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: May 6, 2026 Budget and Finance Committee Meeting

TABLE OF CONTENTS

Item	File		Page
2 & 3	26-0360	De-appropriation and Appropriation - Recreation and Park - San Francisco Zoological Society Loan - $2,500,000 - FY2025-2026	
	26-0393	Loan Agreement - San Francisco Zoological Society - Operations and Long-Term Financial Sustainability - Up to $8,500,000	1
5	26-0297	Appropriation - Fire Department - Revenue - $1,589,223 - De-Appropriation - Various Departments - Permanent Salaries and Dependent Coverage - $8,832,528 - Appropriation - Overtime - $10,421,751 - FY2025-2026	9
9 & 10	26-0363	Grant Agreement Amendment - Tenderloin Housing Clinic, Inc. - Abigail Housing Ladder Program - Not to Exceed $15,496,140	
	26-0365	Grant Agreement Amendment - Tenderloin Housing Clinic, Inc. - Garland Hotel - Support Services, Property Management and Master Lease Stewardship - Not to Exceed $17,340,154	16
11	26-0372	Contract Amendment - Five Keys Schools and Programs - Ellis Semi-Congregate Shelter - Not to Exceed $39,569,622	25
12	26-0364	Grant Agreement Amendment - Community Forward SF - Coronado Hotel - Support Services, Property Management and Master Lease Stewardship - Not to Exceed $16,653,327	32

TABLE OF CONTENTS (continued)

Item	File		Page
13	26-0400	Real Property Lease - 33 8th Street, LLC - 33-8th Street - Initial Base Rent of $448,224	40

Items 2 & 3 Files 26-0360 and 26-0393	Department: Recreation and Park Department (RPD)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution in File 26-0393 would authorize the Recreation and Park Department (RPD) General Manager to execute a ten-year agreement to loan the San Francisco Zoological Society (SFZS), the nonprofit organization that manages the San Francisco Zoo, $6.5 million, with an additional $2 million in reserve, for a total loan of up to $8.5 million.
- The proposed ordinance in File 26-0360 would de-appropriate $2.5 million from the Open Space Acquisition Reserve and appropriate this funding to the Park, Recreation and Open Space Fund to be used for the initial loan disbursement to SFZS in FY 2025-26.

Key Points

- SFZS is projecting a two-year net operating cash deficit of $11.89 million between January 2026 and December 2027. As of June 2025, the Zoo had $9.2 million in net assets without donor restrictions and that figure is lower as of this writing due to an ongoing draw on that balance. Beginning in calendar year 2028, SFZS is projecting a net operating cash surplus due primarily to the anticipated arrival of two giant pandas and corresponding revenue increases. To cover its projected operating cash deficit between January 2026 and December 2027, SFZS has requested a loan from the City.
- The formal loan agreement has not been drafted. According to the draft loan term sheet, the loan is expected to be executed in FY 2025-26 with an initial disbursement of $2.5 million. The remaining loan amounts will be disbursed in FY 2026-27 as SFZS meets various milestones, including completion of a financial sustainability plan and strategic plan.

Fiscal Impact

- RPD anticipates the loan will be entirely General Fund supported and that the Mayor's proposed FY 2026-28 budget will include (1) a $2.5 million General Fund transfer to restore the funding proposed be de-appropriated from the Open Space Acquisition Reserve; and (2) General Fund support for the remaining $6 million of loan disbursements.

Policy Consideration

- The proposed resolution in File 26-0393 would authorize a loan agreement that has not yet been drafted, without an opportunity for the Board of Supervisors to review.
- No collateral secures the loan. SFZS's ability to repay the loan will be compromised if it is not able to execute the plan to bring pandas to the Zoo, if the plan is substantially delayed, or if its actual resulting revenues are not sufficient to generate an operating cash surplus.

Recommendations

- Approval of the proposed resolution and proposed ordinance are policy matters for the Board of Supervisors.

MANDATE STATEMENT

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

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

BACKGROUND

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

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

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

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

Plans to Bring Giant Pandas to the Zoo

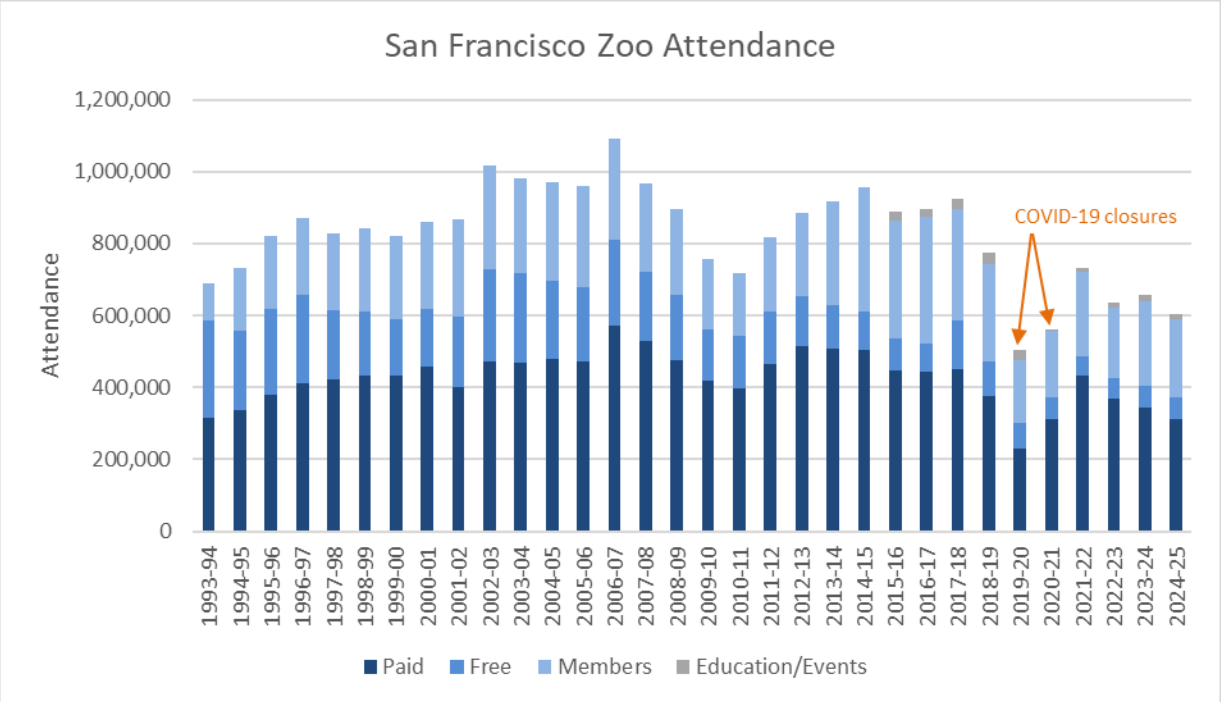
SFZS is currently working to bring giant pandas to the Zoo. According to Cassandra Costello, SFZS Chief Executive Officer, the technical agreement with China has not yet been executed. If the panda project is successful, two pandas would be loaned to SFZS for a 10-year period. SFZS is currently projecting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

SFZS Financial Condition and Attendance Decreases

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

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

Exhibit 1: San Francsico Zoo Historical Attendance



Source: SFZS

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

DETAILS OF PROPOSED LEGISLATION

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

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

File 26-0360 is a proposed ordinance that would de-appropriate $2.5 million from the Open Space Acquisition Reserve and appropriate this funding to the Park, Recreation and Open Space Fund for the portion of the loan payment to be made to SFZS in FY 2025-26.

Loan Terms

The proposed resolution summarizes key loan terms and conditions and states that the terms of the loan will be in accordance with a draft loan term sheet negotiated by RPD and SFZS. These terms and conditions (from both the proposed resolution and the draft loan term sheet) are summarized in Exhibit 2 below. According to RPD staff, the formal loan agreement has not yet been drafted.

Exhibit 2: Loan Terms and Conditions

Terms and Conditions	

SFZS Requirements	• Engage a specialized zoo strategic and financial planning consultant
	• Engage in a long-term visioning process with the City and other partners
	• Produce the following:
	  ○ Financial sustainability plan, including a loan repayment strategy
	  ○ Five-year strategic plan
	  ○ Quarterly reports on basic outputs (attendance, efficiencies, new members, fundraising), progress on financial sustainability plan, and progress on panda project
	• Make immediate expense reductions of a minimum of 10 percent
	• Not take on new liabilities or animals, except for pandas, that require habitat or staffing investments unless a dedicated outside funding source is secured*
	• Improve the capacity of the SFZS Board of Directors to support the Zoo:
	  ○ Adequately staff the finance committee
	  ○ Add a Board member with substantial financial management experience
	  ○ Double the Board's annual contribution goal each year and eventually reach a goal of 10 percent of SFZS's annual operating budget
	• Achieve Association of Zoos and Aquariums (AZA) accreditation**
	• Address concerns identified in the BLA *Performance and Management Audit of the San Francisco Zoo*
	• Meet specific milestones tied to release of loan funds (see Exhibit 3 below)

Total Loan Amount	$6.5 million, disbursed according to specific milestones (see Exhibit 3 below), with an additional $2 million in reserve. The $2 million in reserve may be loaned to SFZS after a successful AZA accreditation review in 2027 if the City determines that SFZS has made sufficient progress towards financial sustainability and its long-term goals.
Loan Source	General Fund or debt financing at the City's discretion, according to the draft loan term sheet. The proposed resolution indicates the source of funds is General Fund.
Interest Rate	• If General Fund: City's pooled investment rate (currently 3.7 percent) • If debt financing: rate will match the City's debt issuance and financing costs (estimated 6.5 percent)
Repayment Period	10 years.
Repayment	Beginning in the first quarter of 2028, the City will decrease the management fee paid to SFZS by approx. $1.02 million annually to cover the loan repayment.
Failure to Meet Milestones	The City may (1) terminate the loan, and/or (2) terminate the Lease and Management Agreement between SFZS and the City.

Source: File 26-0393; draft loan term sheet.

