CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: March 18, 2026 Budget and Finance Committee Meeting

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Item 2 File 26-0181	Department: Homelessness and Supportive Housing (HSH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the second amendment to the grant between HSH and Lutheran Social Services to provide money management services, extending the term by two years through June 30, 2028, and increasing the not-to-exceed amount of the grant by $5,210,685, for a total not to exceed $15,210,535.

Key Points

- In June 2021, under Administrative Code Chapter 21B, HSH selected and executed a grant with Lutheran Social Services for money management services based on prior performance and to ensure continuity of services.
- The purpose of the grant is to help clients maintain stable housing and meet financial obligations by ensuring income is used for essential expenses such as rent and utilities. Services include third-party rent payment assistance, money management and budgeting support, financial monitoring, client screening and enrollment, and coordination with support services staff, property managers, and financial institutions. Lutheran Social Services will continue to serve an average of 2,000 clients per month.
- The FY 2024-25 program monitoring report showed that the organization met or exceeded almost all service and outcome objectives, except for the outcome objective on the percentage of clients who remained housed or exited the program in good standing. Because FY 2024-25 was the first year of program expansion (which increased the average monthly client caseload goal from 1,200-1,300 to 2,000), the organization was exempt from meeting the caseload requirement that year. HSH reports that the provider served an average of 988 clients per month in FY 2024-25 and is on track to meet the 2,000 clients per month requirement in FY 2026-27.

Fiscal Impact

- The proposed second amendment would increase the not-to-exceed amount of the Lutheran Social Services grant by $5,210,685, for a total not to exceed $15,210,535.
- Actual expenditures on the grant from FY 2021-22 to FY 2024-25 were approximately 17 percent less than the amount budgeted primarily due to salary savings resulting from staffing vacancies during the program's ramp-up in FY 2024-25.
- The proposed grant term will be funded by the City's General Fund (45 percent) and the Proposition C, Our City, Our Home Fund (55 percent).

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

BACKGROUND

Lutheran Social Services of Northern California (Lutheran Social Services), a nonprofit organization, has provided money management services to formerly homeless and unhoused individuals in San Francisco since 1993. In June 2021, the Department of Homelessness and Supportive Housing (HSH) executed a new grant with Lutheran Social Services for money management services under Administrative Code Chapter 21B, which allows procurement of homeless service providers without competitive solicitations, enacted by the Board of Supervisors to streamline contracting for homeless services. HSH selected Lutheran Social Services based on prior performance and to ensure continuity of services. The new grant had a three-year term from July 1, 2021 to June 30, 2024 and an amount not to exceed $4,027,558. According to HSH, the department assumed responsibility for this program from the Department of Public Health (DPH) when HSH was established in FY 2016-17. The previous grant was originally awarded through a Request for Proposals (RFP) issued by DPH in 2010.

In July 2024, HSH executed the first grant amendment to extend the term by two years from June 30, 2024 to June 30, 2026 and increased the amount by $5,972,292 for a total of $9,999,850.

HSH now proposes to extend the grant by two years through June 2028.

Program Expansion

According to HSH, nonpayment of rent has increased across the department's permanent supportive housing portfolio since the pandemic and the temporary eviction moratorium.[1] To address this issue, HSH increased funding by $1.5 million in FY 2024–25 to expand Lutheran Social Services' enrollment capacity to serve up to an average of 2,000 clients per month (up from 1,200 to 1,300 clients per month). As discussed below, enrollment growth has been slower than initially anticipated, in part because federal policy changes under the U.S. Department of the Treasury eliminated the requirement for most permanent supportive housing tenants to participate in these services. Further, new clients who participate voluntarily can no longer redirect benefit checks from the Social Security Administration to a third-party money management provider, such as Lutheran Social Services; however some existing clients who were enrolled before the federal policy change can continue to redirect benefit checks, and County Adult Assistance

[1] HSH states that nonpayment of rent has remained a challenge. In 2023, HSH issued Nonpayment of Rent Guidelines to housing providers, which outline best practices and structured support for addressing rent nonpayment. HSH also reports working with housing providers to address this issue through additional initiatives, including a partnership with the Mayor's Office of Housing and Community Development (MOHCD) to update San Francisco Emergency Rental Assistance Program (SF ERAP) policy to allow access to back-rent assistance through money management services.

Programs (CAAP) can send General Assistance payments directly to Lutheran Social Services.[2] HSH anticipates the provider will meet the enrollment capacity target of serving an average of 2,000 clients per month in FY 2026-27.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the second amendment to the grant between HSH and Lutheran Social Services to provide money management services, extending the term by two years through June 30, 2028, and increasing the not-to-exceed amount of the grant by $5,210,685, for a total not to exceed $15,210,535. The proposed resolution would also authorize HSH to make further immaterial amendments to the grant.

According to HSH, the term extension is needed to align with the department's Multiyear Procurement Plan for money management services. HSH's current timeline for the procurement of Money Management Programs is to release a solicitation by May 2027, with a new agreement tentatively beginning in January 2028, prior to the proposed end date of June 2028. According to HSH, the overlap is intentional to prevent service disruption during re-procurement. The grant includes a Termination for Convenience clause, which HSH may invoke if the grant is reprocured prior to the agreement's termination.

Services

Under the proposed amendment, Lutheran Social Services will continue the provision of money management services for formerly homeless adults, seniors, families and transitional aged youth (TAY) living in permanent supportive housing units in San Francisco, including legacy tenants.

The purpose of the grant is to help clients maintain stable housing and meet basic financial obligations by ensuring that income (e.g., government assistance, wages, social security) is used for essential needs such as rent, utilities, and other necessary expenses. Services include providing third-party rental payment assistance on behalf of clients, money management coaching and budget planning, monitoring of client finances, screening and enrolling clients, and case coordination with support services staff, property managers, and financial institutions, amongst others. Clients receiving money management services are required to participate in the rental payment component.

Participation in the Representative Payee program is mandatory for certain clients, including individuals under conservatorship and a small subset of beneficiaries of Supplemental Social Security Income (SSI/SSA) or Veterans Affairs (VA) benefits, who must have a designated "Representative Payee" to manage their benefits. Participation is voluntary for all other clients.

Under the proposed amendment, Lutheran Social Services will continue serving an average of 2,000 clients per month. The agency conducts outreach by conducting on-site visits at permanent supportive housing sites, participating in community events, and partnering with property

[2] According to HSH, Lutheran Social Services and other third-party money management providers report a decline in rental payments since Social Security checks began being issued directly to tenants. Previously, providers received the checks, issued rent payments, and then distributed the remaining funds to tenants. With tenants now responsible for bringing their checks to the provider, LSS reports exploring options to streamline the payment process, such as offering swipeable bank cards.

management providers to increase referrals. Additionally, HSH and MOHCD are working on updates to the SF ERAP policy that will include an option for tenants to agree to money management enrollment for third party rent payment as one of the avenues to access back rent assistance. Client services are provided at the Lutheran Social Services office located at 191 Golden Gate Avenue. All residents of HSH's permanent supporting housing sites are eligible for money management services.

Performance and Fiscal Monitoring

HSH staff completed program monitoring on the Lutheran Social Services grant for FY 2024-25 in November 2025, which included a site visit. As reflected in Exhibit 1 below, the program monitoring report showed that the organization met or exceeded almost all service and outcome objectives, except for the outcome objective on the percentage of clients who remained housed or exited the program in good standing. HSH is considering adjusting this objective for future grants, as clients' housing outcomes may be influenced by factors beyond the effectiveness of money management services, such as client behavior. As required by HSH, Lutheran Social Services submitted a plan in January 2026 on improving the performance of this outcome objective; the plan focused on continued partnership with property management support staff and other relevant stakeholders, increased outreach efforts, and development of monthly rent reports for sites that do not receive them.

