Rates**

As detailed in the contract's Appendix B, compensation for services is on a time and materials basis. Direct labor rates range from \$98 per hour to \$143 per hour for a Program Manager to \$20 per hour to \$46 per hour for an Administrative Assistant.<sup>16</sup> Optional annual rate adjustments will be based on CPI and require Airport approval. Fixed field and home office overhead multipliers are applied on top of the direct labor rate for each staff member.<sup>17</sup> For example, rates including the overhead multiplier for a Program Manager working from the contractor's office would be from \$245 per hour to \$358 per hour. The contract also states that the prime contractor may include a two percent fee/markup for first-tier subcontractor labor. The markup is to cover the additional costs and risks the prime contractor may incur when managing subcontractors.

According to Airport staff, it is the Airport's standard practice to base overhead rates on audited rates (or financial statements if audits are not available). The original contract specified overhead rates by firm ranging from 110 percent to 167 percent for home office and 110 percent to 150 percent for field office. Modification 9 replaced the overhead rates, by firm, with fixed field and home office overhead multipliers of 2.3 and 2.5, respectively. According to Airport staff, this change was made because at the onset of the Covid-19 pandemic, all active contractors were

<sup>16</sup> The Airport states that the direct labor rates were developed based on industry standards for the Bay Area.

<sup>17</sup> According to the Airport, field and home office overhead multipliers are used to account for the indirect costs associated with supporting labor on a project. The field office overhead multiplier of 2.3 is applied to direct labor rates for all field and office staff working onsite at the project location (SFO Airport). The home office overhead multiplier of 2.5 is applied to staff working off-site, typically from the contractor's office.

asked to reduce their direct rates and use a fixed multiplier to reduce the cost to the Airport. Although the Airport has since updated another project management support services contract (for the International Terminal Phase 2 Project) to replace the fixed multipliers with overhead rates by firm to align with the Airport's standard practice, the Airport has not updated the proposed contract because the contractors have agreed to maintain the multiplier for the duration of the contract to help the Airport control costs for this project. According to Airport staff, using fixed multipliers instead of overhead rates results in lower costs,<sup>18</sup> provide better cost certainty for planning and forecasting purposes given the long timeframe of the contract, and reduce administrative burden.

Labor costs of \$20.1 million in 2026 are equal to approximately \$400,000 per FTE, including overhead equal to approximately \$227,000 per FTE.

### **Contract Share of Project Budget**

The proposed contract as a share of the total project budget is comparable to the share estimated in the 2015 RFP. However, as discussed above, the project was delayed due to the COVID-19 pandemic, and the total project budget has almost quadrupled due to scope expansion. The project management contract amount has quadrupled relative to estimates in the RFP. The Airport states that the vendor's role in cost containment of the project budget includes conducting independent cost reviews for change orders and trade packages<sup>19</sup> and ensuring that the designer completes the project design in accordance with the approved budget. The proposed contract amount of \$126 million is equal to 4.5 percent of the Terminal 3 West Modernization Project (\$2.8 billion). The 2015 RFP estimated a contract amount of \$32 million which was equal to 4.3 percent of the total project budget included in the RFP (\$750 million).

### **RECOMMENDATION**

Approve the proposed resolution.

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<sup>18</sup> For field office overhead rates (which applies to over 90 percent of the contract's staff), the costs of all consultant's overhead rates (with the addition of the added 10 percent mark-up) exceed the costs of using the field office overhead multiplier of 2.3.

<sup>19</sup> In construction, a trade package is a defined scope of work for a specific building specialty, such as electrical or plumbing, that is issued to a subcontractor for bidding and execution.

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| <b>Item 6</b><br><b>File 25-0872</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | <b>Department:</b><br>City Administrator's Office (ADM) |
| <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 authorize the Director of Property, on behalf of the Fleet Management Department (Central Shops), to execute a lease with Innes Group, LLC for 1908-1950 Innes Avenue for a term of six years, from October 2025 through September 2031, with one five-year option to extend through September 2036, for initial annual base rent of \$631,800, with three percent annual increases, and authorizing the City to contribute up to \$349,092 for tenant improvements.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>Central Shops operates six facilities and is responsible for fleet asset management, maintenance and repairs, motor pools, fueling, writing specifications, and vehicle acquisition and disposition. The California State Water Resources Control Board (SWRCB) requires the removal of all single-wall underground fuel storage tanks by December 31, 2025. Central Shops and the Real Estate Division (RED) searched for locations where Central Shops could construct a temporary fuel station while the Department of Public Works (DPW) replaces the existing fuel storage tanks and pursued the location at 1908-1950 Innes Avenue because it is adjacent to Central Shops' primary location at 555 Selby Street. The Innes location would also allow Central Shops to have a dedicated site to commission and decommission vehicles, which is currently being done at various client department sites.</li> <li>The proposed lease's rental rate of \$21.60 per square foot was determined using comparisons of leases of five similar properties in the area. The City would have an option to purchase the property within three years for a price of \$12,000,000. The landlord would complete tenant improvements, including upgrading electrical utility connections and warehouse doors, at a cost to the City of up to \$349,092.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>Under the proposed lease, the City would pay \$631,800 in initial annual rent, with three percent annual escalation. Over the initial six-year term of the lease, the City would pay \$4,086,741 in total rent. If the City were to exercise the five-year option, base rent for the extension term would be adjusted to the prevailing market rate.</li> <li>The City would pay up to \$349,092 in tenant improvements and \$500,000 to install the temporary fuel tank. The City is also responsible for utilities and janitorial and security services. Rent will be funded by charges to City departments, and the tenant improvements and fuel replacement costs will be funded by Certificates of Participation.</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 Administrative Code Section 23.27 states that any lease with a term of one year or longer and where the City is the tenant is subject to Board of Supervisors approval by resolution.

**BACKGROUND**

The City's Fleet Management Department (Central Shops) provides fleet services to over 70 City departments with a combined fleet of approximately 8,000 vehicles. Central Shops operates six facilities<sup>1</sup> across the City and is responsible for asset management, maintenance and repairs, motor pools, fueling, writing equipment specifications, and vehicle acquisition and disposition.