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

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

According to the loan term sheet, funds will be released when SFZS reaches the milestones shown in Exhibit 3 below. Prior to the start of the loan, SFZS must provide its current plans for increasing attendance and fundraising and a loan repayment plan. One year after the start of the loan, SFZS must provide its final financial sustainability plan and five-year strategic plan.

Exhibit 3: Loan Milestones

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

Source: Draft loan term sheet.

FISCAL IMPACT

As shown in Exhibit 2 above, the loan term document states that the City may use either debt financing or General Fund support to pay for the loan. However, according to Antonio Guerra, RPD Director of Administration of Finance, RPD anticipates the loan will be entirely General Fund supported:

- The proposed ordinance (File 26-0360) would de-appropriate $2.5 million from the Open Space Acquisition Reserve and appropriate this funding to the Park, Recreation and Open Space Fund in FY 2025-26. This $2.5 million would be used for the initial loan disbursement, anticipated to occur in FY 2025-26, that coincides with the beginning of the loan. According to Director Guerra, RPD anticipates that a $2.5 million General Fund transfer to restore the funding to the Open Space Acquisition Reserve will be included in the Mayor's proposed FY 2026-28 budget, subject to Board of Supervisors approval.

- RPD anticipates that General Fund support for the remainder of the loan disbursements ($6 million, inclusive of the $2 million reserve) will be included in the Mayor's proposed FY 2026-28 budget, subject to Board of Supervisors approval.

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

Planned Uses of the Open Space Acquisition Reserve

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

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

POLICY CONSIDERATION

Absence of Loan Agreement

The proposed resolution in File 26-0393 would authorize the RPD General Manager to execute a loan agreement without an opportunity for the Board of Supervisors to review. According to RPD staff, the City Attorney's Office is currently drafting the agreement, but it has not been finalized. While the proposed resolution states that the terms of the loan would be "substantially similar" to the loan term sheet, the loan agreement itself has not been made available to the Board of Supervisors or Budget and Legislative Analyst.

Panda Scenario Uncertainty

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

to SFZS and could compromise its ability to operate the Zoo and to repay the full amount of the loan.

According to RPD staff, no collateral secures the loan.

Lease and Management Agreement and Role of Joint Zoo Committee

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

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

Costs of Inaction

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

RECOMMENDATIONS

Approval of the proposed resolution and proposed ordinance are policy matters for the Board of Supervisors.

Item 5 File 26-0297	**Departments:** Fire Department (FIR), Emergency Management (DEM), Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance (a) appropriates $1,163,325 in Ambulance Billing Revenue and $425,898 in Overtime Services Fees revenue in the Fire Department and (b) de-appropriates $500,000 from permanent salaries in the Department of Emergency Management, $6,088,370 in permanent salaries and $994,158 in dependent coverage in the Fire Department (SFFD) and $1,250,000 in permanent salaries in the Public Utilities Commission and appropriates a total of $10,421,751 to overtime in the Department of Emergency Management ($500,000), Fire Department ($8,671,751), and Public Utilities Commission ($1,250,000).

Key Points

- The Department of Emergency Management, Fire Department, and the Public Utilities Commission are requesting a supplemental appropriation to increase their overtime budgets in annual operating funds, as per Administrative Code Section 3.17.
- Overtime needs vary by department. The Department of Emergency Management does not currently project exceeding its FY 2025–26 overtime budget but requests additional appropriation as a precautionary measure to address major events and emergencies, such as protests and power outages. The Fire Department attributes increased overtime needs to vacancies and minimum staffing levels required to maintain services, while PUC cites higher workloads from winter storms and critical pipeline maintenance in the regional water system.

Fiscal Impact

- The proposed ordinance shifts savings from position vacancies to pay for the following increased overtime costs: (1) $500,000 for the Department of Emergency Management, (2) $8,671,751 for the Fire Department, and (3) $1,250,000 for the Public Utilities Commission. The proposed percent increases in overtime in annual operating funds for the three departments range from six percent for the Department of Emergency Management up to 20 percent for the Public Utilities Commission. The ordinance also provides spending authority for $1,163,325 of unbudgeted ambulance revenues for the Fire Department.

Recommendation

- Approve the proposed ordinance.

MANDATE STATEMENT

Charter Section 9.105 provides that amendments to the Annual Appropriation Ordinance be 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.

Charter Section 9.113(c) states that in the event the Mayor or a member of the Board of Supervisors recommends a supplemental appropriation ordinance after the adoption of the budget and prior to the end to the budget year that contains any item rejected by the Mayor or the Board of Supervisors in the original budget appropriation, the supplemental appropriation can only be approved by a two-thirds vote of the Board of Supervisors.

BACKGROUND

Three departments (Department of Emergency Management, Fire Department, and the Public Utilities Commission) are requesting a supplemental appropriation to increase their overtime budgets in annual operating funds, as per Administrative Code Section 3.17. The need for additional overtime funds varies across departments. Department of Emergency Management (DEM) does not anticipate exceeding its overtime budget in FY 2025-26 but is requesting an appropriation as a precautionary measure to address potential increases in overtime costs associated with major events and other unforeseen emergencies such as protests or power outages. The Fire Department (SFFD) reports that vacancies combined with minimum staffing levels required to maintain services are contributing to the need for staff to work overtime. In addition, the Public Utilities Commission (PUC) reports that they have seen increased workloads from the winter storms and critical pipeline maintenance in the regional water system, resulting in a need for additional overtime.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance (a) appropriates $1,163,325 in Ambulance Billing Revenue and $425,898 in Overtime Services Fees revenue in the Fire Department and (b) de-appropriates $500,000 from permanent salaries in the Department of Emergency Management, $6,088,370 in permanent salaries and $994,158 in dependent coverage in the Fire Department (SFFD) and $1,250,000 in permanent salaries in the Public Utilities Commission and appropriates a total of $10,421,751 to overtime in the Department of Emergency Management ($500,000), Fire Department ($8,671,751), and Public Utilities Commission ($1,250,000). Approval of the proposed appropriation of $7,992,170 to the Fire Department requires a two-thirds vote of all members of the Board of Supervisors pursuant to Charter Section 9.113(c).

Exhibit 1 below summarizes the proposed appropriation of $10,421,751 by department.

Exhibit 1: Appropriation of $10,421,751 by Department

Sources	Emergency Management	Fire	Public Utilities	Total
Appropriation				
Ambulance Billing Revenue		$1,163,325		$1,163,325
Fire Overtime Service Fee Revenue		$425,898		$425,898
De-Appropriation				
Permanent Salaries	$500,000	$6,088,370	$1,250,000	$7,838,370
Dependent Coverage		$994,158		$994,158
Total Sources	**$500,000**	**$8,671,751**	**$1,250,000**	**$10,421,751**
Uses				
Appropriation				
Overtime	$500,000	$8,671,751	$1,250,000	$10,421,751
Total Uses	**$500,000**	**$8,671,751**	**$1,250,000**	**$10,421,751**

Source: Proposed ordinance

FISCAL IMPACT

Proposed Increases in Overtime

The proposed percent increases in overtime for the three departments range from six percent for DEM up to 20 percent for PUC. Exhibit 2 summarizes the FY 2025-26 approved budget for each department, the resulting increase from the proposed ordinance, and FY 2024-25 actual expenditures.

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

	Emergency Management	Fire	Public Utilities	Total
FY 2025-26 Overtime Budget	$7,823,288	$59,152,776	$6,238,058	$73,214,122
Proposed Increase in Ordinance	$500,000	$8,671,751	$1,250,000	$10,421,751
New Overtime Budget	$8,323,288	$67,824,527	$7,488,058	$83,635,873
Percent Increase	6%	15%	20%	14%
FY 2024-25 Actual Overtime Expenditures	$8,517,468	$65,089,476	$6,887,508	$80,494,452
New Overtime Budget, Percent of FY 2024-25 Actual Expenditures	98%	104%	109%	104%

Source: Proposed ordinance, City budget system.

The following sections provide additional detail on the proposed increases in overtime for each of the three departments.

Department of Emergency Management: $500,000

The proposed ordinance de-appropriates $500,000 in permanent salaries in the Department of Emergency Management's (DEM) FY 2025-26 budget to pay for $500,000 in overtime expenditures, as shown in Exhibit 1 above.

DEM does not anticipate exceeding its overtime budget in FY 2025-26. According to DEM, the department is requesting a $500,000 appropriation as a precautionary measure to address potential increases in overtime costs associated with major events, including the FIFA World Cup, and other unforeseen emergencies such as protests or power outages. DEM projects that FY 2025-26 General Fund permanent salaries will total approximately $40.0 million compared to the budgeted amount of $42.0 million, resulting in a projected surplus of $2.0 million. DEM projects total FY 2025-26 overtime expenditures of approximately $7.7 million compared to the budgeted amount of $7.8 million, resulting in a projected surplus of less than $100,000.

DEM states the permanent salaries surplus is largely attributable to the delay of the final POST Academy[1] class, rescheduled from April 13, 2026 to May 23, 2026. Additional savings on fringe benefits result from DEM's reliance on overtime to meet 911 call-answering standards, as the associated overtime fringe rate (approximately 10 percent) is lower than the regular fringe rate (approximately 30 percent). DEM reports 16 vacant 8238 Public Safety Dispatcher positions (five percent vacancy rate); 15 are expected to be filled through the POST Academy class beginning May 23, 2026, with the remaining vacant position to be filled by a returning former dispatcher prior to fiscal year-end.

DEM is proposing to reduce the FY 2026-27 overtime budget by approximately $2.2 million, as the department's ongoing goal is to reduce overtime usage by filling POST Academy classes to capacity and conducting three cohorts annually.

Fire Department: $8,671,751

The proposed ordinance appropriates $1,163,325 in additional ambulance service revenue and $425,898 in additional overtime service fee revenue and de-appropriates $7,082,528 in surplus salaries and dependent coverage[2] in the SFFD's FY 2025-26 budget to pay for $8,671,751 in additional overtime expenditures. SFFD anticipates exceeding its overtime budget in the pay period ending May 22, 2026. Exhibit 3 below summarizes the de-appropriation and appropriation of funds.

[1] The POST Academy serves as the primary recruitment and training pathway for 911 dispatchers, functioning as the dispatcher equivalent of a police academy.