Because FY 2024-25 was the first year of program expansion (which increased the average monthly client caseload goal from 1,200-1,300 to 2,000), the organization was exempt from meeting the caseload requirement that year. HSH stated that the average number of active clients per month in FY 2024-25 was 988. Enrollment growth has been slower than initially anticipated, in part because federal policy changes under the U.S. Department of the Treasury eliminated the requirement for most permanent supportive housing tenants to participate in these services. However, based on Lutheran Social Services' outreach plan for incoming permanent supportive housing residents and expanded efforts at four new permanent supportive housing sites[3], HSH expects the organization to meet the goal for this service objective in FY 2026-27.

The proposed amendment maintains the existing service and outcome objectives.

[3] According to HSH, the sites are located at 272 Folsom Street, 1633 Valencia Street, 730 Stanyan Street, and 78 Haight Street

Exhibit 1: FY 2024-25 Service and Outcome Objective Performance

Objective	Target	Performance
Service Objectives		
1. Percent of budget plans updated at least once annually.	80%	96%
2. Administration of annual written Client Satisfaction Survey	100% (Administer to all clients)	100%
3. Percentage of clients who had an individualized service plan in place within 90 days of service enrollment	100%	100%
4. Number of average clients served per month	2,000	Exempt in FY 24-25
5. Percent of new clients scheduled for intake within seven business days of referral	100%	100%
Outcome Objectives		
6. Percent of clients who accomplish at least one goal on their budget plan	85%	86%
7. Percent of clients who remained housed or exited the program in good standing	85%	80%
8. Percent of clients who completed the annual Client Satisfaction Survey and reported being satisfied with program services	80%	89%

Source: HSH

Fiscal and Compliance Monitoring

HSH staff reviewed Lutheran Social Services financial documents in May 2025 as part of the FY 2024-25 Citywide Fiscal and Compliance Monitoring program and identified no findings.

FISCAL IMPACT

The proposed second amendment would increase the not-to-exceed amount of the Lutheran Social Services grant by $5,210,685, for a total not to exceed $15,210,535. Actual and projected grant expenditures are shown in Exhibit 2 below.

Exhibit 2: Actual and Projected Grant Expenditures

Expenditures	Amount
FY 2021-22 (Actual)	$1,114,749
FY 2022-23 (Actual)	1,222,768
FY 2023-24 (Actual)	1,375,013
FY 2024-25 (Actual)	2,161,685
July 2025 to November 2025 (Actual)	875,886
December 2025 to June 2026 (Projected)	2,145,004
FY 2026-27 (Projected)	2,745,840
FY 2027-28 (Projected)	2,745,840
Subtotal – Actual & Projected Expenditures	*$14,386,783*
Contingency (15% of FY2026-27 and FY 2027-28 Expenditures)	823,752
Total Not to Exceed	**$15,210,535**

Source: HSH
Note: Totals may not add due to rounding.

The annual budget remains flat for the proposed grant period from FY 2026-27 through FY 2027-28. The proposed FY 2026-27 budget is approximately nine percent less than the FY 2025-26 budget due to decreased capital costs previously allocated for Lutheran Social Services' office remodel to accommodate additional staff for expanded client enrollment. A breakdown of FY 2026-27 grant expenditures is shown in Exhibit 3 below.

Exhibit 3: Breakdown of FY 2026-27 Grant Expenditures

Expenditures	Amount
Salaries & Benefits	$1,495,832
Operating Expenses	891,855
Subtotal	*2,387,687*
Indirect Costs (15%)	$358,153
Total Expenditures	**$2,745,840**

Source: Proposed Grant Amendment

The grant funds salaries and fringe benefits for a total of 16.73 FTE program staff. For FY 2026-27 through FY 2027-28, annual operating expenses reflect approximately 32.5 percent of the total budget and include costs such as rent, building maintenance supplies and repair, bank fees, program materials and supplies such as check stock, landlines/cell phones, insurance, office supplies, and other expenses.

Underspending

Actual expenditures on the grant from FY 2021-22 to FY 2024-25 were approximately 17 percent less than the amount budgeted. The primary driver for this was salary savings resulting from staffing vacancies during the program's ramp-up in FY 2024-25. According to HSH, the program has been fully staffed since January 2026, and remaining FY 2025-26 funds are projected to be fully expended. Additionally, as previously mentioned, Lutheran Social Services continues to expand outreach efforts at four new permanent supportive housing sites to increase client enrollment.

Sources of Funds

Expenditures over the proposed grant term would be funded approximately 45 percent by the City's General Fund and 55 percent by the Proposition C, Our City, Our Home Fund.[4]

RECOMMENDATION

Approve the proposed resolution.

[4] In November 2018, San Francisco voters approved Proposition C, which imposed additional business taxes to create a dedicated fund (Our City, Our Home Fund) to support services for people experiencing homelessness and to prevent homelessness.

Items 5 & 6 Files 26-0172, 26-0173	Department: Human Services Agency (HSA), Real Estate Division (RED)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolutions would approve the Second Amendments to the Human Services Agency's (HSA) leases with KLW Investments, LLC for property at: (1) 3119, 3125, and 3127 Mission Street, for an annual base rent of $410,145 (File 26-0172); and (2) 3120 Mission Street, for an annual base rent of $1,237,642 (File 26-0173). Each lease would be extended by four years and six months, from April 2026 through September 2030, with a five-year option to extend through September 2035.

Key Points

- HSA has leased office space at 3119 and 3120 Mission Street since 1998 and 2001, respectively. The spaces provide public benefit assistance to clients in and around the Mission District. The leases expired June 30, 2025 and remain in holdover status with annual rental rates of $46.35 per square foot for each lease. The Real Estate Division (RED) and the landlord have agreed to an extension of the lease with a new fair market rent and to credit the City for any additional rent paid over fair market rent since September 15, 2025.
- The proposed annual rental rates of $37.00 per square foot for 3119 Mission Street and $31.54 per square foot for 3120 Mission Street were determined through negotiations after appraisals conducted by the City's and landlord's appraisers showed differing fair market rental rates. The landlord has agreed to perform tenant improvements at the City's expense, including remodeling the restrooms at 3120 Mission Street and LED lighting and fixture upgrades at 3119 Mission Street. The guaranteed maximum cost for these improvements is $418,491. After applying the rent credits of $371,155, the additional cost to the City would not exceed $47,336.

Fiscal Impact

- Under the proposed Second Amendments to the leases, the City would pay initial annual base rent of $410,154 for 3119 Mission and $1,237,642 for 3120 Mission, for total annual base rent of $1,647,796, with three percent annual escalation. Over the four-year and six-month term of the lease, the City would pay approximately $7.8 million in total rent.
- The City is responsible for paying utility costs in both leases and for custodial, refuse, and pest control costs at 3119 Mission. We estimate that over the four-year and six-month term of the lease extension, the City will pay approximately $549,398 for these costs.

Recommendation

- Approve the proposed resolutions.

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 Human Services Agency (HSA) has leased office space at 3119 and 3120 Mission Street since 1998 and 2001, respectively. The spaces provide public benefit assistance to clients in and around the Mission District, including Workforce Development, CalWORKS, MediCal and CalFresh eligibility, and Family and Children's Services, and allow for co-located staff resources and services of the State Employment Development Department. The 3119 Mission Street property includes three buildings – 3119, 3125, and 3127 Mission Street – for a total of 11,085 square feet of office space and 15 parking spaces. 3120 Mission Street includes two buildings – 3120 Mission Street and 3425 Cesar Chavez Street – for a total of 39,251 square feet of office space. Both properties are owned by the same landlord, KLW Investments, LLC.

