

CITY AND COUNTY OF SAN FRANCISCO


BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Government Audit and Oversight Committee

FROM: Budget and Legislative Analyst 

SUBJECT: October 2, 2025 Government Audit and Oversight Committee Meeting

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Item 1
File 25-0775

Department:
Public Utilities Commission

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a Memorandum of Agreement (MOA) between Daly City and the San Francisco Public Utilities Commission (SFPUC) to formally establish the partnership, delineate responsibilities, and commit up to \$35 million for funding, construction, and operation of the Vista Grande Drainage Basin Improvement Project. The agreement has a five-year term and is effective upon approval of the proposed resolution.

Key Points

- The Vista Grande Project is a joint effort between Daly City and the SFPUC focused on improving the Vista Grande watershed, canal, and tunnel system which is currently undersized to handle peak storm flows. The systems run from Daly City to Fort Funston.
- Due to increased urban development, ground absorption rates in the area have decreased, resulting in excess runoff entering the canal and tunnel system, causing storm-related flooding and property damage in Daly City and around Lake Merced. This diversion has also contributed to the decreasing Lake Merced water levels and water quality.
- The Vista Grande Drainage Basin Improvement Project will upgrade the canal and tunnel system to improve stormwater flow and potentially divert it to Lake Merced instead of the ocean. The project is currently in pre-construction.

Fiscal Impact

- The proposed MOA would approve SFPUC's contribution of up to \$35 million for the \$172 million project with Daly City. Daly City is responsible for the remaining project costs.
- No funds have been spent to date toward the \$35 million, but the SFPUC did previously contribute \$205,500 for planning and design.
- In addition to the \$35 million commitment, the SFPUC will spend \$3 million to manage required mitigation plantings within the Lake Merced area for five years.

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**Vista Grande Drainage Basin Improvement Project**

The Vista Grande Project is a joint effort between Daly City and the San Francisco Public Utilities Commission (SFPUC) focused on improving the Vista Grande watershed, canal, and tunnel system. The watershed is located primarily in Daly City and unincorporated San Mateo County,¹ with a portion in southern San Francisco around Lake Merced.² The canal and tunnel system, built in the 1890s and now operated by Daly City, collects, treats, and diverts stormwater from the watershed to the Pacific Ocean. However, due to increased urban development, ground absorption rates have decreased, resulting in excess runoff entering the system. During storms, this causes storm-related flooding and property damage in adjacent low-lying residential areas in Daly City, as well as uncontrolled overflows from the canal across John Muir Drive into Lake Merced. Exhibit 1 below shows a map of the area.

¹ A watershed is a land area that channels rainfall and snowmelt to creeks, streams, and rivers, and eventually to outflow points such as reservoirs, bays, and the ocean.

² The SFPUC maintains Lake Merced for recreation and as a wildlife habitat, while retaining the capability to use the lake as a non-potable emergency water supply.

Exhibit 1: Vista Grande Drainage Basin Improvement Project Area

Source: SFPUC

Additionally, Lake Merced has experienced a decline in water levels. These declines are generally attributed to the diversion of stormwater away from the lake following the construction of the Vista Grande canal and tunnel in 1897, as well as 20th-century urban development, drought conditions, and regional groundwater pumping. Lake Merced is owned and maintained by the SFPUC.

The existing Vista Grande canal serves as the only stormwater outlet for northwestern Daly City. The existing canal and tunnel do not have adequate hydraulic capacity to convey peak storm flows to the Pacific Ocean.³ Furthermore, at the Pacific Ocean outlet (Fort Funston), coastal erosion has highlighted the existing tunnel structure, necessitating its replacement.

According to SFPUC, concerns over low lake levels led to stakeholder complaints filed with the State Water Resources Control Board in approximately 2009, naming Daly City and the SFPUC, which culminated in the Vista Grande Project.

The Vista Grande Drainage Basin Improvement Project aims to improve stormwater flows in the Vista Grande watershed by upgrading the capacity of the canal and tunnel system and enabling the potential to divert stormwater from the canal to Lake Merced rather than into the ocean. The project is currently in the pre-construction phase.

³ Currently, the canal can handle 500 Cubic Feet Per Second (CFPS). However, the tunnel can only handle 275 CFPS, leading to overflow during storms.

Environmental Review

On December 11, 2017, Daly City (serving as the lead agency) certified a Final Environmental Impact Report (EIR) for the Vista Grande Drainage Basin Improvement Project under the California Environmental Quality Act (CEQA).

On June 9, 2025, Daly City adopted an Addendum to the Final EIR. The Addendum addressed Project modifications, permit conditions, and construction staging changes, including canal staging, water recirculation, Lake Merced habitat restoration (required by the California Coastal Commission), using the Pacific Rod and Gun Club, and revising Fort Funston as work areas, updating power to diesel generators, using ventilation fans, and removing Ocean Outlet wing walls. Daly City adopted and implemented CEQA findings and mitigation measures.