The California State Water Resources Control Board (SWRCB) requires the removal of all single-wall underground fuel storage tanks by December 31, 2025. To meet this requirement, Central Shops and the Real Estate Division (RED) searched for locations where Central Shops could construct a temporary fuel station while the Department of Public Works (DPW) replaces the existing fuel storage tanks. Existing maintenance facilities were not suitable because of space constraints and the needed ingress, egress, and queueing of vehicles for fueling. Central Shops and RED decided to pursue the location at 1908-1950 Innes Avenue because it is adjacent to Central Shops' primary location at 555 Selby Street. The Innes location would also allow Central Shops to have a dedicated site to commission and decommission vehicles, which is currently being done at various client department sites in an inefficient manner. RED negotiated a lease with the landlord, Innes Group, LLC.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would authorize the Director of Property, on behalf of Central Shops, to execute a lease with Innes Group, LLC for 1908-1950 Innes Avenue for a term of six years, from October 2025 through September 2031, with one five-year option to extend through September 2036, for annual base rent of \$631,800, with three percent annual escalation, and authorizing the City to contribute up to \$349,042 in tenant improvements. The proposed resolution also authorizes the Director of Property to make further immaterial amendments to the lease.

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

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<sup>1</sup> The six facilities are City-owned locations at 555 Selby Street, 2323 Cesar Chavez Street, 1 Martin Luther King Drive, Pier 50 Shed D, and 950 Bryant Street, as well as a leased location at 450 Toland Street.

**Exhibit 1: Key Lease Terms**

|                                     |                                                                                                                       |
|-------------------------------------|-----------------------------------------------------------------------------------------------------------------------|
| <b>Premises</b>                     | An approximately 46,724 square foot lot, including two warehouse buildings, totaling approximately 29,250 square feet |
| <b>Term</b>                         | 6 years, from October 2025 through September 2031                                                                     |
| <b>Options to Extend</b>            | One 5-year option to extend through September 2036 (with base rent adjusted to the prevailing market value)           |
| <b>Initial Base Rent</b>            | \$631,800 (\$21.60 per square foot)                                                                                   |
| <b>Rent Escalation</b>              | 3% annual escalation                                                                                                  |
| <b>Tenant Improvements</b>          | Provided by landlord at a cost to the City not to exceed \$349,092                                                    |
| <b>Maintenance</b>                  | City is responsible for maintaining the interior of the buildings                                                     |
| <b>Utilities</b>                    | Paid by City                                                                                                          |
| <b>Janitorial/Security Services</b> | Paid by City                                                                                                          |
| <b>Option to Purchase</b>           | City has 3-year option to purchase the property for \$12,000,000                                                      |

Source: Proposed lease

The rental rate of \$21.60 per square foot was determined using comparisons of leases of five similar properties in the area. An appraisal is not required under Administrative Code Section 23.27 because the proposed rent is below \$45 per square foot. The City would have an option to purchase the property within three years for a price of \$12,000,000. This purchase price was negotiated between the City and the landlord and is subject to future appraisal.

The landlord would be required to complete tenant improvements, including upgrading electrical utility connections to support future electric vehicle charging stations, installing a small pedestrian door in the larger warehouse building, and installing two large roll-up doors on the smaller warehouse building. The City would pay up to \$349,092 for these improvements, which are expected to take four to six weeks to complete.

**Temporary Fuel Tank and Fuel Tank Replacement**

To meet SWRCB requirements, the Department of Public Works (DPW) will be installing a temporary fuel tank at 1908 Innes Street, as well as two replacement tanks at 950 Bryant Street and three replacement tanks at 2323 Cesar Chavez Street. The estimated cost of the temporary tank is \$500,000, and the estimated cost of the replacement tanks is approximately \$20 million.

Construction of the temporary tank will start after the lease is executed and is expected to take about seven months. Public Works plans to begin to remove the single-wall tanks at 950 Bryant and 2323 Cesar Chavez once the temporary station is operational. Removal and replacement of the Cesar Chavez underground tanks is estimated to take 18 to 24 months, with an estimated completion date between June 2027 and December 2027. After this is completed, Central Shops will replace the Bryant tanks.<sup>2</sup>

<sup>2</sup> The 950 Bryant Street location has one single-walled tank and one double-walled tank. According to Don Jones, Director of Fleet Management, Central Shops will keep the double-walled tank operational while the single-walled tank is removed. Upon completion of the Cesar Chavez tanks, Central Shops will replace both Bryant tanks.

## FISCAL IMPACT

Under the proposed lease, the City would pay \$631,800 in initial annual rent, with three percent annual escalation. Over the initial six-year term of the lease, the City would pay \$4,086,741 in total rent, as shown in Exhibit 2 below.

### Exhibit 2: Annual Rent Paid by City under Proposed Lease

| Year         | Rent               |
|--------------|--------------------|
| 1            | \$631,800          |
| 2            | 650,754            |
| 3            | 670,277            |
| 4            | 690,385            |
| 5            | 711,096            |
| 6            | 732,429            |
| <b>Total</b> | <b>\$4,086,741</b> |

Source: BLA estimates of proposed lease

If the City were to exercise the five-year option, base rent for the extension term would be adjusted to the prevailing market rate.

In addition to the rent, the City would pay up to \$349,092 in tenant improvement costs. The City would also pay \$500,000 to install the temporary fuel tank. The City is responsible for utilities and janitorial and security services, for which the cost is unknown at this time.

### Funding Source

According to Central Shops staff, the rent in FY 2025-26 will be paid for by the Central Shops fund and the Real Estate fund, which are funded by charges to City Departments. In FY 2026-27, rent will be paid for by the Central Shops Fund.

The \$349,092 in tenant improvements and the fuel tank replacements at 950 Bryant and Cesar Chavez will be funded by Certificates of Participation.

## RECOMMENDATION

Approve the proposed resolution.