In June 2015, the Board of Supervisors approved new leases at 3119 and 3120 Mission Street for initial five-year terms, from July 2015 through June 2020, with three five-year options to extend through June 2035 (Files 15-0246, 15-0427). The leases had initial annual base rents of $42.75 per square foot ($473,884 annually for 3119 Mission Street and $1,677,980 annually for 3120 Mission Street), with $1 per square foot annual escalation. In May 2020, the Board of Supervisors approved the First Amendments to the leases, exercising the first five-year options to extend through June 2025, with initial annual base rent of $41.18 per square foot ($456,480 annually for 3119 Mission Street and $1,616,356 annually for 3120 Mission Street), and three percent annual escalation (File 20-0315). The rent for the extension period was based on 95 percent of appraised prevailing market rent at the time.

The 3119 and 3120 Mission leases expired June 30, 2025 and remain in holdover status. The City is currently paying an annual rental rate of $46.35 per square foot for the leases, equal to the rent in the final year of the First Amendment of the lease. The Real Estate Division (RED) and the landlord have agreed to an extension of the lease with a new fair market rent and to credit the City for any additional rent paid over fair market rent since September 15, 2025.

DETAILS OF PROPOSED LEGISLATION

The proposed resolutions would approve the Second Amendments to the following HSA leases with KLW Investments, LLC:

1. 3119, 3125, and 3127 Mission Street, for annual base rent of $410,155, or $37.00 per square foot (File 26-0172); and
2. 3120 Mission Street, for annual base rent of $1,237,642, or $31.54 per square foot (File 26-0173).

Each lease would be extended by four years and six months, from April 2026 through September 2030, with a five-year option to extend through September 2035. The proposed resolutions

would also authorize the Director of Property to make any further immaterial amendments to the leases.

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

Exhibit 1: Key Terms of Proposed Lease Amendments

	3119 Mission Street (File 26-0172)	3120 Mission Street (File 26-0173)
Square Footage	11,085 square feet	39,251 square feet
Extension Term	4 Years and 6 Months from 4/1/2026 – 9/30/2030	
Options to Extend	One 5-Year Option to Extend through 9/30/2035	
Initial Annual Base Rent	$410,154 ($37.00 per sf)	$1,237,642 ($31.54 per sf)
Rent Escalation	3% Annually	3% Annually
Rent in Extension Term	Reset to 95% of Prevailing Market Rent	
Rent Credit	$56,132	$315,023
Tenant Improvements	Performed by Landlord at City's expense, with a Guaranteed Maximum Price of $418,491	
Utilities	Paid by City	Paid by City
Custodial, Refuse, & Pest Control	Paid by City	Paid by Landlord
Other Operating Expenses	Paid by Landlord	Paid by Landlord
Parking	15 Parking Spaces	None

Source: Original Leases and Proposed Amendments

The proposed annual rental rates of $37.00 per square foot for 3119 Mission Street and $31.54 per square foot for 3120 Mission Street were determined through negotiations after appraisals conducted by R. Blum and Associates (on behalf of the City) and Valbridge Property Advisors (on behalf of the landlord) showed differing fair market rental rates. The proposed rental rates for 3119 Mission and 3120 Mission are reductions of 20 percent and 32 percent, respectively, from the current rental rate of $46.35 in the last year of the previous amendment. The landlord has agreed to set the rental rates retroactive to September 15, 2025 and credit the City with the difference between these rates and the actual rent paid ($56,132 for 3119 Mission and $315,023 for 3120 Mission).

The landlord has agreed to perform tenant improvements at the City's expense, including remodeling the restrooms at 3120 Mission Street and LED lighting and fixture upgrades at 3119 Mission Street. The guaranteed maximum cost for these improvements is $418,491. After applying the rent credits of $371,155, the additional cost to the City would not exceed $47,336.

FISCAL IMPACT

Under the proposed Second Amendments to the leases, the City would pay initial annual base rent of $410,154 for 3119 Mission Street and $1,237,642 for 3120 Mission Street, for total annual base rent of $1,647,796, with three percent annual escalation. Over the four-year and six-month term of the lease, the City would pay approximately $7.8 million in total rent, as shown in Exhibit 2 below. If the five-year options to extend the leases are exercised, the rent would be reset to 95 percent of prevailing market rent at that time.

Exhibit 2: Annual Rent Paid by City

Year	3119 Mission	3120 Mission	Total
Year 1 (4/2026 – 2/2027, 11 Months)	$375,975	$1,134,505	$1,505,480
Year 2 (3 2027 – 2/2028)	422,459	1,274,771	1,697,230
Year 3 (3/2028 – 2/2029)	435,132	1,313,014	1,748,147
Year 4 (3/2029 – 2/2030)	448,186	1,352,405	1,800,591
Year 5 (3/2030 – 9/2030, 7 Months)	269,285	812,570	1,081,855
Total	**$1,951,037**	**$5,887,266**	**$7,838,303**

Source: BLA Estimates, Proposed Lease Amendments

As noted above, the City would receive a rent credit of $371,155 for additional rent paid over fair market rent since September 15, 2025. After applying this credit to planned tenant improvements, the City's maximum additional cost for tenant improvements would be $47,336.

The City is responsible for paying utility costs in both leases and for custodial, refuse, and pest control costs at 3119 Mission Street. According to RED, the City also pays for a portion of refuse collection at 3120 Mission because the volume of waste has required additional pickups by Recology. In 2025, the total cost for these services was approximately $106,008. Assuming five percent escalation, we estimate that over the four-year and six-month term of the lease extension, the City will pay approximately $549,398 for these costs.

Rent and operating costs would be paid by the City's General Fund.

RECOMMENDATION

Approve the proposed resolutions.

Item 7 File 26-0185	Department: Municipal Transportation Agency (SFMTA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves: (a) an Infrastructure Facility Design-Build-Finance (DBF) Project Agreement between SFMTA and Potrero Properties LLC, for the design, construction, and financing of a bus storage and maintenance facility for an estimated term of 30-years following substantial completion and an estimated not to exceed amount of $1,396,433,595; and (b) issuance of Bonds and Refunding Bonds in an aggregate principal amount not to exceed $900,000,000 by the California Municipal Finance Authority (CMFA).

Key Points

- The Potrero Yard Modernization Project includes: i) a four-story bus maintenance and storage facility (Infrastructure Facility), and ii) a separately financed affordable housing component.
- In December 2024, the Board of Supervisors endorsed the form of a proposed project agreement to deliver the Infrastructure Facility, with the final agreement subject to Board of Supervisors approval. To preserve the financial viability of the bus facility, MTA and the Lead Developer have since (i) scaled back the Housing Project to approximately 104 affordable residential units (from 465 units) by removing the podium strengthening and other project elements associated with enabling the potential to develop future housing on top of the bus yard; (ii) and removed operations and maintenance services from the Lead Developer's scope. In addition, the SFMTA and Lead Developer agreed to change the financing approach to reduce costs.

Fiscal Impact

- The City would provide i) two Milestone Payments of $65 million at or near financial close and $250 million during construction, ii) a $5 million development fee, iii) quarterly availability payments for up to 30 years, totaling approximately $980 million to repay project debt and administrative costs.
- SFMTA has secured $70 million in one-time funding and will need to identify an additional $250 million in one-time funds to pay Milestone 2. SFTMA will fund availability payments totaling approximately $33.4 million annually from its capital budget.

Policy Consideration

- By no longer enabling the potential to construct housing above the Infrastructure Facility, the project achieves approximately $70 million in 2025 dollars as a one-time cost savings, which reduces total project costs by an estimated $161 million including debt service costs.

Recommendations

- Amend the proposed resolution to remove the word "estimated" from the cumulative not to exceed amount of $1,396,433,595, and to remove language stating that the not to exceed amount is subject to adjustment based on the terms of the Project Agreement and approve the proposed resolution as amended.

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

Potrero Yard Modernization Project

Potrero Yard, a 4.4-acre site located at Bryant Street and Mariposa Street, is a 100-year-old facility that currently serves as a trolley bus storage yard and maintenance facility. The two-story structure is functionally obsolete, operating beyond capacity, and considered a seismic hazard.