The EIR/EIS identified significant and unavoidable impacts related to the loss of historic structures (tunnel and canal) and the alteration of coastal landforms. According to SFPUC staff, concerns regarding these impacts have primarily been raised by the California Coastal Commission; however, stakeholders are generally supportive of the project as it addresses long-standing flooding issues and the challenges of managing lake levels. The California Coastal Commission required habit restoration as part of its approval of the project.

On July 8, 2025, the SFPUC Commission approved and authorized the General Manager of the SFPUC to execute a Memorandum of Agreement (MOA) with Daly City.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a Memorandum of Agreement (MOA) between Daly City and the San Francisco Public Utilities Commission (SFPUC) to formally establish the partnership, delineate responsibilities, and commit up to \$35 million for funding, construction, and operation of the Vista Grande Drainage Basin Improvement Project. The agreement has a five-year term and is effective upon approval of the proposed resolution.

This is in addition to the \$205,500 that the SFPUC previously provided for planning and design, and the \$3 million estimate of internal SFPUC costs for managing the required mitigation plantings within the Lake Merced area in the five years after construction is complete.⁴

Scope of Project

The project will upgrade the drainage system capacity to handle a 25-year storm (a large storm event with a 4 percent chance of occurring in any given year) by upgrading the tunnel capacity to match the canal's and replacing approximately 1,500 feet (42 percent) of the canal's 3,600-foot length with new structures, including a collection box and debris screening device, creating a new

⁴ The mitigation plantings include 10 acres of native plant habitat restoration (including arroyo willow riparian, freshwater marsh, and coastal scrub species) mandated by the California Coastal Commission to compensate for the loss of environmentally sensitive habitat areas and coastal wetlands caused by the increase in Lake Merced's water elevation to its former level.

connection to divert treated stormwater into Lake Merced, and restoring 10 acres of habitat (including constructing 2.6 acres of treatment wetland).

The project aims to reduce uncontrolled overflows, enhance stormwater quality, and increase Lake Merced levels to mitigate the impacts of the SFPUC's implementation of the Regional Groundwater Storage and Recovery and San Francisco Groundwater Projects.

Duration and Timeline

Construction for the Project is scheduled to last for five years, from August 4, 2025, to August 31, 2030. This initiative is Phase 1 of the SFPUC's broader "Lake Merced Water Level Restoration Project". Phase 2 was a component of the broader restoration project, which entailed the design and installation of a device to add oxygen to Lake Merced to improve water quality, at a cost of approximately \$800,000. Phase 2 construction was completed in 2017 and is not part of the current scope of work. Phase 3 is a future, SFPUC-led initiative that will install a new pipeline to divert highly treated recycled water into Lake Merced to improve water levels and water quality. For five years after the project, SFPUC is responsible for maintaining the mitigation plantings required by the California Coastal Commission.

Memorandum of Agreement Terms

The purpose of the MOA is to identify the Parties' respective obligations for implementing the Project.

Roles and Responsibilities

Daly City

Daly City is responsible for all project capital costs exceeding the SFPUC's \$35 million contribution, including real estate acquisition, permits, and California Coastal Commission mitigation measures (design, installation, and the initial five years of a ten-year monitoring and maintenance period for plantings). They will also cover wastewater treatment costs for temporary stormwater diversion during construction, as well as an estimated \$200,000 for temporary relocation and support of SFPUC utility infrastructure.

As the lead CEQA agency, Daly City will manage all project contracts and solicit bids for a general contractor upon receipt of the permits. Responsibilities include constructing and operating key infrastructure, managing stormwater diversion to Lake Merced, and implementing water quality monitoring and mitigation measures required by federal and state environmental acts.

SFPUC

The SFPUC will provide up to \$35 million (approximately 27 percent of the total estimated project cost) and continue monitoring Lake Merced's water quality. After Daly City's initial five-year management, the SFPUC will manage mitigation planting maintenance for years six through ten, with an estimated cost of \$3 million for plant/infrastructure repair, replacement, and staffing. However, Daly City will remain responsible for all required monitoring and reporting to the California Coastal Commission throughout the entire 10-year monitoring and reporting period.

The SFPUC also must share data with Daly City on Lake Merced water levels/quality, groundwater pumping, emergency notices, and lake connection changes.

Consultants

No general contractor is currently in place. Daly City anticipates issuing an open bid in the fall of 2025. The MOA specifies that the selected contractor will be an independent contractor of Daly City, not an agent or employee of the SFPUC. However, Daly City must provide the SFPUC with ten business days to review any proposed modifications or change orders to construction contracts.