[2] SFFD stated this reflects a technical budgeting issue related to a structural mismatch between where fringe benefits are budgeted and where they are recorded. As fringe is automatically applied to salary accounts and aggregates at the total level, SFFD consolidated the adjustment into a single fringe line for administrative efficiency, with no impact on overall funding levels.

Exhibit 3: Proposed SFFD Appropriation

Sources	General Fund	Airport Operating Fund	Total Amount
Appropriation			
Ambulance Billings (Operations)	$1,163,325		$1,163,325
Overtime Service Fees (Prevention)	425,898		425,898
De-Appropriation			
Fire Salaries (Operations)	5,408,789		5,408,789
Dependent Coverage (Operations)	994,158		994,158
Fire Salaries (Airport)		679,581	679,581
Total Sources	**$7,992,170**	**$679,581**	**$8,671,751**
Uses			
Appropriation			
Fire Overtime (Operations)	$7,566,272		$7,566,272
Fire Overtime (Prevention)	425,898		425,898
Fire Overtime (Airport)		679,581	679,581
Total Uses	**$7,992,170**	**$679,581**	**$8,671,751**

Source: Proposed ordinance

According to SFFD, the additional ambulance billing revenue is primarily driven by State-level supplemental reimbursement programs[3] through the California Department of Health Care Services (DHCS) that leverage federal and State funds to enhance Medi-Cal revenues, as well as delayed back payments from prior fiscal years and improved billing efficiency. According to SFFD, the additional overtime service fee revenue is due to higher than anticipated demand for customer-requested or Fire Code–required services performed outside regular hours, necessitating a corresponding appropriation adjustment to align revenues with expenditures.[4]

SFFD projects that FY 2025-26 General Fund permanent salaries will total approximately $256.1 million compared to the budgeted amount of $261.5 million, resulting in a projected surplus of $5.4 million. SFFD projects total General Fund overtime expenditures of approximately $54.7 million compared to the budgeted amount of $46.7 million, resulting in a projected deficit of $8.0 million. SFFD states the salary surplus budget is largely attributable to lower than budgeted staffing levels. According to SFFD, vacancy levels fluctuate throughout the year and are primarily concentrated in the H-2 Firefighter classification. Due to the approximately 21-week training academy and ongoing retirements and separations, staffing gaps are temporarily backfilled with overtime; however, SFFD's hiring plan of two academies annually producing 40–50 new hires

[3] SFFD states that the largest program that the department is participating in is the State's Public Provider Ground Emergency Medical Transportation Intergovernmental Transfer Program, which leverages federal funding with State/local funding to increase reimbursement rates for municipalities.

[4] Fees are charged to recover costs, and revenue is deposited in the Fire Overtime Services Fees account, while corresponding expenditures are recorded in the general overtime account.

help reduce overtime as recruits enter field operations. According to the City Budget System, SFFD has approximately 53 vacancies in the H-2 Firefighter classification as of April 7, 2026, which translates to a 5.5 percent vacancy rate.[5] SFFD reports that overall staffing has improved in recent years due to its hiring plan, resulting in a corresponding decline in overtime usage.

SFFD states that the majority of overtime would be used in front-line emergency services to meet minimum staffing levels for fire suppression, emergency medical staffing services, and community paramedicine. Overtime would also be used for training and fire prevention, and $679,581 would be used in the Airport Bureau. As of April 2026, fire and ambulance calls are projected to increase by approximately one percent in FY 2025-26 compared to FY 2024-25.

Public Utilities Commission: $1,250,000

The proposed ordinance de-appropriates $1,250,000 in permanent salaries in the PUC's FY 2025-26 budget to pay for $1,250,000 in overtime expenditures. This amount includes $950,000 in the Water Enterprise and $300,000 in the Hetch Hetchy Water Enterprise.

According to PUC, the department's increased overtime usage in FY 2025-26 is primarily due to critical pipeline maintenance in the regional water system and for planning, preparation, and response to winter storm events. PUC projects that FY 2025-26 overtime expenditures will total approximately $4.5 million for the Water and Hetch Hetchy Enterprises, exceeding the budgeted amount of $3.3 million by $1.2 million or 38 percent.[6] Overtime has been utilized as follows:

- Water Enterprise ($950,000): Overtime usage was driven by the need for additional staffing to support critical maintenance within the Water Supply and Treatment Division, including extended work on regional transmission pipelines to ensure regulatory compliance and system reliability. The shutdown of Mountain Tunnel for a major capital project required increased staffing at the Harry Tracy and Sunol Valley treatment plants to maintain water delivery.[7] Additional overtime was incurred to address fire suppression system issues at the Millbrae Yard and ensure operational safety. PUC projects total overtime expenditures of $3,212,079, exceeding the overtime budget of $2,274,317 by $937,762. PUC estimates that the Water Enterprise will exceed its overtime budget in the pay period ending March 27, 2026.
- Hetch Hetchy Water Enterprise ($300,000): The primary overtime drivers include staffing coverage for vacancies and leave, emergency response to winter storms, and critical maintenance within the regional water and power system. Storm-related damage required immediate repairs to restore access to key facilities, and the shutdown of Mountain Tunnel increased overtime for system repairs. Additional drivers include

[5] According to SFFD, fire suppression vacancies are dynamic and fluctuate due to retirements, academy graduations, and new hires; therefore, the Department does not budget to the full number of authorized positions. Overall, net staffing has increased compared to the prior year, reducing vacancies and contributing to lower projected overtime.
[6] The Water and Hetch Hetchy Enterprises' FY 2025-26 overtime budget of $3.3 million reflects 53 percent of PUC's overtime budget across all operating funds ($6.2 million) shown in Exhibit 2.
[7] SFPUC is undertaking capital improvements on the Mountain Tunnel, a component of the Regional Water System, which required a 74-day shutdown. During the shutdown, additional 24/7 staffing was required at the Harry Tracy and Sunol Valley treatment plants to treat and deliver water from local reservoirs, resulting in increased overtime costs.

staffing shortages in 24/7 powerhouse operations and extended work hours for wildfire mitigation and vegetation management across remote watershed areas. PUC projects total overtime expenditures of $1,266,116, exceeding the overtime budget of $1,015,002 by $251,114. PUC estimates that the Hetch Hetchy Enterprise will exceed its overtime budget in the pay period ending April 24, 2026.

PUC states the proposed supplemental appropriation amounts will be sufficient to cover the projected deficits.

The proposed de-appropriation of $1,250,000 from permanent salaries is due to projected salary savings in the enterprise budgets, primarily driven by vacancies and staff turnover. PUC projects that total salary expenditures in the two enterprises, including overtime, will total approximately $129 million, compared to the budgeted amount of $133 million, resulting in projected savings of approximately $4 million. Between the Water and Hetch Hetchy Enterprises, PUC has approximately 212 vacant positions out of 1,268 FTE positions, a 16.7 percent vacancy rate. PUC is proposing to increase the overtime budget in the Water Enterprise by $500,000 and the Hetch Hetchy Enterprise by $100,000 in the upcoming FY 2026-27 two-year budget submission to try to right-size it.

RECOMMENDATION

Approve the proposed ordinance.

Items 9 & 10 Files 26-0363 & 26-0365	Department: Homelessness & Supportive Housing

EXECUTIVE SUMMARY

Legislative Objectives

- **File 26-0363** is a resolution to approve the second amendment to the grant agreement between the Tenderloin Housing Clinic, Inc. (THC) and the Department of Homelessness and Supportive Housing (HSH) for the Abigail Housing Ladder Program. The resolution extends the grant term by 36 months through June 30, 2029, and increases the agreement amount by $5,526,944 for a new total amount not to exceed $15,496,140.
- **File 26-0365** is a resolution to approve the second amendment to the grant agreement between THC and HSH for permanent supportive housing at the Garland Hotel. The resolution extends the grant term by 36 months through June 30, 2029, and increases the agreement amount by $7,355,910 for a new total amount not to exceed $17,340,154.

Key Points

- THC provides property management, master lease administration, and supportive services at both the Abigail and Garland Hotels. Residents at the Garland Hotel receive targeted case management and support services from THC. The Abigail Hotel offers lower-intensity services for residents who have demonstrated stability in PSH.
- Program monitoring found that THC met several outcome metrics, including housing retention, occupancy, and client satisfaction, but did not meet key operational metrics such as unit turnover timelines and rent collection at the Garland Hotel, and did not meet turnover targets at the Abigail Hotel.

Fiscal Impact

- Total program costs for the Abigail Hotel are $2.1 million annually ($34,346 per unit) and are funded by Proposition C revenues and offset by tenant rent payments.
- Total program costs for the Garland Hotel are $3.9 million annually ($48,750 per unit) and are funded by the General Fund, Continuum of Care subsidies, and tenant rents.
- The proposed budgets for each grant include a 20 percent contingency to address potential cost increases, including rent escalation, insurance premiums, and one-time expenditures.

Policy Consideration

- The City may benefit over the long-term from owning rather than leasing buildings for housing, but this would require identifying a funding source to acquire additional buildings. We recommend that HSH amend the master lease agreement for the Abigail Hotel to provide a right to purchase option for the City, similar to the Garland Hotel.

Recommendation

- Approve the proposed resolutions.

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

Supportive Housing Programs

Permanent Supportive Housing (PSH) provides long-term affordable housing and a range of supportive services to formerly homeless clients. As of April 2026, there are 9,075 site-based PSH units in the Department's housing inventory with approximately 1.1% of these units available for referrals. To alleviate the demand of PSH beds, residents who no longer need intensive services, demonstrate sustained stability and good standing in HSH-funded PSH units may "graduate" to the City's Housing Ladder program. Housing Ladder clients receive lower-intensity, "light-touch" supportive services relative to standard PSH housing while still engaging in regular check-ins, annual assessments, and as-needed assistance. Like PSH, households pay up to 30 percent of their income in rent and the City subsidizes the rest. The City funds 430 Housing Ladder units.