The Potrero Yard Modernization Project (the Project) includes two components:

1. A modern four-story bus maintenance and storage facility (Infrastructure Facility).
2. An affordable housing component (approximately 104 housing units and one manager's unit) if financially feasible (Housing Project).

The Infrastructure Facility would replace the existing building with a modern, efficiently designed facility that supports SFMTA's electric bus fleet and enables a future transition to battery-electric vehicles, while increasing maintenance efficiency and storage capacity at the site by more than 60 percent.

The Lead Developer, Potrero Neighborhood Collective LLC, was selected through a full and open competitive procurement process, and predevelopment work for the project has been completed. Additionally, approximately 30 percent of the design is now complete.

Scope Refinement

In December 2024, the Board of Supervisors generally endorsed the form of a proposed project agreement to deliver the Infrastructure Facility, with the final terms of the agreement subject to Board of Supervisors approval (File 24-1136). Under that form agreement, the developer was responsible for designing and building the Infrastructure Facility, as well as financing, operating, and maintaining the facility for up to 30 years. Since the Project was last presented to the Board of Supervisors in late 2024, staff have refined the scope to ensure financial feasibility and deliverability. The Project was initially planned to include housing both adjacent to and above the Infrastructure Facility (IF), providing 465 housing units, with certain common systems and infrastructure. Additionally, the Project scope included long-term operations and maintenance services for the Infrastructure Facility (IFM Services). As predevelopment advanced, staff determined that constructing the Housing Project above the Infrastructure Facility with a substantially reinforced podium structure, as well as significant space within the Infrastructure Facility dedicated to utilities, programming for building support spaces, and circulation for the Housing Project, was unaffordable to the SFMTA under current market

conditions. Similarly, long-term operations and maintenance services further increased the overall contract cost.

To preserve the financial viability of the Infrastructure Facility, staff and the Lead Developer (i) scaled back the Housing Project to approximately 104 affordable residential units by removing the podium strengthening and other provisions associated with enabling the potential to develop future housing on top of the bus yard; (ii) and removed operations and maintenance services from the Lead Developer's scope. In addition, the SFMTA and Lead Developer agreed to change the financing approach to reduce costs, as discussed below.

Procurement

The site is being developed through a joint development procurement approach, authorized by Ordinance No. 38-21 adopted in March 2021 (File 20-0947). Under the Ordinance, the Board of Supervisors granted SFMTA exemption from certain procurement and contracting requirements of Chapters 6, 14B, and 21 of the Administrative Code to allow for:[1]

- A single procurement process that reduces duplication, streamlines delivery, and allows for better coordination of the transit and non-transit components. In contrast, delivering the Project through conventional procurement methods would have required multiple procurements and contracts, including predevelopment services, design, construction, and financing.
- Shifting design, construction, and financing risks to the private partners, providing SFMTA with increased certainty regarding budget and schedule.
- The selection is based on overall best value, including design quality, life-cycle cost savings, and ability to meet project objectives, rather than lowest bid alone.

The SFMTA, in collaboration with San Francisco Public Works (DPW), launched a two-step full and open competitive process to select a private partner.

- Step 1: A Request for Qualifications (RFQ) issued in August 2020 resulted in three shortlisted teams. Three proposals were submitted by December 2021.
- Step 2: A Request for Proposals (RFP) followed in April 2021. After evaluation, two teams were selected to submit revised proposals.

[1] Chapter 6 of the Administrative Code contains policies for the City's public works procurements. Chapter 14B contains policies for Local Business Enterprise and non-discrimination in the City's contracting processes. Chapter 21 contains policies related to the City's contracting process for commodities and professional services. The Project is not exempt from certain prevailing wage, First Source Hiring, Local Business Enterprise, and State Apprenticeship Program requirements.

On July 26, 2022, the SFMTA received a single revised proposal from Potrero Neighborhood Collective (PNC). After a thorough evaluation, PNC was selected as Lead Developer on September 12, 2022.

Predevelopment Agreement

The SFMTA and Potrero Neighborhood Collective, the Lead Developer, entered into a Predevelopment Agreement on November 2, 2022, which was subsequently approved and amended by the Board of Supervisors (Files 24-0136 and 24-0937). The predevelopment work included, among other tasks:

- Preparing and obtaining design documents, due diligence materials, and other development analyses
- Developing the Project's commercial and financing structure
- Procuring contracts for design and construction of the Infrastructure Facility
- Negotiating separate agreements with the SFMTA to deliver the Project—the Project Agreement (to design, construct, and finance the Infrastructure Facility) and the Lease Disposition and Development Agreement (LDDA) (to continue development of the Housing Project).

The Predevelopment Agreement required the Lead Developer to perform the predevelopment work at its own expense. Compensation to the Lead Developer is contingent upon achieving specific milestones, such as obtaining project entitlements and reaching financial close for the Project Agreement. The Lead Developer received a $4,350,000 continuation payment once it secured environmental clearance and the entitlements needed to construct and operate the Project. If the City terminates the agreement without cause, or if the agreement expires without the execution of the Project Agreement, the City is obligated to provide a termination payment of up to $16,046,566[2] to the Lead Developer, provided the Lead Developer is not at fault. The Predevelopment Agreement expires on March 31, 2026, and MTA is planning to extend that agreement by two months, should it be needed, to allow for final approval of the Project Agreement to take place.

The predevelopment work for the Project has been completed, and the parties are now proposing to execute an Infrastructure Facility Project Agreement (Project Agreement), as well as a Lease Disposition and Development Agreement (LDDA) for the development of the Housing Project[3].

[2] Subsequent to the Board of Supervisors' approval of the second amendment to the Predevelopment Agreement, the SFMTA administratively approved the third agreement to the agreement to increase the termination payment by $500,000 and to extend the term of the agreement, as well as the dates for financial close and substantial facility of the infrastructure facility.

[3] The LDDA is a separate agreement and will be subject to Board of Supervisors' approval.

Joint Development Contractors and Roles

To facilitate the use of tax-exempt bonds for project financing, the Lead Developer needed to identify an existing 501(c)(3) organization to establish a Non-Profit Entity (NPE) that would serve as the counterparty to the proposed Project Agreement and act as the borrower under the financing documents. As a result, the Project Agreement is between SFMTA and Potrero Properties LLC, the designated NPE. All of the NPE's obligations under the Project Agreement will be delegated to the Lead Developer through a Project Implementation Agreement. Exhibit 1 identifies the main contractors and explains their respective roles. The Non-Profit entity will allow the project to borrow tax-exempt bonds to pay for all project costs, which reduces financing costs compared to other financing sources, such as taxable bonds, other credit, and developer equity.

Exhibit 1. Project's Contractors and Roles

Potrero Neighborhood Collective LLC (PNC)	***Principal Project Company***. *PNC is the "Lead Developer"* responsible for design and construction and was selected through a competitive procurement process.
Plenary Americas US Holdings Inc (Plenary)	***Sole owner of PNC***. Plenary selected a tax-exempt 501(c)(3) debt financing solution and needed to identify and select an existing 501(c)(3) entity that would be tasked with forming the non-profit entity (NPE) that would serve as counterparty to the project agreement and borrower under the finance documents.
Provident Resource Group Inc.	***Sole member and parent of PRG.*** A nonprofit corporation exempt from federal income tax whose purpose is to lessen the burdens of government and foster economic development. Provident formed the subsidiary, *PRG-Potrero Properties LLC*, to function as a conduit borrower for the project.
PRG – Potrero Properties LLC (Non-Profit Entity)	**Provident subsidiary.** PRG will be the SFMTA counterparty to facilitate the issuance of tax-exempt bonds as conduit borrower. The *Project Agreement* is between SFMTA and **PRG – Potrero Properties LLC**. Additionally, the Non-Profit Entity will enter into a *Project Implementation Agreement* with the Lead Developer requiring it to assume responsibility and be accountable for performance of the design and construction obligations, consistent with the risk allocation negotiated under the Project Agreement.
Webcor	**Subcontractor**. The Lead Developer will enter into a design-build subcontract (D&C Contract) with Webcor.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves an Infrastructure Facility Design-Build-Finance (DBF) Project Agreement between SFMTA and Potrero Properties LLC, for the design, construction, and financing of a bus storage and maintenance facility for the Potrero Yard Modernization Project for an estimated term of 30-years following substantial completion and an estimated not to exceed amount of $1,396,433,595, subject to adjustment (as discussed below).