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                       |
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| <b>Item 7</b><br><b>File 25-0898</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | <b>Department:</b><br>Department of Public Health (DPH)<br>Real Estate Division (RED) |
| <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 a purchase and sale agreement with 290 Division (EAT) LLC, 1660 Mission LLC, and Skyline Capital LLC, for the purchase of two parcels at 1660 and 1670 Mission Street. The cost of the purchase is \$18.53 million.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                       |
| <p style="text-align: center;"><b>Key Points</b></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                       |
| <ul style="list-style-type: none"> <li>The Department of Public Health is seeking to establish a Health, Recovery and Connection Center, which will co-locate City Clinic, behavioral health services, and administrative functions. The behavioral health functions are currently largely operating out of leased space at 1380 Howard Street and City Clinic is in City-owned space at 356 Seventh Street. According to the Real Estate Division, both buildings are in poor condition.</li> <li>According to DPH, the tenants at 1660 Mission will include (1) City Clinic, (2) Behavioral Health Access Center (BHAC), (3) Office-Based Buprenorphine Induction Clinic (OBIC), (4) Behavioral Health Services Pharmacy, (5) Office of Coordinated Care, (6) Behavioral Health administrative functions, and (7) a new law enforcement drop-off behavioral health program that is part of the Mayor's <i>Breaking the Cycle</i> Initiative.</li> </ul>                                                                     |                                                                                       |
| <p style="text-align: center;"><b>Fiscal Impact</b></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                       |
| <ul style="list-style-type: none"> <li>The proposed purchase will cost \$18.53 million and is funded by Homeless Gross Receipts Tax revenue.</li> <li>In addition, DPH estimates that \$56.67 million in renovations is necessary to convert the 1660 Mission building from an open office layout to clinical spaces. The renovation costs are funded by general obligation bonds, a state grant, and other capital revenues and are expected to be complete in 2028. DPH has not identified a funding source for the projected \$7.5 million in furniture, fixtures, and equipment needed for the site.</li> <li>We estimate the City will save approximately \$1.7 million per year by moving from leased to owned space.</li> <li>DPH is not planning on increasing the costs of existing programs at 1660 Mission and estimates the new drop off program will cost \$3.1 million in FY 2025-26. The drop off program will operate from an interim location until the renovations at 1660 Mission are complete.</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**

Administrative Code Section 23.3 states that the Board of Supervisors must approve acquisitions and conveyances of real property by resolution. An appraisal of the property is required if the Real Estate Division determines that the fair market value is greater than \$10,000 and an appraisal review if the fair market value is greater than \$200,000.

**BACKGROUND**

The Department of Public Health is seeking to establish a Health, Recovery and Connection Center, which will co-locate City Clinic, behavioral health services, and administrative functions. The behavioral health functions are currently largely operating out of leased space at 1380 Howard Street and City Clinic is in City-owned space at 356 Seventh Street. According to the Real Estate Division, both buildings are in poor condition.

1380 Howard has poor building systems and poor temperature control. The site currently has offices for the following DPH functions: (1) Business Office, (2) Finance, (3) Information Technology, (4) Behavioral Health Access Center (BHAC), (5) Office-Based Buprenorphine Induction Clinic (OBIC), (6) Behavioral Health Services Pharmacy, and (7) Behavioral Health Services administration.

City Clinic has failing building systems, no temperature control, and is not fully ADA-accessible, according to the Department of Public Health. Moving City Clinic will make the clinic fully ADA-accessible, create a more comfortable patient experience, and will ensure a safer and more functional lab.

The Real Estate Division recommends the purchase of 1660 Mission Street, a building previously owned by the City until 2017, to relocate City Clinic and behavioral health programs from 1380 Howard Street and 1360 Mission Street. The building was selected due to its condition, proximity to transit, and in consideration of the impact of the services on the surrounding neighborhood.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would:

1. Authorize the Director of Property to acquire two parcels of real property at 1660 and 1670 Mission Street;
2. Approve a purchase and sale agreement with 290 Division (EAT) LLC, 1660 Mission LLC, and Skyline Capital LLC, the owners of 1660 and 1670 Mission Street, for a purchase price of \$18,500,000 plus an estimated \$30,000 for closing costs
3. Authorize the Director of Property to modify the agreement so long as the changes do not materially decrease the benefits or increase the liabilities of the City.
4. Affirm the Planning Department's determination that the purchase is not a project under the California Environmental Quality Act (CEQA) and adopt the Planning Department's findings of consistency with the General Plan and Planning Code.

1660 Mission Street is a 75,321 rentable square foot, seven-story building (including a basement), located near the intersection of Mission and Otis Streets. It was owned by the City between 1993 and 2017, when it was sold for \$36 million. DBI continued to occupy and lease the site between 2017-2020, and the building has been vacant since then. It has 58 basement parking spaces.

### **Appraisal**

Based on an appraisal conducted in July 2025 and revised in August 2025, the purchase price is at or below fair market value. The appraisal was reviewed in August 2025 by another appraiser, who generally endorsed the appraisal conclusions. The revised appraisal incorporated feedback from the appraisal review.

### **Building Condition**

In 2013, the Department of Public Works (DPW) Infrastructure Design and Construction Division, Structural Engineering Section completed a seismic evaluation of 1660 Mission Street. The analysis concluded that the building had a Seismic Hazard Rating of 3, meaning that the potential for collapse is low and life safety risk during an earthquake is low. Any repairs needed after an earthquake could likely be done while the building remained occupied. No additional seismic improvements are planned or necessary, according to the Real Estate Division.

In 2017, a consultant prepared a Phase One Environmental Site Assessment Report for one of the property owners of 1660 Mission. The assessment reviewed documentation of the building and land history and concluded that there was no environmental remediation needed. No additional environmental analysis or remediation is planned or necessary, according to the Real Estate Division. However, a hazardous materials assessment will still be conducted prior to the implementation of proposed improvements.

### **Rehabilitation Work**

According to a letter from the Director of Property to the Board of Supervisors, the building requires “substantial” renovations. According to DPH facilities staff, the Department estimates that \$56.67 million in renovations is necessary to convert the building from an open office layout to clinical spaces. This is based on cost estimates prepared for these programs at other properties that were considered for purchase. Renovations include a complete overhaul of floor designs, new HVAC and other building systems, and new elevators and are expected to be complete in 2028.

### **Tenants and Space Plan for 1660 Mission**

According to DPH, the tenants at 1660 Mission will include (1) City Clinic, (2) Behavioral Health Access Center (BHAC), (3) Office-Based Buprenorphine Induction Clinic (OBIC), (4) Behavioral Health Services Pharmacy, (5) Office of Coordinated Care, (6) Behavioral Health administrative functions, and (7) a new law enforcement drop-off behavioral health program that is part of the Mayor’s *Breaking the Cycle* Initiative. Exhibit 1 below shows the space plan for 1660 Mission.