Agreement History

Abigail Hotel Housing Ladder

In October 2020, HSH executed a grant agreement with nonprofit Tenderloin Housing Clinic (THC) for a term of 38 months for a total not to exceed $7,045,244 to provide Housing Ladder programming, property management, and master lease stewardship at the Abigail Hotel at 246 McAllister Street. Due to the pandemic, the original plans to launch Housing Ladder programming at the site were delayed while the site was subleased to the City's Human Services Agency to operate a Shelter In Place (SIP) hotel for emergency shelter needs. The site returned to THC and the Department following necessary building rehabilitation in September 2021, and the building became fully leased up in 2022. As shown in Exhibit 1 below, in March 2024, the Department extended the grant an additional 28 months through June 2026 and increased the total not-to-exceed amount by $2,923,952.

Garland Hotel PSH

In April 2022, HSH entered into another grant agreement with THC to provide PSH services, property management, and master lease stewardship at the Garland Hotel located at 505 O'Farrell Street. 73 of the 80 junior studio units at the Garland Hotel were leased to existing PSH clients exiting their leases with the Baldwin Hotel, which transitioned to a temporary shelter program in March 2022. The original grant was for a term of 27 months and a total not to exceed $6,940,524. In July 2024, the Department extended the grant an additional two years through June 2026 and increased the total amount not-to-exceed by $3,043,720.

Exhibit 1: Original and Amended Grant Agreements

	Abigail	Garland
Units	61 units Housing Ladder	80 units PSH
Address	246 McAllister Street	505 O'Farrell Street
Original Agreement		
Approved	October 1, 2020	April 1, 2022
Term	January 1, 2021 to February 29, 2024 (3 years, 2 months)	April 1, 2022 to June 30, 2024 (2 years, 3 months)
Not-to-Exceed	$7,045,244	$6,940,524
First Amendment	**Abigail**	**Garland**
Approved	March 1, 2024	July 1, 2024
Term	January 1, 2021 to June 30, 2026 (5 years, 6 months)	April 1, 2022 to June 30, 2026 (4 years, 3 months)
Not-to-Exceed	$9,969,196	$9,984,244

Source: HSH

All four original and amended agreements between the Department and THC were approved by the Department's Oversight Commission and were below the not-to-exceed threshold of $10 million warranting review and approval by the Board of Supervisors.

Procurement

As permitted by Chapter 21B of the Administrative Code,[1] the Department did not use competitive solicitation to procure the services for either the Abigail Hotel or the Garland Hotel. The Department selected THC to provide its services based on the organization's demonstrated history providing supportive housing services and its ability to ramp up in a timely manner.

DETAILS OF PROPOSED LEGISLATION

File 26-0363 is a resolution approving the second amendment to the grant agreement between the Tenderloin Housing Clinic, Inc. (THC) and the Department of Homelessness and Supportive Housing (HSH) for the Abigail Housing Ladder Program. The resolution extends the grant term by 36 months through June 30, 2029, and increases the agreement amount by $5,526,944 for a new total amount not to exceed $15,496,140.

File 26-0365 is a resolution to approve the second amendment to the grant agreement between THC and HSH for the Garland Hotel site. The resolution extends the grant term by 36 months through June 30, 2029, and increases the agreement amount by $7,355,910 for a new total amount not to exceed $17,340,154.

[1] San Francisco Administrative Code Section 21B authorizes the Department to enter into or amend contracts without adhering to Administrative Code provisions regarding competitive bidding for projects addressing homelessness.

Services Provided

Under the grant agreements, Tenderloin Housing Clinic (THC) is responsible for operating and managing the Abigail and Garland Hotel sites, including property management, supportive services, and master lease stewardship. THC oversees day-to-day building operations, including tenant intake and leasing, rent collection, unit turnover, maintenance coordination, and compliance with lease terms and housing standards. THC also maintains the master lease relationship with property owners, including coordinating repairs, maintaining records, and obtaining Department approval for material changes.

THC also provides supportive services to tenants at both sites. At the Garland Hotel, which operates as Permanent Supportive Housing (PSH), THC provides comprehensive services, including case management (with one case management staff for every 25 units), service planning, benefits assistance, and referrals to medical, mental health, and substance use treatment. At the Abigail Hotel, which operates under the Housing Ladder program, THC provides lower-intensity services focused on maintaining housing stability (with one case management staff for the 61 units), including periodic check-ins, annual assessments, and as-needed support. Across both sites, THC is responsible for meeting service and outcome objectives established by the Department, including tenant engagement, housing retention, and program compliance.

Program Monitoring

Abigail Hotel

The Department conducted a site visit at the Abigail Hotel on December 10th, 2025 for its FY 2024-25 program monitoring evaluation. During this visit, the Department reviewed 12 service objectives and six outcome objectives against standards set under the grant agreement with THC. The comprehensive review of participant files, policies and procedures, and compliance checks determined THC was in compliance with all grant performance metrics except for its requirement to turn over units to new clients within 21 days of vacancy, on average. HSH determined the program instead had an average turnover time of 33.5 days during the 2025 fiscal year, an improvement from its previously recorded average of 74.5 days. In its February response to this finding, THC noted excessive delays in turning over units were in part due to holds beyond their control such as coroner delays and identifying reasonable accommodations, and in part due to property issues and staff shortages. THC reported it would implement its turnover action plan, involving a new software system for work orders and monthly training for maintenance workorders. The Department determined THC's response was satisfactory and closed out its review on March 9, 2026.

Garland Hotel

HSH conducted its FY 2024–25 program monitoring site visit at the Garland Hotel on January 13, 2026, evaluating THC's performance against established service and outcome objectives. As shown in Exhibit 3, THC met several key outcome metrics, including maintaining a 93 percent occupancy rate and achieving a 97 percent housing retention rate among tenants. Tenant satisfaction also exceeded program thresholds, with 81 percent survey participation and 86 percent of respondents reporting satisfaction with services. However, THC did not meet several core service and property management objectives. Unit turnover averaged 182 days compared

to a target of 21 days, and rent collection reached 67 percent against a 90 percent target. In five cases, the units needed capital work to make the bathrooms more accessible, which delayed completing the turnover process. In addition, THC did not exclude periods when units were temporarily occupied when calculating turnover time, which inflated the reported turnover time. While THC reported near-universal monthly outreach to tenants, monitoring of case files found insufficient documentation to substantiate compliance with this requirement. Further, THC did not implement corrective actions from their FY 2023-24 program monitoring response plan, including corrective actions related to incomplete documentation of tenant files. As of April 2026, the Department is awaiting THC's formal response to the FY 2024–25 program monitoring findings, including a corrective action and remediation plan addressing identified deficiencies. The Department has requested that THC provide this response by May 16,2026.

Exhibit 3: Performance Monitoring Results, FY 2024-25

Program		**Garland PSH**	**Abigail Housing Ladder**
Service & Outcome Objectives	**Goal**	**Actual**	**Actual**
THC shall ensure that each unit, upon vacancy, is turned over within 21 days on average	<21 days	182 days	74.5 days
THC shall ensure that new tenant move-ins occur within 30 days of referral	<30 days	N/A	18 days
THC shall review 80% of individualized service plans at least once every six months	80%	No Data	83%
THC shall collect at least 90% of tenant monthly rent from occupied units	90%	67%	98%
THC shall maintain an occupancy rate of at least 93%	93%	93%	100%
90% of tenants will maintain housing for 12 months or move to other permanent housing	90%	97%	98%
85% of tenant lease violations will be resolved without loss of housing	85%	No Data	100%
65% of tenants shall complete an annual survey, and 80% of surveyed tenants will be satisfied or very satisfied with property management	65% participation, 80% satisfied	81% participation, 86% satisfied	67.8% participation, 92.3% satisfied

Source: HSH
Note: Grey shading indicates metric unmet.

Fiscal and Compliance Monitoring

Tenderloin Housing Clinic, Inc. underwent citywide nonprofit fiscal monitoring most recently in FY 2024-25 and there were no findings. THC received a "good performance" waiver for the FY 2025-26 fiscal monitoring cycle and but will receive fiscal monitoring again in FY 2026-27.

FISCAL IMPACT

Abigail Hotel

The proposed budget for the Abigail Hotel over the three-year extension term increases the agreement by $5,526,944, from $9,969,196 to $15,496,140, including a contingency of 20 percent of the three-year extension budget. The Department notes the contingencies support essential cost increases over the agreement term, including cost-of-living adjustments, master lease increases, and the provider's share of capital expenses, and enable the Department to address urgent one-time needs.

The budget over the three-year team totals approximately $6.3 million, which is funded by $5.6 million in City funding under the proposed amended agreement and $0.7 million from tenant rental income. City funding is from Proposition C revenues.

According to detailed budget documentation from the Department, annual program expenditures of $2.1 million are primarily driven by other operating expenses, including $1.2 million in annual rent paid to the property owner. This is followed by operating expenses of approximately $0.3 million annually driven by insurance and legal costs, and salaries and benefits of approximately $0.3 million annually, which support 3.07 full-time equivalent positions. The total annual cost to operate the program is $34,346 per unit or $2,862 per unit per month. Exhibit 4 below provides an overview of the program's projected expenditures and revenues over the extension term.

Exhibit 4: Abigail Hotel Proposed Budget for FYs 2026-29 (Extension Term)

	FY 2026-27	FY 2027-28	FY 2028-29	Total
Expenditures				
Salaries & Benefits	$298,781	$298,781	$298,781	$896,344
Operating Expenses	341,402	341,402	341,402	1,024,207
Indirect Costs (11.5%)	73,621	73,621	73,621	220,863
Other Expenses	1,381,323	1,381,323	1,381,323	4,143,970
Total	**$2,095,128**	**$2,095,128**	**$2,095,128**	**$6,285,384**
Revenues				
Prop C (HSH)	$1,861,528	$1,861,528	$1,861,528	$5,584,584
Rental Income*	233,600	233,600	233,600	700,800
Total	**$2,095,128**	**$2,095,128**	**$2,095,128**	**$6,285,384**

Source: HSH
Note: (*) indicates offset to HSH revenues.

Garland Hotel

The proposed budget for the Garland Hotel over the three-year extension term increases the grant agreement by $7,355,910, from $9,984,244 to $17,340,154, including a 20 percent contingency.