FISCAL IMPACT

The proposed MOA would approve SFPUC's contribution of up to \$35 million for the \$172 million project with Daly City.⁵ Daly City is responsible for the remaining project capital. Exhibit 2 below details the project budget.

No funds have been spent to date toward the \$35 million, but the SFPUC did previously contribute \$205,500 for planning and design. In addition to the \$35 million commitment, the SFPUC estimates an internal cost of \$3 million for management of the required mitigation plantings within the Lake Merced Tract in years six through ten.

Exhibit 2: Project Budget

Category	Amount
Design	\$11,600,000
Environmental	4,700,000
Permitting	2,000,000
Bid and Award	200,000
Construction	141,300,000
Construction Management and Engineering Support	12,200,000
Total	\$172,000,000

Source: SFPUC

Rationale

The SFPUC determined the \$35 million amount based on the estimated volume of water benefit (including diversions to Lake Merced and recharge to the underlying aquifer),⁶ evaluated against

⁵ The initial construction cost was \$130 million. However, on September 18, the SFPUC informed us that Daly City's increased the projected cost to approximately \$141 million. The San Francisco Public Utilities Commission's contribution will remain \$35 million.

⁶ The Vista Grande project is expected to provide an additional 210 acre-feet per year (AFY) of water supply, with approximately 94 AFY flowing into the lake and 116 AFY into the aquifer. The existing water treatment facilities in

the average cost of existing groundwater and recycled water projects over a 30-year capitalization period with escalation.

Ongoing Expenditures

The SFPUC project will spend \$3 million for maintaining mitigation plantings for five years, as shown below in Exhibit 3. SFPUC staff indicate that these funds cover internal costs for plant and infrastructure repair/replacement, as well as expenses for SFPUC, Recreation and Park Department staff, and consultants.

Exhibit 3: SFPUC Maintenance Costs

Category	Annual Cost	5-Year Total
Staff Costs (Field World & Project Management)	\$400,000	\$2,000,000
Equipment, Irrigation & Plant Replacement	\$200,000	\$1,000,000
Total	\$600,000	\$3,000,000

Source: SFPUC

In addition to all project capital costs in excess of SFPUC's contribution amount, Daly City is responsible for other costs, including acquiring Project-related real estate, permits, wastewater treatment costs for the temporary diversion of stormwater during construction, and temporary relocation of SFPUC utility infrastructure, and maintenance of mitigation plantings (years one through five).

Funding Source

Funding is allocated from the Water Enterprise capital revenues, which include customer revenues, revenue bonds, and other government loans and grants.

RECOMMENDATION

Approve the proposed resolution.

San Francisco collectively produce about 9,050 AFY. Over a 30-year capitalization period, the combined cost per acre-foot is estimated at \$5,508. This suggests a potential capital cost value of approximately \$35 million for the project.

Items 2 & 3 Files 25-0698 & 25-0803	Department: Office of Economic and Workforce Development (OEWD), Real Estate Division (RED)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • File 25-0698 is a proposed ordinance that would approve a Development Agreement between the City and EQX Jackson SQ Holdco LLC (Developer) for development of property at 425 and 439-445 Washington Street, 530 Sansome Street, and 447 Battery Street. • File 25-0803 is a proposed ordinance that would approve a Hotel and Fire Station Development Incentive Agreement between the City and the Developer, providing an estimated \$68,871,356 in net present value of incentive payments, based on the Transient Occupancy Tax (TOT) generated by the hotel, to the Developer for up to 25 years. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • OEWD and the Developer have negotiated a Development Agreement to construct a 41-story tower containing approximately 200 hotel rooms, 400,000 square feet of office space, 10,135 square feet of event space, and 7,400 square feet of restaurant space, a new fire station, and improvements to Merchant Alley. The Developer would deliver the fire station and Merchant Alley improvements before the tower is occupied. The Developer would also be required to make an affordable housing payment of \$2.15 million to the City within six months of ordinance approval. • To help finance construction of the fire station, estimated at approximately \$44.2 million, the City would provide incentive payments equal to the General Fund TOT generated by the new hotel, up to \$68.9 million in net present value, for up to 25 years. If \$68.9 million is paid within the 25-year term of the agreement, the City would make payments equal to half of TOT revenues, up to \$86.1 million. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The City would receive a new fire station, valued at approximately \$44.2 million. According to a fiscal analysis of the project, the proposed development would provide net General Fund revenues of approximately \$8 million per year compared to the existing land use, after accounting for the TOT incentive payments to the Developer. • The City would receive approximately \$24.1 million in development impact fees, which is \$6.2 million less than what would be paid without a Development Agreement. The purpose of the fee reduction is to ensure the project is financially feasible. <p style="text-align: center;">Policy Consideration</p> <ul style="list-style-type: none"> • The maximum value of the incentive payments and impact fee reductions is greater than the cost of the fire station and Merchant Alley improvements, not including the new ongoing General Fund revenue. The City could finance the construction of the fire station using general obligation bonds, with total debt service of \$72.3 million in nominal dollars. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Because the agreements are consistent with a resolution endorsing the keys of this project approved by the Board of Supervisors in 2024, we recommend approval of both ordinances. 	