**Exhibit 1: 1660 Mission Street Space Plan**

| <b>Program</b>                                                | <b>Current Location</b>    | <b>Net Square Feet</b> | <b>Description</b>                                                        |
|---------------------------------------------------------------|----------------------------|------------------------|---------------------------------------------------------------------------|
| City Clinic                                                   | 356 7th Street             | 17,755                 | Sexual health clinic                                                      |
| Behavioral Health Access Center (BHAC)                        | 1380 Howard                | 3,765                  | Entry point for mental health and substance use treatment                 |
| Office-Based Buprenorphine Induction Clinic (OBIC)            | 1380 Howard                | 3,030                  | Walk-in treatment clinic for opioid use                                   |
| Behavioral Health Services Pharmacy                           | 1380 Howard                | 7,657                  | Pharmacy for behavioral health patients                                   |
| Office of Coordinated Care & Behavioral Health Administration | 1360 Mission & 1380 Howard | 21,382                 | Office space for behavioral health case managers and administrative staff |
| Drop-Off Program                                              | New                        | 5,937                  | Law enforcement drop-off                                                  |

Source: RED and DPH.

Notes: The remaining tenants at 1380 Howard Street will be relocated to Laguna Honda, which DPH is also renovating to increase capacity for administrative functions. The total net square feet in Exhibit 1 above is 59,526 but does not include common space. DPH completed a test-fit analysis of 1660 Mission and believes the 75,321 rentable square feet is sufficient and appropriate for these programs.

### **FISCAL IMPACT**

The total cost to purchase 1660-1670 Mission Street is \$18,530,000. The purchase will be paid for by Homelessness Gross Receipts Tax.

Exhibit 2 below shows the sources and uses for the purchase and renovation work.

**Exhibit 2: Sources and Uses for 1660 Mission Purchase and Renovations**

| <b>Sources</b>                                 | <b>Amount</b>     |
|------------------------------------------------|-------------------|
| 2024 Vibrant SF GO Bond                        | 27,800,000        |
| Homelessness Gross Receipts Tax                | 26,500,000        |
| Behavioral Health Continuum Infrastructure     |                   |
| Program State Grant                            | 10,000,000        |
| General Fund                                   | 8,400,000         |
| DPH capital budgets                            | 1,500,000         |
| 2020 Health & Recovery GO Bond                 | 1,000,000         |
| <b>Total Sources</b>                           | <b>75,200,000</b> |
| <b>Uses</b>                                    | <b>Amount</b>     |
| 1660 Mission Purchase (Proposed Resolution)    | 18,530,000        |
| <u>Renovations</u>                             |                   |
| Design, Permitting, and Project Administration | 17,000,000        |
| Construction                                   | 39,700,000        |
| Renovations, Subtotal                          | 56,700,000        |
| Furniture, Fixtures, & Equipment               | 7,500,000         |
| <b>Total Uses</b>                              | <b>82,730,000</b> |

Source: RED and DPH

The proposed resolution approves the \$18.53 million purchase of 1660 Mission.

**Renovation and FF&E Budget**

The renovation budget is a high-level estimate based on the costs for renovating office and clinical space informed by previous designs for a Health, Recovery and Connection Center and is subject to change.

\$65.2 million for the purchase and renovation have already been appropriated, including \$26.5 million of Homelessness Gross Receipts Tax revenue, \$9.9 million of General Fund and other DPH capital revenues, and \$28.8 million in general obligation bonds. DPH is requesting the Board of Supervisors to accept \$10 million in state grant funding as part of a companion resolution (File 25-0897). According to DPH staff, the state grant must be applied to a project for which the City has site control by October 17, 2025, or the state may rescind the funding.

DPH will work with the Mayor's Office to identify a funding source for the \$7.5 million in furniture, fixtures, and equipment expenses.

**Building Lease and Operating Costs**

The City will also save money by ending its lease at 1380 Howard Street and relocating programs to City-owned space at Laguna Honda and 1660 Mission. We estimate that the City will save \$1.7 million per year by moving to City-owned space, as shown below in Exhibit 3.

The City may also generate one-time revenue from selling 356 Seventh Street; however, the site may also be redeveloped for another City use. The lot is relatively small at 3,998 square feet, as is the building's interior, approximately 8,000 square feet.

**Exhibit 3: Building and Lease Costs, Current and Projected (without escalation)**

| <b>Building and Lease Costs, Current</b> | <b>Amount</b>       |
|------------------------------------------|---------------------|
| 356 7th Street (Owned)                   | \$120,000           |
| 1380 Howard (Leased)                     | \$3,138,038         |
| <b>Total Current Costs</b>               | <b>\$3,258,038</b>  |
| New Costs                                |                     |
| Laguna Honda (Owned)                     | \$383,760           |
| 1660 Mission (Proposed for Ownership)    | \$1,129,815         |
| <b>Total Projected Costs</b>             | <b>\$1,513,575</b>  |
| <b>Difference</b>                        | <b>-\$1,744,463</b> |

Source: BLA. DPH believes building operating costs for 1660 Mission may be lower than our projection as a result of the planned improvements.

**New Operating Costs**

The proposed purchase of 1660 Mission is largely intended to relocate existing City specialty care and behavioral health programs with improved space and co-location of services. DPH therefore expects to increase programming capacity without incurring new programmatic operating costs as a result of the move.

In addition, 1660 Mission will house a new drop-off behavioral health program. This will be funded by the General Fund. The FY 2025-26 – FY 2026-27 budget assumed a program start date in 2026 and included \$1.3 million in FY 2025-26 and \$3.1 million in FY 2026-27 for this program. DPH is pursuing an interim space for this service until 1660 Mission opens in 2028.

**RECOMMENDATION**

Approve the proposed resolution.