Under the Agreement, the SFMTA would make the following payments to Potrero Properties LLC: a) two Milestone Payments of $65 million at or near Financial Close and $250 million during construction, b) Development Fee of $5 million payable upon Substantial Completion, c) Termination, and Delay Event payments, only in the event of an actual termination or delay event, as provided in the Agreement, d) Quarterly Availability Payments for up to 30 years totaling approximately $980 million to repay project debt and administrative costs.

In addition, the proposed resolution approves the following actions:

- Approval of the issuance of Bonds and Refunding Bonds in an aggregate principal amount not to exceed $900,000,000 by the California Municipal Finance Authority (CMFA) to finance and/or refinance the Infrastructure Facility, with the clarification that the Bonds are not a debt or obligation of the City, and that repayment is solely the responsibility of the Nonprofit Entity.
- Adoption of the Final Environmental Impact Report (EIR), the Mitigation Monitoring and Reporting Program (MMRP), the Memorandum to File, and all related CEQA Findings.
- Authorization for the Controller, Director of Public Finance, and other City officers to execute documents and take all actions necessary to implement the Resolution.
- Authorization for the Director of Transportation, in consultation with the City Attorney, to execute all agreements, certificates, and documents necessary to implement the Project Agreement, including any amendments or modifications determined to be appropriate and consistent with the intent of the Agreement and the Resolution.

Delegation of Authority

Under the proposed Project Agreement, the SFMTA absorbs financing risks, including the risks associated with changes in interest rates and credit spreads[4] between the start of the agreement and the date of financial close. The Director of Transportation can approve an increase in the

[4] Credit spread risk refers to the potential increase in borrowing costs due to changes in the difference between project-specific interest rates and benchmark rates, such as government bonds. Under the agreement, if credit spreads rise before Financial Close, the City may need to adjust availability payments to account for higher financing costs incurred by the Principal Project Company.

capital portion of the availability payment of up to 10 percent without seeking approval from the SFMTA Board of Directors or the Board of Supervisors.

The proposed resolution includes an "estimated" not to exceed amount of $1,396,433,595, but states that it is subject to adjustment on the terms of the Project Agreement. Specifically, the resolution delegates the authority to approve changes to the amount, timing or calculation of Availability Payments that are not considered an "Affordability Event", including adjustments due to changes in credit spread, interest rates, or "other formula-based or risk-allocated mechanisms contemplated in the Project Agreement."

Under the terms of the draft Project Agreement, Board of Supervisors' approval would be required if the availability payment exceeds estimates by 10 percent or more due to changes in interest rates or if other costs increase by more than $500,000.

Because the not to exceed amount of $1,396,433,595 already includes a 10 percent contingency for changes in interest rates and credit spread (as discussed below), we recommend that the Board of Supervisors amend the proposed resolution to remove the word "estimated" from the cumulative not to exceed amount, and to remove language stating that the not to exceed amount is subject to adjustment based on the terms of the Project Agreement.

Project Timeline

- **Financial Close:** Marks the completion of all financing agreements and preconditions, ensuring the Principal Project Company (PPC) has secured necessary funds without City debt. This milestone is critical because construction cannot begin until Financial Close is achieved. Financial Close is estimated for April 2026.
- **Construction Start:** Construction begins after Financial Close and issuance of Notice to Proceed 2 (NTP 2)[5].
- **Substantial Completion**: This milestone is reached when construction meets all technical and performance standards, allowing the bus yard to be placed into operational use. At this point, as the 30-year term begins, the City starts making quarterly Availability Payments, and the Substantial Completion Development Fee is paid. Substantial Completion is anticipated by June 2030.
- **Final Acceptance and Move-In:** Final Acceptance occurs within 180 days after Substantial Completion. During this period, the Non-Profit Entity (NPE) coordinates the Move-In of City operations into the new facility. A Move-In Subcommittee oversees the process, and a Move-In Resource must be selected 18 months before Substantial Completion to ensure a smooth transition.
- **Certifications and Warranty Period**: The project must achieve LEED BD+C Gold Certification[6] within 12 months after Substantial Completion, with documentation

[5] NTP 1 authorizes non-construction work such as design and planning. While NTP 2 requires regulatory approvals, insurance, bonds, and site readiness before construction can start.

[6] LEED Gold Certification is a sustainability rating awarded by the U.S. Green Building Council.

submitted within 6 months. Additionally, a two-year warranty period begins at Substantial Completion, requiring NPE to correct any defects or nonconforming work during this time.

- **Close-Out and Transition Duties:** After the 30-year term, NPE must deliver all project records, intellectual property, and warranties to the City.

Scope of Work

The Potrero Yard Design-Build-Finance (DBF) Agreement focuses on the design and construction of a modernized bus yard facility. The agreement specifies the development of a four-story bus maintenance, storage, and training facility to serve the all-electric trolley bus transit fleet and support future battery-electric transit needs. The Lead Developer, or Principal Project Company (PPC), is responsible for the substantial completion of the construction by 2030. The PPC and SFMTA have defined responsibilities under the DBF agreement. Below is a detailed breakdown of the responsibilities outlined in the DBF agreement, followed by a clarification of elements excluded from the agreement:

Design and Build Responsibilities

The Project will demolish the existing transit facility and replace it with a three-story bus maintenance, storage, and training facility. The Infrastructure Facility will consist of a multi-level structure for bus storage, maintenance functions, administrative offices, and a training center. The Bus Yard Component will provide storage for up to 246 buses, a more than 60 percent increase in current capacity.

Under the Project Agreement, the NPE must design and construct the facility in full compliance with the technical requirements, applicable codes, and Good Industry Practice. The facility must meet all structural and seismic standards, exceed minimum code requirements, comply with the San Francisco Green Building Code, and achieve a LEED Gold rating. The NPE is responsible for all design development, utility adjustments, hazardous materials management, quality assurance, testing, commissioning, and procurement and installation of NPE-furnished furniture, fixtures, and equipment. The NPE must deliver a fully functional facility that satisfies all conditions for Substantial Completion and Final Acceptance.

Finance Responsibilities

The PPC is required to secure and manage private financing to cover the design, construction, and operational phases of the project. This involves preparing financial models, managing risks, and ensuring budgetary compliance throughout the project lifecycle. The PPC must also report on financial performance to SFMTA at regular intervals, maintaining transparency and accountability. To recover its upfront costs, the PPC is reimbursed by the City through a combination of milestone payments and availability payments:

- **Milestone Payments:** These payments are tied to the successful completion of specific project milestones during the design and construction phases. They cover a portion of

direct costs, such as labor, materials, and equipment, while providing partial recovery of the PPC's initial investment.

- **Development Fee:** The fee will be paid in four installments following Substantial Completion and completion of certain post-construction milestones.
- **Availability Payments:** Starting after Substantial Completion, these quarterly payments compensate the PPC for project debt.

The second Milestone Payment may be deducted if certain design, construction, and operating metrics are not met. The City's financial obligations under the agreement are limited to Milestone Payments and Availability Payments, as defined in the contract. The Principal Project Company is solely responsible for obtaining and repaying all project financing, including debt, equity, or other funding sources, with no recourse to the City for any portion of the developer's financial obligations. However, as discussed below, if the City terminates the agreement, it will be responsible for repaying project debt and any work completed up to the termination date. If the City terminates the agreement because the developer defaults, MTA will be able to deduct its losses from its repayment obligations.