The budget over the three-year team totals $11,700,090, which is funded by $6.6 million in City funding under the proposed agreement and $5.1 million in other operating revenues. Program expenditures totaling $3.9 million annually are primarily driven by other expenses, $1.5 million of which is rent payable to the property owner, and salaries and benefits totaling $1.4 million which support 17.48 full-time equivalent positions. The total annual cost to operate the program is $48,750 per unit or $4,063 per unit per month.

The program is funded through General Fund support in the amount of $2.2 million per year or $6.6 million across the entire three-year term. These revenues are supplemented by Continuum of Care rental assistance and rent payments by tenants, offsetting the City's financial obligation. Exhibit 5 below provides an overview of the program's projected expenditures and revenues over the extension term.

Exhibit 5: Garland Hotel Proposed Budget for FYs 2026-29 (Extension Term)

	FY 2026-27	FY 2027-28	FY 2028-29	Total
Expenditures				
Salaries & Benefits	$1,416,186	$1,416,186	$1,416,186	$4,248,557
Operating Expenses	403,047	403,047	403,047	1,209,142
Indirect Costs (11.5%)	209,212	209,212	209,212	627,635
Other Expenses	1,871,585	1,871,585	1,871,585	5,614,756
Total	**$3,900,030**	**$3,900,030**	**$3,900,030**	**$11,700,090**
Revenues				
General Fund (HSH)	$2,207,030	$2,207,030	$2,207,030	$6,621,090
Rental Income*	244,000	244,000	244,000	732,000
CoC Rental Assistance*	1,449,000	1,449,000	1,449,000	4,347,000
Total	**$3,900,030**	**$3,900,030**	**$3,900,030**	**$11,700,090**

Source: HSH
Note: (*) indicates offset to HSH revenues.

Total Not to Exceed Amounts

Exhibit 6 below shows the basis of the agreements' not-to-exceed amounts.

Exhibit 6: Proposed Not to Exceed Amounts

Year	Amount	
	Abigail	***Garland***
FY 2020-21 (Actuals)	114,838*	
FY 2021-22 (Actuals)	1,525,071	1,249,880*
FY 2022-23 (Actuals)	1,666,177	1,967,320
FY 2023-24 (Actuals)	1,873,857	1,957,267
FY 2024-25 (Actuals)	1,753,167	2,013,348
FY 2025-26 (Actuals plus Budget)	1,861,528	2,207,030
FY 2026-27 (Budget)	1,861,528	2,207,030
FY 2027-28 (Budget)	1,861,528	2,207,030
FY 2028-29 (Budget)	1,861,528	2,207,030
Subtotal, Proposed Budget	**$14,379,222**	**$16,015,935**
Contingency (20% of Extension Budget)	$1,116,917	$1,324,219
Not-To-Exceed Amount	**$15,496,139**	**$17,340,154**

Source: HSH
Notes: (*) indicates partial year. Amounts shown for FY 2025-26 include actuals spent totaling $1,002,313 through January 2026 (54% of budget) for Abigail Hotel and $1,190,430 through January 2026 (54% of budget) for Garland Hotel.

Contingency Level

The proposed grants include a 20 percent contingency, which the Department indicates is intended to cover the provider's share of capital expenses, potential rent increases, insurance premium growth, and one-time emergency expenditures.

We note that the master leases place clear limits on several of these cost drivers. THC's responsibility for routine property maintenance and repairs is capped at $15,000 annually for the Abigail Hotel and $25,000 annually for the Garland Hotel, except in cases of optional improvements or damage due to negligence. The leases also limit rent escalation to no more than six percent annually

POLICY CONSIDERATION

Long-Term Use of Privately-Owned Properties

Under the draft grant amendment, the rent payable from THC to the property owner of the Abigail Hotel located at 246 McAllister St totals $9,448,133 between the beginning of the agreement in January 2021 through June 2029, which likely exceeds the market value of the building if the site were available for sale. Over a ten to twenty year period, the City would likely save money by owning buildings for permanent programs rather than renting the same buildings. However, renting provides flexibility to end, relocate, and modify the size of City programs. Renting also avoids the upfront expense of acquisitions, for which there is minimal funding in the City's current capital plan.

The City may benefit over the long-term from owning rather than leasing buildings for housing, but this would require identifying a funding source to acquire additional buildings. In the interim, the City may also benefit from amending the master lease agreement for the Abigail Hotel to include the same right-to-purchase provision for the City as found in the Garland Hotel's master lease agreement. The provisions in this agreement state that the landlord must offer the premises to the City at 97% of the market rate for a period of 30 days before listing the property to the public market. If the landlord cannot find a buyer after an extended listing period, the landlord must issue another notice of sale with the City. The Department reports they have the ability to modify these agreements at any time. We recommend that HSH amend the master lease agreement for the Abigail Hotel to provide a right to purchase option for the City.

RECOMMENDATION

Approve the proposed resolutions.

Item 11 File 26-0372	Department: Homelessness and Supportive Housing

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the second amendment to the agreement between the Department of Homelessness and Supportive Housing (HSH) and Five Keys to extend the agreement term for operation of the semi-congregate shelter located at 681-687 Ellis Street by two years, from June 30, 2026, to June 30, 2028, and increase the not-to-exceed amount by $12,272,629 from $27,296,993 to $39,569,622.

Key Points

- The Board of Supervisors authorized the City to acquire the 74-room building located at 681-687 Ellis Street in May 2022 for eventual use as permanent supportive housing, and HSH transitioned the site into a semi-congregate shelter in December 2022 following the end of the Shelter-in-Place Hotel Program. Five Keys previously operated the SIP Hotel Program at 681-687 Ellis Street; HSH selected Five Keys to operate the site as a semi-congregate shelter under Administrative Code Chapter 21.B, which allows HSH to not use competitive procurement processes when procuring homeless services.
- Eventually, Five Keys would partner with HSH to gradually wind down shelter operations and support guest transfers in preparation for the site's conversion to permanent supportive housing. Construction to convert the site is tentatively expected to begin in Fall 2027.

Fiscal Impact

- The proposed increase of $12.3 million in the not to exceed amount funds the proposed two-year extension to the agreement. The shelter program would cost $6.34 million per year, or approximately $47,300 per bed, similar to other adult shelter program costs.
- The FY 2025-26 budget included one-time General Fund funding of $662,992 for street ambassadors. The proposed second amendment includes an additional $1.6 million contingency allocation for street ambassador services in the extended term, provided that ongoing General Fund funding is approved as part of the FY 2026-28 budget process. All other expenses for the proposed agreement are funded by State Homeless Housing, Assistance and Prevention (HHAP) grant funds.

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

Five Keys Schools and Programs (Five Keys) operate the semi-congregate shelter located at 681-687 Ellis Street. The Board of Supervisors authorized the City to acquire the 74-room building in May 2022 for eventual use as permanent supportive housing, and the Department of Homelessness and Supportive Housing (HSH) transitioned the site into a semi-congregate shelter in December 2022 following the end of the Shelter-in-Place (SIP) Hotel Program. All rooms were converted from group occupancy to single/double occupancy. The site serves adults, without custody of minor children, who are experiencing homelessness. The building includes 68 rooms dedicated to shelter guests (consisting of 58 twin/double occupancy rooms, eight with queen beds for couples, and two single rooms), with a maximum capacity of 134 guests. In addition to the shelter program, street ambassador services, also referred to as the Five Keys Community Ambassadors or Street Team, were implemented using one-time funding in FY 2025–26 specifically to improve street conditions on Ellis Street between Larkin and Hyde Streets. HSH's budget request to the Mayor for the upcoming FY 2026-27 – FY 2027-28 budget includes ongoing funding for those services.

Vendor Selection

Following the Board of Supervisors' authorization to acquire 681-687 Ellis Street (File 22-0345) in May 2022, HSH selected Five Keys to operate the site under Administrative Code Chapter 21.B, which allows the waiving of competitive procurement processes when procuring homeless services. Five Keys previously operated the SIP Hotel Program at 681-687 Ellis Street.

Initial Agreement and First Amendment

On December 15, 2022, HSH and Five Keys entered into a new agreement, which had a not-to-exceed amount of $7,931,342 and a term of December 15, 2022 through November 30, 2023. Per the agreement, Five Keys provided operations, support services, and property management at the site. While the initial agreement provided a capacity to serve 112 people in 50 double-bed rooms and 12 single-bed rooms, the first amendment to the agreement allowed for an increased maximum capacity of 134 guests after configuration changes converted other spaces into guest rooms. The first amendment, effective December 1, 2023, extended the term by 31 months to June 30, 2026, and increased the not-to-exceed amount by $19,365,651, for a new total of $27,296,993. The initial agreement and the first amendment were funded by Homeless Housing, Assistance and Prevention (HHAP) state grant funds.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the second amendment to the agreement between HSH and Five Keys to extend the agreement term by two years, from June 30, 2026, to June 30, 2028, and increase the not-to-exceed amount by $12,272,629 from $27,296,993 to $39,569,622. The two-year extension timeline is intended to align with the timeline of the site's conversion to permanent supportive housing. The level and type of services to be provided (listed below) would not change.

Services

Five Keys would continue to manage the site with no major changes to the services currently being provided. In accordance with the HSH Temporary Shelter Manual, Five Keys would perform the following services:

- Accepting and facilitating reservations;
- Providing accommodations, meals, and storage;
- Ensuring the safety of the served population, staff, and visitors;
- Referral and intake services;
- Shelter support services;
- Referrals and coordination of services;
- Providing support groups, social events, and organized activities;
- Conducting wellness checks in accordance with HSH policy;
- Providing reasonable accommodations, transfers, and other support;
- Providing exit planning assistance to the served population; and
- Property management.

Eventually, Five Keys would partner with HSH to gradually wind down shelter operations and support guest transfers in preparation for the site's conversion to permanent supportive housing. According to HSH staff, construction is anticipated to begin in Fall 2027.

Performance Monitoring

HSH conducted a program monitoring site visit on November 14, 2025, for FY 2024-2025. The program maintained a 97 percent occupancy rate, provided intake and program orientation to 100 percent of guests within 24 hours, and ensured that all units were cleaned and repaired within 14 days of turnover.

However, the site did not meet several service and outcome objectives, as detailed below in Exhibit 1.