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                         |
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| <b>Item 9</b><br><b>File 25-0878</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <b>Department:</b><br>Department of Public Health (DPH) |
| <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. 2 to the Department of Public Health's (DPH) hospital diversion and crisis stabilization unit services contract with Edgewood Center for Children and Families (Edgewood), extending the term by four years and nine months through June 2030, and increasing the not-to-exceed amount by \$22,048,994, for a total not to exceed \$31,603,801.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>In 2023, DPH issued a Request for Grant Applications (RFGA) to award grants for the crisis stabilization unit and hospital diversion program for children ages 6-18. Edgewood, which had previously provided similar services for DPH, was the lone respondent to the RFGA and was awarded a contract. The contract has been amended once, expires September 30, 2025, and has an amount not to exceed \$9,554,807.</li> <li>Under the contract, Edgewood operates three programs: Edgewood Hospital Diversion, Edgewood Crisis Stabilization Unit, and Edgewood Partial Hospitalization. Between the three programs, Edgewood serves approximately 217 unduplicated clients per year and employs approximately 33.13 full-time equivalent (FTE) employees. Performance monitoring found that Edgewood generally met its contracted performance objectives and units of service. DPH reports that Edgewood met all monitoring plan requirements stemming from unsubstantiated allegations of child abuse, and the plan is coming to a close.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>The proposed Amendment No. 2 would increase the not-to-exceed amount of the contract by \$22,084,994, for a total not to exceed \$31,603,801.</li> <li>The contract is funded approximately 13 percent by Federal funds, 13 percent by State funds, and 73 percent by the City's General Fund. DPH reports that it continues to work toward maximizing Medi-Cal revenue and anticipates that the actual Medi-Cal reimbursement rate will be higher.</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

In June 2023, the Department of Public Health (DPH) issued a Request for Grant Applications (RFGA) to award grants for the crisis stabilization unit and hospital diversion program for children ages 6-18. Edgewood Center for Children and Families (Edgewood), which had previously provided similar services for DPH, was the lone respondent to the RFGA and was deemed to meet the minimum qualifications to receive a contract award. Edgewood's proposal received a score of 96 out of 100 from the technical review panel.<sup>1</sup>

In October 2023, DPH executed a contract with Edgewood for a term of two years, from October 2023 through September 2025, and an amount not to exceed \$9,554,807. In August 2024, DPH executed Amendment No. 1 to the contract (retroactive to July 1, 2024), reducing liability insurance requirements, modifying the hospital diversion program scope of work to remove intensive outpatient services, adding a monitoring plan, amending program costs to more accurately reflect subcontractor costs, and replacing the data access agreement.<sup>2</sup> DPH has been satisfied with Edgewood's performance and has negotiated an amendment with Edgewood to extend the contract. According to DPH, although the insurance requirement was reduced, it is still on par/exceeding the level of other similar contracts.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Amendment No. 2 to DPH's hospital diversion and crisis stabilization unit services contract with Edgewood, extending the term by four years and nine months through June 2030, and increasing the not-to-exceed amount by \$22,084,994, for a total not to exceed \$31,603,801.

Under the RFGA, the contract may be extended to a total term of up to 10 years.

### Scope of Services

Under the contract, Edgewood operates three programs:

1. Edgewood Hospital Diversion: Provides short-term residential services to stabilize youth experiencing acute stress or crisis, psychiatric, behavioral health and/or family problems to avoid psychiatric hospitalization or provide a step-down from inpatient stabilization or

<sup>1</sup> The technical review panel included: an HSA Family and Children Services Program Manager, a DPH Supervising Behavioral Health Clinician, a DPH Senior Behavioral Health Clinician, and a Marin County Full Service Partnership Supervisor.

<sup>2</sup> The original contract and Amendment No. 1 were not subject to Board of Supervisors approval because the contract did not exceed 10 years or \$10 million.

residential treatment. This program is for children between the ages of 12 and 17 and serves approximately 35 unduplicated clients annually. The program is 24/7, designed to be two weeks but can accommodate longer length of stay as clinically indicated (average length of stay is 3 weeks).

2. Edgewood Crisis Stabilization Unit: Provides youth involuntary hold services for psychiatric crisis assessment, mental health crisis stabilization, acute intervention, and safety and discharge planning for children between the ages of 6 and 17. This program serves approximately 168 unduplicated clients annually. Clients are held at this site for up to 24 hours.
3. Edgewood Partial Hospitalization (New Program): Provides partial hospitalization services to stabilize youth experiencing acute stress or crisis, psychiatric, behavioral health and/or family problems to avoid psychiatric hospitalization or provide a step-down from Hospital Diversion. This program is for children between the ages of 12 and 17 and serves approximately 14 unduplicated clients annually. Typical client stays are approximately two to four weeks. These services had previously been included within the Hospital Diversion program.

Between the three programs, Edgewood serves approximately 217 unduplicated clients per year. The contract funds approximately 33.13 full-time equivalent (FTE) positions, including indirect administrative positions.

### **Performance and Fiscal Monitoring**

FY 2022-23 performance monitoring<sup>3</sup> found that Edgewood generally met its contracted performance objectives and units of service in the Hospital Diversion and Crisis Stabilization Unit programs (the Partial Hospitalization program was not tracked separately yet). However, the Hospital Diversion program served only 54 percent of the unduplicated client target (19 clients compared to the contracted target of 35), but Edgewood met 103 percent of the contracted units of service, indicating that the 19 placements required a longer length of stay or more intensive services and fully drew down on the contract allocation. DPH gave both programs an overall program rating of 4 out of 4, indicating that the program exceeds standards. No corrective actions were identified.

DPH reports that FY 2023-24 monitoring reports are still in draft form and not yet finalized and that FY 2024-25 monitoring is not complete.

DPH staff reviewed Edgewood's financial documents as part of the FY 2024-25 Citywide Fiscal and Compliance Monitoring program and identified no findings.

### **Prior Fiscal Solvency Grant**

In 2019, under DPH's prior contract with Edgewood, the City became aware of allegations of misconduct and child abuse by Edgewood staff and ceased referring patients to Edgewood's residential programs. In April 2019, Edgewood submitted a letter to DPH stating that it was

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<sup>3</sup> Performance monitoring was for the period of FY 2022-23, which was under the term of the previous Edgewood contract. However, the site visit did not occur until June 2024, after the current contract commenced.

experiencing a cash flow crisis and was at risk of ceasing operations. In February 2020, at DPH's request, the Board of Supervisors approved a \$350,000 fiscal solvency grant for a term of 90 days (File 20-0145). The grant agreement required Edgewood to submit a corrective action plan to DPH to address staff misconduct, as well as business and financial sustainability plans. As of June 2021, DPH reported satisfaction that Edgewood had taken the necessary remedial and corrective actions.