Operation and Maintenance Responsibilities

Under this DBF agreement, the NPE is not responsible for ongoing maintenance or operations after Substantial Completion. After Substantial Completion, the City has "full charge and care" of the facility and bears the risk of loss and damage. The NPE remains responsible only for completing any project close-out items prior to Final Acceptance and for performing warranty work to correct defects during the two-year warranty period. We note that certain components of the bus yard will be under warranty beyond the two-year warranty period of the Project Agreement, but the SFMTA will be responsible for facilitating repairs of those and any other components.

Assignment of Risk for Cost and Schedule Changes

Under the Project Agreement, the contract price may increase if the City issues a Change Order. The City may introduce changes to the work at any time, including additions to the scope of the D&C Work, and would be responsible for the associated cost. Cost increases may also occur due to delays. If the City causes a delay, the NPE may seek additional compensation, a time extension, and/or other relief. However, if delays are caused by the NPE, the NPE bears the cost, although the SFMTA must still cover the financing costs attributable to the delay according to SFMTA staff.

According to SFMTA staff, the Agreement adopts a shared-risk structure that is more favorable to the City than typical design-build contracts, including shared cost responsibility for discovery of unidentified utilities, PG&E-related delays, limited building permit approvals, and differing underground site conditions. These risks are traditionally borne entirely by the owner. However, the NPE may qualify for relief if the Department of Building Inspection takes more than nine months to issue approvals for a limited subset of building permits, provided the NPE meets all required conditions. Otherwise, the NPE bears the risk of securing approvals for required building permits.

If the developer fails to meet its obligations, the NPE is responsible for any associated costs. The Agreement protects the City from performance-related risk through deductions assessed on a per-day basis for delays beyond remedial periods. The deductions would be applied against Milestone Payment 2.

Finally, the Project Agreement may be terminated under several circumstances, including City convenience, NPE default, or insurance unavailability, and either party may terminate in the event of a force majeure that results in a full work stoppage for more than eight months. In the event of termination, the City would reimburse the NPE for allowable incurred costs, project debt, and terminate costs; if the NPE terminates the Agreement, the City may deduct its own losses from the termination payment.

Exclusions from the Agreement

The agreement explicitly requires the design and construction of the bus yard and does not mandate the development of the Housing Component. The Housing Component is not included in this agreement and would be subject to a separate ground lease agreement following the Lease Development and Disposition Agreement, which was approved by the SFMTA Board of Directors on March 3, 2026.

FISCAL IMPACT

The proposed resolution approves a Design-Build-Finance (DBF) Agreement between the City and Potrero Properties LLC, with the following key components:

- A milestone payment of $65 million at financial close.
- A milestone payment of up to $250 million due at Substantial Completion of the Infrastructure Facility.
- A $5 million development fee in four installments on or after Substantial Completion.
- Annual availability payments, paid on a quarterly basis, over a term not to exceed 30 years after the scheduled Substantial Completion date, anticipated in June 2030. The annual availability portion includes a fixed capital portion (approximately $32.9 million) and an operating portion linked to CPI (starting at approximately $427,000) for administrative costs associated with the debt issuance.

The Project's total cost is $1.3 billion in nominal dollars over 30 years under the revised Design-Build-Finance (DBF) Agreement, representing a significant reduction from the $2.2 billion cost under the former Design-Build-Finance-Operate-Maintain (DBFOM) structure. Exhibit 2 compares the City's financial obligations under the DBFOM and DBF approaches, showing how the payment structure has been redesigned. Milestone Payment 1 has decreased from $75 million to $65 million. Milestone Payment 2, previously $200 million payable no later than 2033, is now $250 million, due no later than Substantial Completion, which is currently scheduled for June 2030. In addition, the revised Agreement includes a $5 million development fee and eliminates the prior relocation payment.

Exhibit 2: Fiscal Impact Under DBFOM and DBF Agreements

	2024 Form Agreement (DBFOM)	Proposed Agreement (DBF)	Change
Milestone Payments & Fees			
Milestone Payment 1	$75,000,000	$65,000,000	($10,000,000)
Milestone Payment 2	200,000,000	250,000,000	50,000,000
Relocation Payment	500,000	-	(500,000)
Development Fee	-	5,000,000	5,000,000
Subtotal, Milestone Payments	275,500,000	320,000,000	44,500,000
Availability Payments			
Capital Portion	1,269,493,222	960,820,442	(308,672,780)
Operating Portion	695,463,759	19,531,108	(675,932,651)
Subtotal, Availability Payments	1,964,956,981	980,351,550	(984,605,431)
Total City Cost	**$2,240,456,981**	**$1,300,351,550**	**($940,105,431)**

Source: PNC IF Financial Model

The most substantial change is the reduction and restructuring of Availability Payments, which have decreased from nearly $2 billion to approximately $980 million due to: (a) the increase in milestone payments and change to a level-debt structure that increases the availability payments in the early years of the agreement, resulting in a reduction in interest costs; (b) a change in financing approach that now includes a 501(c)(3) tax-exempt bond issuance financing structure compared to the prior approach which included a potential tax-exempt Private Activity Bonds ("PABs") financing structure that relied on a USDOT allocation, resulting in a reduction in interest costs; and (c) removal of the operations and maintenance component from the scope of work, as discussed below.

The Availability Payments, which are expected to begin one year after substantial completion, will continue to be used for debt service and certain finance administration costs. However, instead of the prior approach, where payments increased by one percent annually, the revised structure establishes flat annual payments. Under the prior DBFOM proposal, both the capital and operating portions of Availability Payments were subject to interest rate and credit-spread fluctuations, CPI adjustments between commercial and financial close, and annual CPI changes throughout the operating period. Under the revised DBF structure, the capital portion is flat but subject to interest rate and credit-spread fluctuations, while the operating portion is linked to changes in CPI. The operating portion will fund finance and administrative costs incurred by NPE associated with the debt issuance.

The City may request a refinancing of project debt, which could lower Availability Payments, however it would be responsible for all refinancing transaction costs.

Not to Exceed Amount

The not to exceed amount in the proposed resolution of $1,396,433,595, includes the estimated project cost of $1.3 billion as shown in Exhibit 2 above, plus a 10 percent contingency on the

availability payments to account for potential changes in interest rates and credit-spread between the date of the agreement and financial close.

Independent Cost Estimate

The City prepared an initial Owner's Cost Estimate for the design-build scope that established a total design and construction value of $560 million, was developed prior to receiving subcontractor bids. In February 2025, Webcor submitted its initial design-build pricing proposal of $722 million. The difference between the City's estimate and Webcor's submission initiated a significant reconciliation effort. During the initial reconciliation in March 2025, the City's estimate increased from $560 million to $603 million, while Webcor's price decreased from $722 million to $699 million. After several rounds of value engineering and cost refinement to preserve financial viability, the City's estimate of the final total construction cost has been established at $584 million, which is within five percent of the development team's design-build fixed final price.

Cost Savings Associated with Reductions in the Project Scope

The project scope initially contemplated the potential to enable housing units adjacent to and above the bus facility, sharing certain common systems and infrastructure. The Lead Developer's scope also included long-term operations and maintenance services for bus facility. However, as predevelopment progressed, staff determined that retaining these elements would make delivery of the bus facility financially infeasible.

As a result, the project scope was revised, and staff made changes to operations and maintenance responsibilities, building components, and the project's financial structure, as shown in Exhibit 3. Operations and maintenance were removed from the developer's scope, eliminating responsibilities previously estimated at $14 million per year and resulting in approximately $676 million in savings over 30 years according to SFMTA estimates. Instead, the MTA will assume responsibility for maintaining the bus facility at an estimated annual cost of $1.5 million.