Exhibit 1: Five Keys Service and Outcome Objectives (Goals and Actuals) for FY 2024-25

Service Objective	Goal	Actual	Achieved (Y/N)
1. Contractor shall provide intake and program orientation to 100 percent of all initial guests and updates for returning guests in a new stay within 24 hours of arrival to the site.	100%	100%	Y
2. Contractor shall ensure that each unit, upon turnover, is clean and/or repaired within 14 days.	100%	100%	Y
3. Contractor shall utilize intake and assessment information with partnering service providers to identify options and create a housing-focused service plan for 95 percent of participants. Written service plans shall include clear goals and objectives and identified barriers. Service connections, progress, and follow up on these service plans will be documented in the participant's record.	95%	91%	N
4. 90 percent of participants shall be offered referral for problem-solving and/or assessment via Adult Coordinated Entry within one week of placement.	90%	82%	N
5. Contractor shall meet or exceed 95 percent data quality in ONE System	95%	97%	Y
6. Contractor shall conduct quarterly meal satisfaction surveys with at least 70 percent of participants using survey tool. Contractor shall complete the first survey within six weeks of beginning operations under this Agreement.	70%	84%	Y
7. Contractor shall submit all requested property maintenance and repair reports on a timely basis to HSH.	100%	100%	Y
Outcome Objective			
1. 50 percent of guests referred will have received problem solving and/or CE assessment within 15 business days of move-in.	50%	50%	Y
2. 80 percent of Housing Referral Status participants will meet document readiness standards within six months of initial intake.	80%	20%	N
3. 100 percent of all staff will have completed the required annual trainings.	100%	76%	N
4. 75 percent of those completing the quarterly satisfaction survey will Strongly Agree or Agree that they are satisfied with the services on site.	75%	70%	N

Source: HSH

Specifically, a housing-focused service plan was created for 91 percent of clients (short of the 95 percent goal), and 82 percent of clients were offered Coordinated Entry referrals within one week of placement (short of the 90 percent goal). Only 20 percent of Housing Referral Status participants met document readiness standards within six months of intake (short of the 80 percent goal). Furthermore, 76 percent of staff completed required annual trainings (short of the 100 percent goal), and 70 percent of surveyed guests agreed or strongly agreed that they were satisfied with site services (short of the 75 percent goal). The monitoring report also recommended improvements to the comprehensiveness of case notes and service plans, requested that supervisors review and sign hard files, provide evidence that staff attended and completed HSH required trainings, and require that all program documents be posted in the four threshold languages.

In its corrective action response dated February 13, 2026, Five Keys outlined several operational improvements. The program instituted a 90-day deadline for new and existing staff to complete required trainings, integrated Coordinated Entry referrals as a standard intake requirement, and established weekly meetings and SMART (specific, measurable, achievable, relevant, and time-bound) goals to support client document readiness. To improve oversight, supervisors will now conduct random monthly audits of service plans and review two client files per staff member during biweekly sessions. Finally, the program posted required policies in all threshold languages. HSH reviewed the corrective action plan, deemed the proposed actions satisfactory, and currently considers all identified findings resolved.

Fiscal Monitoring

The City granted Five Keys a waiver from citywide fiscal and compliance monitoring for FY 2024-25. The Mayor's Office of Housing and Community Development issued this Good Performance Waiver on June 16, 2025 as a result of the organization's exceptional fiscal and compliance performance, noting that the agency had no significant findings or major areas of concern in the prior year.

FISCAL IMPACT

The proposed amendment would increase the agreement's not-to-exceed amount by $12,272,629 while providing 24 additional months of shelter service from July 1, 2026, to June 30, 2028. Grant spending details are shown in Exhibit 2 below.

Exhibit 2: Proposed Grant Budget and Actual Expenditures

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Category	**Dec. 2022-Nov. 2023 (Actual)**	**Dec. 2023-June 24 (7 Months Actual)**	**FY 2024-25 (Actual)**	**FY 2025-26 (Budget)**	**FY 2026-27 (Proposed)**	**FY 2027-28 (Proposed)**
Salaries and Benefits	$5,028,519	$3,107,994	$5,043,375	$5,525,836	$4,991,270	$4,991,270
Operating Expenses	942,628	504,155	536,947	557,125	518,798	518,798
Indirect Costs	895,672	541,822	837,048	912,444	826,510	826,510
Other Expenses[1]	(479,020)	(555,337)	(157,065)	4,167	0	0
Capital Expenditures		158,000				
Total Expenses	**6,387,799**	**3,756,634**	**6,260,305**	**6,999,571**	**6,336,579**	**6,336,579**
Total Actual and Budgeted Spending						36,077,467
Contingency (28%)[2]						3,492,155
Not to Exceed Amount						$39,569,622

Source: Proposed Contract Amendment, Appendix B

[1] Note: The other negative expenses in FY 2022-23 and FY 2023-24 were due to staffing vacancies, according to HSH.

[2] Note: The contingency includes a standard 15 percent rate on the amended amount plus an additional $1,591,181 (13%) to account for potential ongoing street ambassador services beginning in FY 2026-27, according to HSH.

As shown above, the proposed shelter program would cost $6.34 million per year, or approximately $47,300 per bed, similar to other adult shelter program costs.

The proposed second amendment includes a standard 15 percent rate plus an additional $1,591,181 (13 percent) contingency allocation to account for potential ongoing street ambassador services for a total contingency of 28 percent. These services may officially transition to ongoing status starting in FY 2026-27, provided that they are approved as part of the FY 2026-28 budget process. We note that Five Keys allocated 8.40 full-time equivalent positions (FTE) to Good Neighbor Policy Street Ambassadors and 1.0 FTE to a Street Ambassadors Supervisor in FY 2025-26 at a one-time total General Fund cost of $662,992 (inclusive of operating expenses, indirect costs, and other expenses). The street ambassadors addressed street conditions on Ellis Street between Larkin and Hyde Streets. According to the Department's memorandum to the Homelessness Oversight Commission, the street ambassador services have resulted in a significant reduction—and, the Department says, in many instances the elimination—of loitering, trash accumulation, public substance use, graffiti, and tenting within the service area.

Funding Sources

The current agreement and proposed amendment are largely funded by State Homeless Housing, Assistance and Prevention (HHAP) grant funds. The street ambassadors are funded by the General Fund, including $662,992 in FY 2025-26 for street ambassador services starting in September 2025 and an additional $1.6 million total proposed in the extended term, pending approval of HSH's budget by the Mayor and the Board of Supervisors.

RECOMMENDATION

Approve the proposed resolution.

Item 12 File 26-0364	Department: Homelessness & Supportive Housing

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves the second amendment to the grant agreement between the Department of Homelessness and Supportive Housing (HSH) and Community Forward SF (Community Forward) for support services, property management and master lease stewardship at Coronado Hotel, extending the grant term by three additional years, from June 30, 2026 through June 30, 2029, and increasing the not-to-exceed amount by $6,860,905, from $9,792,422 to $16,653,327.

Key Points

- In December 2020, under Administrative Code Chapter 21B, HSH selected and executed a grant with Community Forward for support services, property management and master lease stewardship at Coronado Hotel based on prior performance and to ensure continuity of services. Under the proposed amendment, Community Forward will continue to provide services for 65 units at Coronado Hotel to formerly homeless and low-income adults aged 18 years or older without custody of minor children.

Fiscal Impact

- The proposed second amendment increases the agreement by $6,860,905, from $9,792,422 to $16,653,327, including a 20 percent contingency. The total cost of program services over the proposed three-year extension is approximately $6.3 million, which is funded by approximately $5.9 million in City funds and $375,000 in operating revenues consisting of tenant rents. The total annual cost to operate at Coronado Hotel, including property management and support services, is approximately $32,000 per unit.
- Expenditures on the proposed grant extension would be funded approximately 88 percent by the General Fund and 12 percent by the Proposition C, Our City, Our Home Fund.

Policy Consideration

- We could not rely on the program performance data provided for FY 2024-25 and minimal data was available for the prior two fiscal years. HSH has implemented a Corrective Action Plan to address recurring findings on deficiencies in property management and support services documentation, verification of tenant engagement activities, and staff training compliance. If findings are not resolved by June 2026, HSH will assess outstanding items and determine whether an extension is warranted based on demonstrated progress.

Recommendations

- Amend the proposed resolution to reduce the not to exceed amount from $16,653,327 to $11,907,979 to fund a one-year extension of the contract rather than a three-year extension 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

Since 2005, Community Forward SF (Community Forward), a nonprofit organization, has provided permanent supportive housing at the Coronado Hotel (373 Ellis Street) to individuals experiencing homelessness. In December 2020, the Department of Homelessness and Supportive Housing (HSH) executed a new grant with Community Forward for support services, property management and master lease stewardship at Coronado Hotel 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 Community Forward based on prior performance and to ensure continuity of services. The new grant had a two-year term from January 1, 2021 to June 30, 2023 and an amount not to exceed $3,994,818. According to HSH, the department assumed responsibility for this program from the Human Services Agency (HSA) when HSH was established in FY 2016-17. The previous grant was originally awarded to this provider following a Request for Proposals (RFP) issued by HSA in 2014. In July 2023, HSH executed the first grant amendment to extend the term by three years from June 30, 2023 to June 30, 2026 and increased the amount by $5,797,604 for a total of $9,792,422. HSH now proposes to extend the grant by three years through June 2029.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves the second amendment to the grant agreement between the Department of Homelessness and Supportive Housing (HSH) and Community Forward SF (Community Forward) for support services, property management and master lease stewardship at Coronado Hotel, extending the grant term by three additional years, from June 30, 2026 through June 30, 2029, and increasing the not-to-exceed amount by $6,860,905, from $9,792,422 to $16,653,327. The proposed resolution would also authorize HSH to make further immaterial amendments to the grant.

According to HSH, the proposed extension aligns with the release of solicitations for permanent supportive housing, projected for FY 2027–28. HSH states that extending this grant through June 2029 provides time to conduct a solicitation for permanent supportive housing providers, negotiate agreements, and secure necessary approvals (e.g., HSH Oversight Commission, Board of Supervisors, Civil Service Commission).