#### FY 2024-25 Monitoring Plan

Amendment 1 to the contract added a monitoring plan due to a failure of Edgewood to report to DPH after (unsubstantiated) allegations of child abuse occurring in January 2024. Although the staff member was placed on administrative leave and Edgewood reported the incident to Community Care Licensing, it was ultimately not substantiated. SFDPH paused placements due to reporting failures and required a formal response. The monitoring plan, led by BHS Quality Management in collaboration with System of Care, was implemented over the course of one year from July 2024 to June 2025. It focused on strengthening internal policies and procedures, improving external reporting practices to California Child Protective Services and DPH, and enhancing staff training. DPH reports that Edgewood met all monitoring requirements, and the plan is coming to a close.

### **FISCAL IMPACT**

The proposed Amendment No. 2 would increase the not-to-exceed amount of the contract by \$22,084,994, for a total not to exceed \$31,603,801. Actual and projected contract expenditures by year are shown in Exhibit 1 below.

#### **Exhibit 1: Actual and Projected Contract Expenditures by Year**

| <b>Year</b>                                 | <b>Expenditures</b> |
|---------------------------------------------|---------------------|
| FY 2023-24 (8 Months, Actual)               | \$2,810,582         |
| FY 2024-25 (Projected)                      | 4,187,904           |
| FY 2025-26 (Projected)                      | 4,187,904           |
| FY 2026-27 (Projected)                      | 4,288,414           |
| FY 2027-28 (Projected)                      | 4,391,336           |
| FY 2028-29 (Projected)                      | 4,496,728           |
| FY 2029-30 (Projected)                      | 4,604,649           |
| <i>Subtotal</i>                             | <i>\$28,967,517</i> |
| Contingency (12% of Projected Expenditures) | 2,636,284           |
| <b>Total Not-to-Exceed</b>                  | <b>\$31,603,800</b> |

Source: Proposed Contract Amendment

The contract includes a 12 percent contingency to account for escalation, new programs, and/or expansions of existing programs. The not-to-exceed amount also includes annual 2.4 percent cost of making business payments. The contract budget for FY 2025-26 is shown in Exhibit 2 below.

**Exhibit 2: FY 2025-26 Contract Budget**

|                                  | <b>Hospital<br/>Diversion</b> | <b>Crisis<br/>Stabilization<br/>Unit</b> | <b>Partial<br/>Hospitalization<br/>Program</b> | <b>Total</b>       |
|----------------------------------|-------------------------------|------------------------------------------|------------------------------------------------|--------------------|
| Salaries and Benefits            | \$1,317,838                   | \$1,858,986                              | \$187,012                                      | \$3,363,836        |
| Operating Expenses <sup>4</sup>  | 137,741                       | 132,994                                  | 43,500                                         | 314,235            |
| <i>Subtotal</i>                  | <i>\$1,455,579</i>            | <i>\$1,991,980</i>                       | <i>\$230,512</i>                               | <i>\$3,678,071</i> |
| Indirect Cost (15%) <sup>5</sup> | 218,338                       | 298,797                                  | 34,577                                         | 551,712            |
| <b>Total</b>                     | <b>\$1,673,917</b>            | <b>\$2,290,777</b>                       | <b>\$265,089</b>                               | <b>\$4,229,783</b> |

Source: Proposed Contract Amendment

The estimated FY 2025-26 contract budget of \$4,229,783 is slightly higher than the amount of \$4,187,904 shown in Exhibit 1 above due to a one percent cost of doing business adjustment that was executed after the contract amendment had been negotiated. To ensure that contract expenditures remain within the \$31,603,800 not-to-exceed amount, DPH will either utilize the contingency or achieve savings in FY 2024-25, which has not been fully billed yet.

The contract is funded approximately 13 percent by Federal funds, 13 percent by State funds, and 73 percent by the City's General Fund. DPH reports that it continues to work toward maximizing Medi-Cal revenue and anticipates that the actual Medi-Cal reimbursement rate will be higher.

### RECOMMENDATION

Approve the proposed resolution.

<sup>4</sup> Operating expenses include utilities, building repair and maintenance, office and program supplies, training, subcontractor services, and medical services.

<sup>5</sup> Indirect costs include administrative salaries, accounting and audit fees, insurance, and software subscriptions and maintenance.

**Item 11**  
**File 25-0896**

**Department:**  
Homelessness & Supportive Housing

## **EXECUTIVE SUMMARY**

### **Legislative Objectives**

- The proposed resolution would approve the third amendment to the grant agreement between the Department of Homelessness and Supportive Housing (HSH) and Urban Alchemy for shelter services and operations at 711 Post Street, extending the grant term by six months to March 31, 2026 and increasing the not-to-exceed amount by \$4,879,570 for a total not to exceed \$27,594,252. The grant term initially began in February 2022 and ends September 30, 2025.

### **Key Points**

- The Department has issued a corrective action plan to Urban Alchemy related to staffing above budgeted levels and overspending at 711 Post in FY 2024-25. The grantee attempted to pay for wage increases with savings from projected staff vacancies in FY 2024-25, resulting in a shortfall when vacancies were lower than expected. According to Department staff, a six-month extension is proposed in order to ensure that Urban Alchemy addresses five corrective actions for overspending first identified in July 2023 for two other Urban Alchemy programs funded by HSH.
- Urban Alchemy has been successful at operating the 711 Post shelter program: 763 adults were served in FY 2024-25 and the program achieved an average monthly occupancy rate of 96 percent in FY 2023-24 and FY 2024-25.

### **Fiscal Impact**

- The proposed amended budget for FY 2025-26 includes a \$609,500 annualized one-time increase to partially support the shortfall that Urban Alchemy has identified in their budget for fringe benefits, insurance, and building maintenance. This additional amount is approximately half of the amount that Urban Alchemy estimated for its budget gap of \$1.2 million annualized.