Additionally, constructing housing above the bus facility would have required a substantially reinforced podium structure, as well as significant space within the facility for utilities, building support functions, and circulation for the housing development. Eliminating these components avoids major costs, resulting in one-time savings of $70 million and approximately $161 million in savings over 30 years, including associated debt service costs.

Finally, the tax-exempt financing structure provides an estimated $42 million in savings over 30 years, and the restructuring of milestone and availability payments results in an additional $371 million in savings over the same period.

Exhibit 3. Project's scope changes and cost savings

Type of Change	Scope Change	Cost Savings	Savings over 30 years
Maintenance and Operations	Removal of long-term operations and maintenance for 30 years following construction	$14,000,000 annually	$676,000,000
Design-Build Cost Reduction	Removal of podium strengthening (foundations and superstructure), removal of basement, removal of roof deck, and consolidation at the ground floor	70,000,000 one-time	161,000,000
	Reducing the Mezzanine floor plate	3,400,000 one-time	8,000,000
Financial Structuring	Tax-exempt borrowing	1,400,000 annually	42,000,000
	Milestone Payment 1 and 2 modifications	2,900,000 annually	85,000,000
	Leveling annual availability payments: capital portion set at a fixed amount for 30 years, and operational cost linked to CPI 3% increase p.a.	$6,800,000 annually	$286,000,000

Source: SFMTA Staff

Financing Costs Assessment

The design-build fixed final price contained in PNC's financial model reflects design and construction costs for the Bus Yard Component at $612 million, excluding financing expenses. Adding approximately $65 million in predevelopment costs brings the total project cost to $677.1 million. As shown in Exhibit 4 below, SFMTA has secured funding to make the Milestone 1 payment to the NPE for the $65 million in predevelopment costs. If the City were to issue its own debt to finance and build the facility (excluding predevelopment costs), we estimate the total debt service would be approximately $1.33 billion for a $612 million-project, assuming a six percent interest rate and a thirty-year term. This suggests the City would save roughly $33.7 million under the proposed agreement compared to using conventional public financing sources.

Funding Sources

As shown in Exhibit 4, SFMTA has secured $70 million out of the total project payments in the amount of $1.3 billion. This portion would cover Milestone Payment 1 and the Substantial Completion Development Fee. Milestone Payment 2 will be primarily funded through General Obligation Bonds, pending voter approval in June 2026, with the remaining $50 million through SFMTA's Capital Budget as a top payment priority and capital obligation, including the allocation of project savings from other projects.

Availability Payments would also be funded through the SFMTA's capital budget. According to SFMTA staff, these payments would be supported by external capital funding sources, such as

federal, state, and regional funds, as well as other eligible local capital revenues programmed through the agency's Capital Improvement Program (CIP). The Availability Payments will be prioritized and funded from the capital budget before allocating resources to new discretionary capital projects.

Exhibit 4. Funding Sources

Payment and Source	Amount($)	Status
Substantial Completion Development Fee		
Developer issued tax-exempt bonds	**$5,000,000**	Issued at Financial Close
Milestone Payment 1		
Caltrans -SB 1 State of Good Repair (FY23-FY26)	$5,150,953	Secured
SFCTA - Prop K Sales Tax	1,000,000	Secured
MTC - Regional Measure 3 Bridge Toll Funds (RM3)	42,393,000	Secured
City General Fund (2014 Prop B - Transit)	5,750,000	Secured
FTA - Section 5307 Formula Funds (FY22-FY24)	10,706,047	Secured
Total	**$65,000,000**	
Milestone Payment 2		
General Obligation (GO) Bonds (June 2026)	$200,000,000	Pending voter approval
Savings from other projects	50,000,000	TBD
Total	**$250,000,000**	
Availability Payments		
SFMTA Capital Budget and Capital Improvement Program	$980,351,550 (approximately $33.3 million annually)	TBD
	Total Amount	**Total Secured Funds**
	$1,300,351,550	**$70,000,000**

Source: SFMTA Staff

POLICY CONSIDERATION

The updated scope for the Potrero Yard Modernization Project plans to enable the potential for the affordable housing developer to build approximately 104 affordable residential units adjacent to the Infrastructure Facility, compared to the 465 units originally proposed to be built adjacent to and above the Infrastructure Facility, or approximately 22 percent of the initial housing proposal. This significant reduction reflects the substantial additional costs required to enable the potential to construct housing above the Infrastructure Facility, reflected in the need

for a reinforced podium, support spaces, and other common infrastructure. By no longer enabling the potential to construct housing above the Infrastructure Facility, the project achieves approximately $70 million in 2025 dollars as a one-time design-build cost savings, which reduces total project costs by an estimated $161 million including debt service costs and maintains the project's overall financial viability.

According to Mayor's Office of Housing and Community Development (MOHCD) staff, the affordable housing project located at 2888 Bryant Street is currently in the predevelopment phase. At present, design work has been paused pending approval of the overall project. MEDA and Tabernacle Community Development Corporation were selected by the SFMTA as the development team, and a contractor will be selected once design activities resume. In December 2023, MOHCD executed a loan agreement with the affordable housing developer to provide $3 million in funding to finance predevelopment activities for the project. There is currently no determined construction start date for the project, but it is not expected to start before FY 2028-29 according to staff. As noted above, the SFMTA Board of Directors approved a Lease Development and Disposition Agreement on March 3, 2026 to enable development of the housing project. Following the Lease Development and Disposition Agreement, SFMTA will enter into a ground lease for the affordable housing project, which will be subject to Board of Supervisors' approval.

RECOMMENDATIONS

1. Amend the proposed resolution to remove the word "estimated" from the cumulative not to exceed amount of $1,396,433,595, and to remove language stating that the not to exceed amount is subject to adjustment based on the terms of the Project Agreement because the not to exceed amount already includes a contingency to allow for changes in interest rates and credit spread.
2. Approve the proposed resolution as amended.

Item 8 File 26-0176	Department: Police Department (Police)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would de-appropriate $34,366,405 from permanent, premium, and comp time salaries and appropriate $34,366,405 to overtime salaries in the San Francisco Police Department (SFPD) FY 2025-26 budget.

Key Points

- SFPD reports that vacancies combined with minimum staffing levels required to maintain services are contributing to the need for staff to work overtime. SFPD is proposing to use vacancy savings to increase its overtime budget. SFPD also utilizes overtime to staff special events, including the Super Bowl, and special policing initiatives. In the Airport Bureau, overtime is mostly used to backfill vacancies.
- At the Mayor's direction, SFPD has ordered a 22 percent reduction in overtime utilization for the remainder of FY 2025-26. After accounting for this reduction, as well as a large increase in February 2026 for Super Bowl festivities, SFPD projects a total of approximately 728,865 overtime hours in FY 2025-26, which would be a reduction from 767,686 overtime hours incurred in FY 2024-25.

Fiscal Impact

- The proposed ordinance would transfer $28,537,583 from permanent, premium, and comp time salaries to overtime in the General Fund and transfer $5,828,822 from permanent salaries to overtime in the Airport Bureau.
- This appropriation does not draw on the City's budget reserves; it would alter spending authority within the approved SFPD budget.

Recommendation

- Approve the proposed ordinance.

MANDATE STATEMENT

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

Administrative Code Section 3.17 states that the Airport; Department of Emergency Management; Fire Department; Police Department; Department of Public Health; Public Utilities Commission; Department of Public Works; Recreation and Park Department; and Sheriff must obtain a supplemental appropriation to exceed the overtime budgets in their annual operating funds.

BACKGROUND

The San Francisco Police Department (SFPD) is requesting a supplemental appropriation to increase its overtime budget in annual operating funds, as per Administrative Code Section 3.17. This appropriation does not draw on the City's budget reserves; it would alter spending authority within the approved SFPD budget.