Services

Under the proposed amendment, Community Forward will continue to provide the following services at Coronado Hotel to formerly homeless and low-income adults aged 18 years or older without custody of minor children:

- Property Management: John Stewart Company, a sub-contractor, previously provided property management services through December 2023. According to HSH, these functions have been transitioned in-house and are now performed by Community Forward following turnover of key staff at the John Stewart Company. Community Forward is responsible for lease management, building maintenance, and security. Lease management includes program intake and tenant screening, helping tenants with signing the rental agreement, collecting rent, and enforcing lease terms. Staff also provide 24-hour front desk coverage and conduct wellness and emergency checks.
- Supportive Services: Community Forward offers case management at a 1:25 staff-to-tenant ratio. Staff connect tenants to healthcare and benefits, provide crisis support to prevent housing loss, and work with property management to address issues that could lead to eviction. They also organize community meetings and social activities.
- Stewardship of the Master Lease: Community Forward manages the contractual relationship with the property owner, including negotiating terms of the master lease, coordinating major repairs, and maintaining lease records. The master lease is held by Community Forward, not the City, and Community Forward must obtain approval from HSH for material changes and promptly notify the department of any issues that could affect the lease.

Under the proposed amendment, Community Forward will provide tenants with information and referrals to third-party rent payment assistance and money management services[1] and assist tenants with enrollment in these services to support housing stability and timely rent payment.

Community Forward will continue to provide services to 65 units. According to HSH, as of April 2026, Community Forward has served 68 individuals in FY 2025-26, including 15 new tenants who moved in during 2025 or 2026. Individuals are referred via the City's Adult Coordinated Entry process.

Performance and Fiscal Monitoring

HSH staff completed program monitoring on the Community Forward grant for FY 2024-25 in February 2026, which included a site visit. The program monitoring report showed that the organization did not meet the service objective on collecting at least 90 percent of tenant portions of monthly rent from occupied units, as well as the outcome objective on tenant satisfaction of support services and property management services, but largely met the other

[1] These services are administered by Lutheran Social Services and Tenderloin Housing Clinic, with the latter serving the Coronado Hotel.

service and outcome objectives. However, we note that actual results for the other objectives were exactly equal to the goal and we identified reporting errors for two service objectives, which were incorrectly reported as achieved. Therefore, we are not including the complete performance results because we are concerned, they may not be reliable. In addition, we could not review results for these objectives for prior years because Community Forward did not submit the required annual report prior to HSH's FY 2023-24 and FY 2022-23 program monitoring. HSH reports that implementation of a new Contract Lifecycle Management System (CLMS)[2] in the next fiscal year will improve data accuracy and that measures are reported by the provider and verified by HSH through sampling of case files.

Due to recurring findings identified during program monitoring, HSH implemented a Corrective Action Plan to address ongoing deficiencies in property management and support services documentation, verification of tenant engagement activities, and staff training compliance. According to HSH, the recurring findings are attributable to high staff turnover in recent years. HSH states that the organization is now fully staffed and has hired a Compliance Manager to improve oversight and performance. Community Forward submitted a response to the plan in March 2026, detailing steps to resolve deficiencies and new policies and procedures to improve compliance. According to their response, Community Forward will address all identified issues and meet compliance standards by August 2026. HSH will conduct a formal check-in with Community Forward to assess progress on May 4, 2026. If findings are not resolved by June 2026, HSH will assess outstanding items and determine whether an extension is warranted based on demonstrated progress. If insufficient progress persists, HSH will consider elevating the designation (e.g., to "Serious Concern Status"), which may result in referral to the Controller's Office for citywide coordination of programmatic issues.

HSH states that Community Forward's performance on tenant rent collection reflects a systemwide challenge impacting the department's permanent supportive housing portfolio since the pandemic and the temporary eviction moratorium. [3] HSH is addressing this issue through expanded money management programming. In March 2026, the Board of Supervisors approved the second amendment to a grant between HSH and Lutheran Social Services to provide money management services to formerly homeless and unhoused individuals living in permanent supportive housing units (File 26-0181).[4] According to their response to the Corrective Action

[2] According to HSH, CLMS will have an interface with ONE System and other HSH databases to utilize the underlying data for measuring grantee service and outcome objectives.

[3] 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.

[4] The second grant amendment with Lutheran Social Services extended the term by two years through June 30, 2028, and increased the not-to-exceed amount by $5,210,685, for a total not to exceed $15,210,535. 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).

Plan, Community Forward aims to improve performance by auditing rent balances for accuracy, providing tenants with updated rent statements, referring tenants unable to pay to support services, and initiating legal notices for tenants with significant arrears who are not enrolled in payment plans.

According to the program monitoring report, no tenant satisfaction survey was administered in FY 2024-25 and in prior years. Per their response to the Corrective Action Plan, Community Forward has developed a tenant survey aligned with HSH standards to be administered in April 2026, with results expected in July 2026. Community Forward has also established a process for monthly collection and tracking of the survey by the Compliance Manager.

Fiscal and Compliance Monitoring

HSH staff reviewed Community Forward financial documents in June 2025 as part of the FY 2024-25 Citywide Fiscal and Compliance Monitoring program and identified no findings.

FISCAL IMPACT

The proposed second amendment increases the agreement by $6,860,905, from $9,792,422 to $16,653,327, including a 20 percent contingency. The total cost of program services over the proposed three-year extension is approximately $6.3 million, which is funded by approximately $5.9 million in City funds and $375,000 in operating revenues consisting of tenant rents. The total annual cost to operate at Coronado Hotel, including property management and support services, is approximately $32,000[5] per unit. This is comparable to other legacy permanent supportive housing sites, such as the Henry Hotel (File 25-0231), but lower than recent permanent supportive housing projects. Exhibit 2 below provides an overview of the program's revenues and expenditures under the proposed amendment.

[5] According to HSH, some of the difference is driven by the population served and building size, as well as certain Homekey requirements for recent projects, such as insurance, that result in greater costs for new Homekey projects. However, beyond these factors, HSH reports that legacy buildings (such as the Coronado and Henry Hotels) are funded at a lower level per unit compared to other permanent supportive housing sites.

Exhibit 2: Proposed Budget for FY 2026-27 through FY 2028-29 (Extension Term)

	FY 2026-27	FY 2027-28	FY 2028-29	Total
Expenditures				
Salaries & Benefits	$843,587	$843,587	$843,587	$2,530,760
Operating Expenses	509,656	509,656	509,656	1,528,968
Indirect Cost (15%)	202,986	202,986	202,986	608,959
Other Expenses (Not Subject to Indirect)[6]	546,000	546,000	546,000	1,638,000
Total Expenditures	**2,102,229**	**2,102,229**	**2,102,229**	**6,306,686**
HSH Revenues				
General Fund	1,742,806	1,742,806	1,742,806	5,228,419
Prop C	234,422	234,422	234,422	703,267
Total HSH Revenues	**1,977,229**	**1,977,229**	**1,977,229**	**5,931,686**
Other Revenues				
Rental Income	125,000	125,000	125,000	375,000
Total Other Revenue	**125,000**	**125,000**	**125,000**	**375,000**
Total HSH + Other Revenue	**$2,102,229**	**$2,102,229**	**$2,102,229**	**$6,306,686**

Source: Appendix B of Proposed Amendment

The proposed amendment will fund salaries and fringe benefits for a total of 10.64 FTE program staff. For FY 2026- 27 through FY 2028-29, annual operating expenses reflect approximately 24.2 percent of the total budget and include costs such as utilities, building maintenance/supplies, insurance, janitorial services, and other expenses.

Total Not to Exceed Amount

Exhibit 3 below shows the basis for the agreement's total not-to-exceed amount. The annual budget for the proposed grant period (FY 2026-27 through FY 2028-29) remains flat and is consistent with the FY 2025-26 budget. Actual expenditures on the grant from FY 2020-21 to FY 2024-25 were consistent with the budget and approximately two percent below projections.

[6] This reflects master lease (property rental) costs for leasing the property from the building owner

Exhibit 3: Proposed Not to Exceed Amount

Year	Amount
Jan. 2021 - Jun. 2021 (Actuals)	670,056
FY 2021-22 (Actuals)	1,380,052
FY 2022-23 (Actuals)	1,615,977
FY 2023-24 (Actuals)	1,739,801
FY 2024-25 (Actuals)	2,152,189[7]
FY 2025-26 (Budget)	1,977,229[8]
FY 2026-27 (Budget)	1,977,229
FY 2027-28 (Budget)	1,977,229
FY 2028-29 (Budget)	1,977,229
Subtotal, Proposed Budget	**$15,466,991**
Contingency (20% of Three-Year Extension)	$1,186,337
Not-To-Exceed Amount	**$16,653,327**

Source: HSH

Note: Totals do not add due to rounding

Source of Funds

Expenditures under the proposed grant, which only includes City sources, over the proposed grant extension would be funded approximately 88 percent by the City's General Fund and 12 percent by the Proposition C, Our City, Our Home Fund.[9]

POLICY CONSIDERATION

As noted above, we could not rely on the program performance data provided for FY 2024-25 and minimal data was available for the prior two fiscal years. HSH implemented a Corrective Action Plan to address ongoing deficiencies in property management and support services documentation, verification of tenant engagement activities, and staff training compliance. If findings are not resolved by June 2026, HSH will assess outstanding items and determine whether an extension is warranted based on demonstrated progress. If insufficient progress persists, HSH will consider elevating the designation (e.g., to "Serious Concern Status"), which may result in referral to the Controller's Office for citywide coordination of programmatic issues. Given the

[7] In FY 2024-25, the grant received one-time Whole Person Care funding from the State of $350,000 which helped offset $349,549 in capital expenditures for asbestos removal, front entrance and community room door repairs, security gate replacement, and window repairs.

[8] According to HSH, as of March 2026, Community Forward has invoiced $1,298,757 in FY 2025-26, which is approximately 66 percent of the annual budget. Based on current staffing levels and planned fourth-quarter expenditures, HSH anticipates full expenditure of the FY 2025-26 budget upon processing of the June 2026 invoice.