### **Policy Consideration**

- While Urban Alchemy has not met City financial standards, the organization has been successful at operating the program. Terminating the contract without sufficient time to identify a new provider would disrupt services. The Board may wish to: (1) request that HSH reprocure its shelter portfolio earlier than currently planned (October 2026) or identify a new provider for 711 Post pursuant to Administrative Code 21B; and (2) request that HSH provide an update on the status of the corrective action steps when they return to the Board of Supervisors to consider possible further extension of this contract.

### **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 modifications of such contracts of more than \$500,000 are subject to Board of Supervisors approval.

**BACKGROUND**

In 2021, the Department of Homelessness and Supportive Housing (HSH) selected Urban Alchemy to operate a semi-congregate shelter at the Ansonia Hotel at 711 Post Street. The selection was made under Chapter 21B of the Administrative Code, which allows HSH to enter into and amend contracts for homeless services without competitive bidding until March 2029 or until the homeless Point in Time (PIT) count is below certain thresholds (Files 19-0047, 23-1129). In February 2022, the Board of Supervisors approved a new grant agreement with Urban Alchemy for a term of two years and five months, from February 2022 through June 2024, and an amount not to exceed \$18,736,820 (File 21-1306). In June 2024, the Board of Supervisors approved the first amendment to the grant agreement to extend the term for one year for a total term of March 21, 2022 through June 30, 2025 and increased the grant agreement amount by \$3,509,506 for a new total amount not to exceed \$22,246,326 (File 24-0201). In July 2025, HSH administratively approved the second amendment to the agreement to extend the term by three months from June 30, 2025 to September 30, 2025 and the grant was increased by \$468,356 for a new total amount not to exceed \$22,714,682. The amendment did not require Board of Supervisors approval because the change to not to exceed amount was less than \$500,000.

HSH intends to issue a request for proposals in October 2026 to reprocur the shelter portfolio and anticipates new agreements will begin in Spring 2027.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would approve the third amendment to HSH's grant agreement with Urban Alchemy for shelter services and operations at 711 Post Street, extending the grant term by another six months to March 31, 2026 and increasing the not-to-exceed amount by \$4,879,570 for a total not to exceed \$27,594,252. The proposed resolution would also authorize HSH to enter into further immaterial amendments to the grant agreement.

**Services Provided**

Under the grant agreement, Urban Alchemy provides shelter operations and support services at 711 Post Street. The building has 123 units and initially served up to 250 clients. Beginning in January 2025, Urban Alchemy was asked to temporarily (for approximately 14 months) increase its capacity by 30 beds to maintain shelter capacity during the rehabilitation of another shelter. Urban Alchemy leases the property, and HSH provides rent reimbursement through the grant. Operations services include facility maintenance, vendor services, reservations,

accommodations, storage, entry and exit, and laundry. Support services include intake, orientation, assessment, referrals and coordination of services, document readiness, and support groups, social events, and organized activities. Services are provided 24 hours a day, seven days a week.

The grant is proposed to fund 59.59 full-time equivalent (FTE) positions in FY 2025-26.

### **Target Population**

The target population is single adults 18 years and older who are experiencing homelessness. In FY 2024-25, the program served 763 adults, according to the proposed resolution.

### **Performance and Fiscal Monitoring**

The FY 2024-25 performance monitoring by HSH found that Urban Alchemy had met all service and outcome objectives except the objective related to achieving 60 percent average guest attendance at monthly in-house community meetings. On that measure, Urban Alchemy was found to achieve an average of 13 percent guest attendance. We note that the proposed third amendment to the grant agreement amends the service and outcome objectives to standardize performance measures across similar program types and removes the service objective related to guest attendance at community meetings.

### *HSH Corrective Action Plans*

In the past two fiscal years—FY 2023-24 and FY 2024-25—the Department has issued corrective action plans to Urban Alchemy related to actual staffing above budgeted levels and overspending. According to Department staff, a six-month extension is proposed in order to ensure that Urban Alchemy addresses five corrective action steps for overspending.

In July 2023, HSH reviewed invoices for five programs operated by Urban Alchemy in FY 2022-23, including the shelter program at 711 Post. The review found that two of the five Urban Alchemy programs requested reimbursement for staffing levels beyond those authorized by HSH, including the Safe Parking Program at Candlestick Park which requested an additional \$125,833 (of which, HSH approved \$36,103) and the Tenderloin Center, which overspent by \$55,696.<sup>1</sup> HSH also found Urban Alchemy did not consistently pay vendors on time, submitted invoices for ineligible expenses, incorrect amounts, and with insufficient documentation. HSH requested five corrective actions, as listed below.

- 1) Develop an internal staffing schedule that reflects the budgeted full-time equivalent (FTE) staff;
- 2) Regularly and proactively monitor spending against budget, to observe and address variances before they lead to overspending;
- 3) Seek written prior approval before incurring staffing costs beyond what is budgeted;

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<sup>1</sup> The Tenderloin Center was a temporary site to reduce overdose deaths and increase connections to services; it closed in December 2022.

- 4) Provide HSH with a detailed written policy for circumstances in which overtime is approved, and its procedure for covering staff vacancies during illness or time off; and
- 5) Demonstrate that the Urban Alchemy program and finance leadership are regularly reviewing spending against budget internally, particularly when it comes to staffing, and taking action as needed to stay within the approved budget.

HSH issued the above corrective action in July 2023 and completed a review of Urban Alchemy's response in December 2023. HSH did not provide our office information about this process when we reviewed the May 2024 extension of this grant.

Due to overspending at 711 Post in FY 2024-25, HSH reopened the five corrective action steps listed above and requested a response from Urban Alchemy by July 11, 2025. According to a June 26, 2025 letter from HSH to Urban Alchemy, in March 2025, Urban Alchemy reported a gap of more than \$800,000 in their FY 2024-25 program budget due to the organization providing increases in staff wages without a cost of doing business increase for the program. In a letter to HSH, Urban Alchemy stated it knowingly increased staff compensation beyond what the City's grant could support "to maintain service quality and reduce risk to both our guests and staff." The grantee attempted to pay for the wage increases with savings from staff vacancies (despite guidance from HSH not to fund the wage increases this way). Staff vacancies were lower than projected, resulting in the shortfall. The roughly \$800,000 of projected overspending represents 10.5 percent of the total FY 2024-25 original budget of \$7,633,723. In May 2025, HSH approved a partial funding increase of \$336,000, bringing the overall budget to \$7,969,723 for FY 2024-25. The overspending incurred by Urban Alchemy does not comply with grant agreement terms related to the use of grant funds for eligible expenses and to maintain spending within the approved grant budget.