SFPD reports that vacancies combined with minimum staffing levels required to maintain services are contributing to the need for staff to work overtime. SFPD also utilizes overtime to staff special events and special policing initiatives. At the direction of the Mayor's Office, SFPD increased patrols in late 2025 and early 2026 to ramp up for the Super Bowl and Lunar New Year festivities. In March 2026, the Board of Supervisors approved a $4 million supplemental appropriation to support these additional patrols and enhanced street cleaning services (File 25-1249). A portion of this supplemental appropriation will be allocated to the SFPD.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would de-appropriate $34,366,405 from permanent, premium, and comp time salaries and appropriate $34,366,405 to overtime salaries in the SFPD FY 2025-26 budget.

Exhibit 1 below summarizes the proposed appropriation of $34,366,405 in the SFPD budget.

Exhibit 1: SFPD Supplemental Appropriation

Sources	Amount
De-Appropriation	
Permanent Salaries (Airport Bureau)	$5,828,822
Permanent Salaries (General Fund)	26,000,000
Premium Pay (General Fund)	2,000,000
Comp Time (General Fund)	537,583
Total Sources	**$34,366,405**

Uses	Amount
Appropriation	
Overtime (Airport Bureau, Non-General Fund)	$5,828,822
Overtime (General Fund)	28,537,583
Total Uses	**$34,366,405**

Source: Proposed ordinance

FISCAL IMPACT

The proposed ordinance would increase budgeted overtime by 40 percent in the SFPD General Fund budget and 59 percent in the SFPD Airport Bureau budget. Exhibit 2 below summarizes the FY 2025-26 approved overtime budget within each fund, the resulting increase from the proposed ordinance, and the FY 2024-25 actual expenditures.

Exhibit 2: FY 2025-26 SFPD Overtime Budget and Proposed Increase, Annual Operating Funds

	General Fund	Airport Bureau	Total
FY 2025-26 Overtime Budget	$71,624,702	$9,943,751	$81,568,453
Proposed Increase in Overtime	28,537,583	5,828,822	34,366,405
New Overtime Budget	$100,162,285	$15,772,573	$115,934,858
Percent Increase	40%	59%	42%
FY 2024-25 Actual Overtime Expenditures	$97,671,743	$10,161,679	$107,833,422
New Overtime Budget, Percent of FY 2024-25 Actual Expenditures	103%	155%	108%

Source: Proposed Ordinance, City Budget System

The proposed ordinance de-appropriates $34,366,405 from permanent, premium, and comp time salaries in SFPD's FY 2025-26 budget to pay for $34,366,405 in overtime expenditures, as shown in Exhibit 1 above. SFPD exceeded its FY 2025-26 overtime budget in the pay period ending February 27, 2026, in the General Fund and is projected to exceed its overtime budget in the pay period ending March 13, 2026, in the Airport Bureau.

According to Kimmie Wu, SFPD Chief Financial Officer, the permanent salary surplus is largely due to vacancies, with separations outpacing new hires in recent years. SFPD projects that FY 2025-26 General Fund permanent salaries will total approximately $342.7 million, compared to

a budgeted amount of $369.3 million, for a projected surplus of $26.6 million. However, SPFD projects General Fund overtime expenditures of approximately $99.8 million, compared to a budgeted amount of $71.6 million, for a projected deficit of $28.2 million. In the Airport Bureau, SFPD projects a surplus of approximately $8.3 million in permanent salaries and a deficit of approximately $5.8 million in overtime.

Uses of Overtime

As of January 30, 2026, SFPD has incurred approximately 416,395 hours of overtime in FY 2025-26. By comparison, SFPD had incurred approximately 448,317 hours of overtime through the same date in FY 2024-25. Using a straight-line projection, SFPD is projected to incur approximately 717,173 hours of overtime in FY 2025-26, which is a reduction from 767,682 hours in FY 2024-25 and a further reduction from 820,167 hours in FY 2023-24. However, this projection does not account for a large increase in overtime hours in February 2026 due to the Super Bowl, so it is likely that SFPD will exceed the projection. SFPD reported $11.6 million in overtime costs for the pay period ending February 13, 2026, compared to an average of $3.7 million for other pay periods this fiscal year. This total includes overtime for Airport Bureau (related to additional Super Bowl travel), City and the first week of the pay period.

Of the 416,395 overtime hours to date, approximately 72 percent are within the category "extended work week." This includes the backfilling of vacant positions, special event staffing, and any other use of overtime that is not associated with an arrest, investigation, court, or academy training. An overview of FY 2025-26 overtime usage is shown in Exhibit 3 below.

Exhibit 3: Breakdown of SFPD Overtime (General Fund)

Overtime	FY 2023-24 OT Hours	FY 2024-25 OT Hours	FY 2025-26 Total OT Hours, Projected
Court	36,013	36,000	36,326
Investigation	55,435	61,390	55,072
Arrest	65,089	72,035	75,274
Miscellaneous	8,508	5,265	3,863
Academy Training	21,943	31,812	29,455
Extended Work Week			
APEC Conference	89,744	-	-
DMACC & Street Conditions	36,077	36,292	38,214
Tourism Deployment Plan	17,588	9,968	4,215
Safe Shopper/Police Presence	94,578	78,364	68,669
Events	51,877	28,401	28,343
Dignitary Protection	24,332	12,540	3,281
Hospital Watch	9,697	5,116	6,237
Violence Reduction	33,291	26,053	21,550
NBA All Star Weekend	-	24,526	-
OT Backfill/Staff Shortage	208,957	221,652	212,236
Extended Work Week – Other	62,992	118,272	134,438
Extended Work Week Subtotal	*629,133*	*561,184*	*517,183*
Total	**820,167**	**767,686**	**717,173**

Source: SFPD

As noted above, the table above does not include overtime hours associated with Super Bowl festivities in February 2026. Conversely, following a recent Mayoral directive to reduce the City's budget deficit, SFPD has ordered a 22 percent reduction in overtime use for the rest of the fiscal year, which is reflected in SFPD's overtime expenditure projections. According to Chief Financial Officer Wu, after accounting for an estimated 78,364 overtime hours related to the Super Bowl and reducing overtime utilization in future pay periods by 20 percent, SFPD projects a total of 728,865 hours of overtime in FY 2025-26, which would be a slight increase over our projections above but a decrease from FY 2024-25. SFPD will likely have to reduce backfill and special initiatives overtime to achieve this reduction.

In the Airport Bureau, overtime is mostly used to backfill vacancies. The Airport Bureau currently has approximately 102 vacant sworn positions out of 242 sworn positions, for a vacancy rate of approximately 42 percent. SFPD has prioritized filling vacancies within field operations over the Airport Bureau, which has increased reliance on overtime.

Police Staffing

SFPD has approximately 355 vacant sworn positions out of approximately 2,112 total sworn positions in the General Fund (excluding work-order funded positions), for a vacancy rate of approximately 17 percent.[1] This is a nine percent decrease from the 390 sworn vacancies in the General Fund reported to us in April 2025, when the Police Department requested a transfer of $61 million from salaries and benefits to overtime in FY 2024-25. SFPD has increased its overtime budget and reduced its permanent salaries budget in FY 2025-26 to more accurately reflect historical spending, which has reduced the needed transfer of funding between accounts from $61 million to $28.5 million in the General Fund. Ongoing recruitment has resulted in the number of full-duty officers by approximately 62 since April 2025.

According to recruitment and separation data provided by SFPD, the Department's sworn recruitment efforts this year will be roughly in line with the number of sworn separations. The Department reports it is piloting smaller class sizes so that the Academy can start more frequently and hopes to increase its graduation rates from the Academy and field training so that it can continue to increase its staffing in future years.

RECOMMENDATION

Approve the proposed ordinance.

[1] Of the 1,757 filled sworn officer positions, 1,527 are full-duty officers, a figure which excludes officers on leave or modified duty and therefore are unavailable for field deployment.