[9] 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.

ongoing performance issues, we recommend that the Board of Supervisors amend the proposed resolution to reduce the not to exceed amount from $16,653,327 to $11,907,979 to fund a one-year extension of the contract rather than a three-year extension and to request an update from HSH on program performance when seeking approval for subsequent amendments to the grant. HSH reports that given their timeline for reprocuring permanent supportive housing services, the earliest they could enter into a contract with a new provider would be January 1, 2028. Terminating the contract before identifying a new provider would result in loss of housing for existing tenants.

RECOMMENDATIONS

1. Amend the proposed resolution to reduce the not to exceed amount from $16,653,327 to $11,907,979.
2. Approve the proposed resolution as amended.

Item 13 File 26-0400	Department: Police Department, Real Estate Division

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize the Director of Property to execute a lease with 33 8th Street, LLC for 10,672 square feet of ground floor retail space located at 33 8th Street for a term of 10 years and four months with no options to extend and an initial base rent of $448,224, with three percent annual escalation.

Key Points

- The Drug Market Agency Coordination Center (DMACC) is a multi-agency task force, formed in 2023 and led by the Police Department, to address open air drug markets. The facility is staffed on a 24-hour basis by nearly 70 staff from SFPD, 10 staff from the Sheriff's Office, and two staff from the Department of Emergency Management.
- DMACC initially operated out of leased space at 1155 Market Street and moved to leased space at 1145 Market Street in May 2024 on a temporary basis. DMACC currently occupies 11,358 square feet of 1145 Market Street on the eighth floor with a current annual rent of $31.77 per square foot. DPH staff currently located at 101 Grove Street and 1380 Howard Street are planning to move into DMACC's existing leased premises.
- The Real Estate Division has determined that the proposed annual rent of $42.00 per square foot is at or below fair market rent based on a review of five comparable leases. The proposed lease includes a total of four months of rent abatement across the first two years and an estimated $3.0 million in tenant improvements to be provided by the Landlord.

Fiscal Impact

- Over the 10-year and four-month term, the total lease cost to be paid by the City is approximately $5.7 million, including $5.2 million in rent and $0.5 million in electrical and operating costs. In Year 1, the estimated lease cost is $410,872, which includes two months of abated rent. In Year 3, when there is no lease abatement, the estimated lease cost is $526,293. Lease costs will be funded by the General Fund.
- The total lease costs in Years 1 and 2 of the proposed lease, including rent abatement, are comparable to the existing lease. Starting in Year 3, total lease costs are approximately $88,000, or 20 percent, greater under the proposed lease compared to the existing lease.

Policy Consideration

- When DMACC was formed, existing SFPD staff moved from City-owned facilities into leased space. Under the proposed lease, DMACC will continue to operate out of leased space. As a cost saving measure, the City could relocate DMACC staff to City-owned space, though Police report that not all staff could fit in Tenderloin Police Station.

Recommendation

- Approve the proposed resolution.

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 Drug Market Agency Coordination Center (DMACC) is a multi-agency task force, formed in 2023 and led by the Police Department, to address open air drug markets in the South of Market and Tenderloin neighborhoods. Agencies include the Police Department, the Fire Department, the Department of Emergency Management, Public Health, and the Sheriff's Office.

DMACC initially operated out of leased space at 1155 Market Street and moved to leased space at 1145 Market Street in May 2024 on a temporary basis because the City could not negotiate a new lease at 1155 Market Street. DMACC currently occupies 11,358 square feet of 1145 Market Street on the eighth floor under an existing lease with a current annual rent of $31.77 per square foot.[1] DPH staff currently located at 101 Grove Street and 1380 Howard Street are planning to move into DMACC's existing leased premises. According to Real Estate Division staff, DMACC's existing leased premises were previously vacant office space, and were not designed for law enforcement use or built out to support their operations. In addition, DMACC requires better access to fleet vehicles to support operations, as DMACC is currently located on the eighth floor without a dedicated elevator and the DMACC vehicles are parked one-half block away from the building in an underground garage.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the Director of Property to execute a lease with 33 8th Street, LLC for a portion of the property located at 33 8th Street for a term of 10 years and four months with no options to extend and an initial base rent of $448,224, with three percent annual escalation. The proposed resolution also authorizes the Director of Property to enter into further immaterial amendments to the lease.

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

[1] The City has four leases at 1145 Market Street: (1) Floors 1, 8, 9, 10, and 11 for Public Health, the Office of Civic Engagement and Immigrant Affairs (OCEIA), and DMACC, (2) Floors 2 and 3 for the Health Services System (HSS), (3) Floors 2 and 4 for the Law Library, and (4) Floors 5-7 for the Retirement System (which will be relocated and replaced with the Human Services Agency).

Exhibit 1: Key Terms of Proposed Lease

Premises	10,672 square feet on first floor
Term	10 years and 4 months Effective Date: Upon Board of Supervisors' and Mayoral Approval Rent Commencement: Upon Landlord's completion of improvements Expiration Date: 10 years and 4 months after rent commencement
Options to Extend	None
Annual Base Rent	$448,224 ($42.00 per square foot)
Rent Abatement	Rent abatement in months 1, 2, 13, and 14 for effective rent of $35.00 per square foot in Year 1 and $36.05 in Year 2, increasing to $44.56 in Year 3
Rent Escalation	3% annually
Tenant Improvements	Paid and delivered by Landlord with estimated budget of $3.0 million
Electrical Costs	City pays Landlord as a passthrough cost without markup
Operating Costs	City pays percentage share of increase in operating costs over base year (2026): 3.05% of property taxes and insurance and 1.15% of common area maintenance

Source: Proposed Lease

DMACC Use of Leased Premises and Improvements

According to Captain Chris Canning, Commanding Officer of the Police Department's Administration Bureau, DMACC coordinates engagement, enforcement, and treatment-related operations to disrupt open-air drug markets along Market Street. Specifically, operations include uniformed foot patrols, targeted narcotics enforcement, fugitive recovery efforts, and coordinated outreach. Because street conditions can change quickly, DMACC requires a facility close to the DMACC enforcement zone. There are no existing police facilities located near the DMACC enforcement zone that can house and support all DMACC officers, equipment, and workstations according to Captain Canning. In addition, the mid-Market location allows City agency partners to meet on a daily basis to organize and coordinate resources.

There are nearly 70 dedicated SFPD staff assigned to DMACC operations, with staffing expected to increase as Police Department staffing improves. In addition, there are 10 dedicated Sheriff's Office staff and two dedicated Department of Emergency Management staff. The facility is staffed on a 24-hour basis.

According to Real Estate Division staff, the Landlord is completing and paying for tenant improvements to the premises with an estimated budget of approximately $3.0 million, or $281 per square foot. The estimated completion date of leasehold improvements is July or August 2026.

At build out, the leased premises will include five private offices for captains, commanders, and lieutenants, two shared offices for eight sergeants, and workstations, hoteling stations, and smaller stations for report writing for 64 staff for 78 total seats. The leased premises will also include a fitness space, break area, meeting room, locker area and showers, and a lactation room. The leased premises also have a dedicated elevator that drops down to the parking garage, which will facilitate easy access to fleet vehicles.

Base Rent

The Real Estate Division has determined that the proposed annual rent of $42.00 per square foot is at or below fair market rent based on a review of five comparable leases. An appraisal was not required under Administrative Code Section 23.27 because the proposed rent is less than $45 per square foot.

FISCAL IMPACT

As shown in Exhibit 2 below, over the 10-year and four-month term, the total lease cost to be paid by the City is approximately $5.7 million, including $5.2 million in rent and $0.5 million in electrical costs and the City's share of building operating costs and taxes. In Year 1, the estimated lease cost is $410,872, which includes two months of abated rent. In Year 3, when there is no lease abatement, the estimated lease cost is $526,293. Lease costs will be funded by the General Fund.

Exhibit 2: Estimated Lease Costs under Proposed Lease

Lease Year	Annual Rent	Estimated Electrical Costs	Estimated Operating Expenses	Taxes	Estimated Total Costs
Year 1	$373,520*	$37,352			$410,872
Year 2	384,726*	38,473	9,368	1,467	434,033
Year 3	475,521	39,627	9,649	1,496	526,293
Year 4	489,786	40,816	9,939	1,526	542,067
Year 5	504,480	42,040	10,237	1,557	558,314
Year 6	519,614	43,301	10,544	1,588	575,047
Year 7	535,203	44,600	10,860	1,620	592,283
Year 8	551,259	45,938	11,186	1,652	610,035
Year 9	567,797	47,316	11,521	1,685	628,320
Year 10	584,831	48,736	11,867	1,719	647,152
Year 11 (4 months)	200,792	16,733	4,074	584	222,183
Total	**5,187,529**	**$444,931**	**$99,245**	**$14,894**	**$5,746,599**

Source: Proposed Lease Agreement and RED

*Annual rent in Years 1 and 2 include two months of rent abatement

The lease provides for annual escalation of three percent to the base rental rate, and we assume three percent escalation for electrical costs and operating expenses and two percent escalation for taxes.

Comparison to Existing Rent and Other Lease Costs

The proposed leased premises are similar in size to DMACC's existing leased premises at 1145 Market Street with six percent fewer total square feet at the proposed lease premises (10,672 square feet compared to 11,358 square feet). The proposed annual base rental rate of $42/sf is approximately 32 percent greater than the current rent for DMACC of $31.77/sf. The total lease costs in Years 1 and 2 of the proposed lease, including rent abatement, are comparable to total lease costs under the existing lease in those years. Starting in Year 3 when rent abatement ends, total lease costs are approximately $88,000, or 20 percent, greater under the proposed lease compared to the existing leased premises.

POLICY CONSIDERATION

In 2023, when DMACC was formed, existing SFPD staff moved from City-owned police facilities into leased space at 1155 Market Street. Under the proposed lease, DMACC will continue to operate out of leased space. As a cost saving measure, the City could relocate DMACC staff to City-owned space. As noted above, there are no existing police facilities located near the DMACC enforcement zone that can house and support all DMACC officers, equipment, and workstations according to the Police Department. In addition, there are benefits to having a dedicated facility close to the enforcement zone, including the ability to respond quickly to changing street

conditions and having space to meet and coordinate with other City partner agencies in mid-Market.

RECOMMENDATION

Approve the proposed resolution.