#### *Fiscal and Compliance Monitoring*

In FY 2024-25, the Citywide Fiscal and Compliance Monitoring conducted in May 2025 identified three findings, including two that were unresolved according to the July 2025 Final Status Letter. These findings relate to the provider's fiscal management and have been found in multiple fiscal years, as listed below.

- 1) Provider was found to have 15 days of operating cash rather than 30 days, which is a best practice for liquidity and risk management. This finding was reported in prior fiscal years, including FY 2020-21, FY 2022-23, and FY 2023-24.
- 2) Exempt employees' time is allocated to grants based on a proration of the grant budget to a regional or agency pool, rather than a time study—which is a specific, formal process used to account for and justify how employee time is allocated to properly account for costs. This finding was reported in FY 2020-21, FY 2021-22, FY 2022-23, and FY 2023-24, and the Controller's Office is currently assisting Urban Alchemy to develop a time study for allocating exempt employees' time.

Based solely on the two fiscal monitoring findings above (and not the findings related to overspending and invoicing noted above), in August 2025, the Controller's Office initiated the process to designate Urban Alchemy as a "Tier 2" organization which indicates an "increased risk

to public funds and client services.” Tier 2 organizations must participate in City monitored technical assistance.

### FISCAL IMPACT

The proposed third amendment would increase the not-to-exceed amount of the grant by \$4,879,570, for a total not to exceed \$27,594,252. Budgeted and actual grant expenditures by year are shown in Exhibit 1 below.

#### Exhibit 1: Budget and Actual Expenditures by Year

| Year                                     | Budget              |
|------------------------------------------|---------------------|
| Year 1 (FY 2021-22) Actual               | \$0                 |
| Year 2 (FY 2022-23) Actual               | 5,928,777           |
| Year 3 (FY 2023-24) Actual               | 6,532,128           |
| Year 4 (FY 2024-25) Actual               | 7,969,723           |
| July 1, 2025 - March 31, 2026, Projected | 6,229,238           |
| <b>Total Budget</b>                      | <b>26,659,866</b>   |
| 15% Contingency for FY 2025-26           | 934,386             |
| <b>Total Not-to-Exceed Amount</b>        | <b>\$27,594,252</b> |

Source: Proposed Grant Agreement

Note: HSH approved a budget increase of \$568,624 in FY 2024-25, including \$232,624 in one-time funding to support the temporary increase of 30 beds at 711 Post to maintain shelter capacity while another shelter underwent rehabilitation, and \$336,000 to partially cover unauthorized overspending for salary, insurance, and building maintenance incurred by Urban Alchemy.

There were no expenditures reported in grant Year 1 because the shelter at 711 Post Street did not open until July 2022. According to HSH staff, as of July 2025, \$21,098,694 (approximately 93 percent) has been spent of the not to exceed amount of \$22.7 million under the existing contract.

The grant is funded by the state’s Homeless Housing Assistance and Prevention (HHAP) program, which makes grant allocations to cities, counties, and continuums of care to prevent and end homelessness in their regions. According to the Department, this state source of funding does not provide an annual cost of doing business increase, as is typical for shelter programs funded by local General Fund. Proposition C funded a small share of start-up costs in FY 2022-23 of \$69,500.

The breakdown of grant expenditures for FY 2025-26 is shown in Exhibit 2 below. The proposed budget of \$6.2 million is for nine months and is equal to \$8.3 million annualized, which is approximately 4.2 percent greater than the FY 2024-25 budget.

**Exhibit 2: Breakdown of Grant Expenditures for FY 2025-26 (July 1 – March 31)**

| <b>Expenditure</b>  | <b>Amount</b>      |
|---------------------|--------------------|
| Salaries & Benefits | \$3,463,792        |
| Operating Expenses  | 536,244            |
| <i>Subtotal</i>     | 4,000,036          |
| Indirect Cost (15%) | 600,005            |
| Other Expenses      | 1,629,195          |
| <b>Total</b>        | <b>\$6,229,238</b> |

Source: Proposed Grant Agreement

The proposed amended budget for FY 2025-26 includes a \$609,500 annualized one-time increase to partially support the shortfall that Urban Alchemy has identified in their budget for fringe benefits, insurance, and building maintenance, according to HSH staff. This additional amount is approximately half of the amount that Urban Alchemy estimated for its budget gap of \$1.2 million annualized.

### **POLICY CONSIDERATION**

HSH monitoring and Citywide fiscal and compliance monitoring of Urban Alchemy have identified serious financial management deficiencies, particularly the lack of time studies to justify staff time allocated to City grant agreements and unauthorized overspending in violation of grant agreement terms for three programs—the Safe Parking Program at Candlestick Park and Tenderloin Center in FY 2022-23 and the 711 Post shelter program in FY 2024-25. The five corrective actions identified in July 2023 were reopened after overspending reoccurred at 711 Post in FY 2024-25. While the organization has not met City financial standards, Urban Alchemy has been successful at operating the 711 Post shelter program: 763 adults were served in FY 2024-25 and the program achieved an average monthly occupancy rate of 96 percent in FY 2023-24 and FY 2024-25. Terminating the contract without sufficient time to identify a new provider for the site would disrupt services. However, given the repeat fiscal and budget management findings, approval of the proposed grant extension for another six months is a policy matter for the Board of Supervisors.

The City should consider reducing spending on agreements with this provider until they come into compliance with the City's financial standards. The Board may wish to: (1) request that HSH reprocur its shelter portfolio earlier than currently planned (October 2026) or identify a new provider for 711 Post pursuant to Administrative Code 21B (which allows for HSH to procure homeless service providers without competitive solicitations); and (2) request that HSH provide an update on the status of the corrective actions when they return to the Board of Supervisors to consider possible further extension of this contract.

### **RECOMMENDATION**

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