MANDATE STATEMENT

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

Administrative Code Chapter 56 provides for the City to enter into development agreements with private developers for housing and mixed-use developments to reduce the risk of large developments for the developer while requiring public benefits as part of the development that exceed those required by existing ordinances and regulations. Section 56.14 provides for Board of Supervisors approval of such development agreements.

BACKGROUND

Fire Station 13 is located on City-owned property at 530 Sansome Street. In 2019, the Real Estate Division (RED) issued a competitive solicitation to develop market rate housing and a new fire station on the property. The revenues were intended to be used to construct affordable housing in a separate development at 772 Pacific Avenue. RED received four proposals, and Related California was deemed the highest scoring proposer. RED could not provide documentation of the competitive process due to staff turnover and poor record keeping.

In April 2019, the Board of Supervisors approved a Conditional Property Exchange Agreement (CPEA) between the City and EQX Jackson SQ Holdco LLC (the Developer, an affiliate of Related California), in which the City would convey 530 Sansome Street to the Developer in exchange for a portion of 425-439 Washington Street (File 19-0419). At the time, the Developer planned to build a 19-story tower with condominiums, a hotel, and a health club. In June 2020, the Board of Supervisors approved an updated CPEA which increased the estimated maximum cost for the new fire station from \$25,000,000 to \$32,128,429, incorporated design changes requested by the Fire Department, and stipulated that the property exchange would occur after the fire station is completed (File 20-0425). In November 2021, the Board of Supervisors approved an architectural contract, ground lease, construction contract, construction management agreement, completion guaranty, reciprocal easement agreement, and the First Amendment to the CPEA, which extended the deadlines to approve these documents (File 21-1087). In March 2024, the Board of Supervisors retroactively approved the Second Amendment to the CPEA, extending the anticipated initial closing date by three years to December 15, 2026 (File 24-0064).

Due to changing market conditions, the Developer and the City determined that the original project is no longer viable. In 2024, the Developer obtained the right to purchase property at 447 Battery Street to expand the footprint of the project. The developer submitted an application to the Planning Department to revise the project to construct a 41-story tower on the original three parcels and a new fire station at 447 Battery Street, rather than on a portion of 425-439 Washington Street. The tower would include approximately 200 hotel rooms, 400,000 square feet of office space, 10,135 square feet of event space, 7,400 square feet of retail/restaurant space, and three levels of below-grade parking. The new fire station would include three stories and one story of below-grade parking. In November 2024, the Board of Supervisors approved a resolution generally endorsing the key terms for an amended CPEA and new development agreement reflecting the revised project application (File 24-1141).

DETAILS OF PROPOSED LEGISLATION

File 25-0698 is a proposed ordinance that would approve a Development Agreement between the City and the Developer for the development of property at 425 Washington Street, 439-445 Washington Street, 530 Sansome Street, and 447 Battery Street. The ordinance would also:

1. Approve certain impact fees and accept and appropriate a \$4,310,710 additional affordable housing payment;
2. Confirm compliance with or waive certain provisions of the Administrative Code, Planning Code, Public Works Code, Labor and Employment Code, and Health Code;
3. Ratify past actions and authorize future actions in furtherance of the ordinance;
4. Adopt findings under the California Environmental Quality Act (CEQA); and
5. Make findings of conformity and public necessity with the General Plan and Planning Code.

File 25-0803 is a proposed ordinance that would approve a Hotel and Fire Station Development Incentive Agreement, providing incentive payments equal to a percentage of Transient Occupancy Tax (TOT) revenues from the new hotel to the developer to help finance the cost of the new fire station and support the feasibility of the new hotel.

To support the proposed Development Agreement, the Office of Economic and Workforce Development (OEWD) has also introduced the following legislation:

- A Planning Code ordinance creating a Special Use District (SUD) for the project, approving zoning map changes, and rescinding landmark designation for the building at 447 Battery Street (File 25-0697);
- A General Plan amendment ordinance revising maps to reflect the SUD and adopting the Planning Commission's CEQA findings and findings of consistency with the General Plan and Planning Code (File 25-0764);
- A Major Encroachment Permit ordinance establishing the Developer's maintenance obligations for the Merchant Street improvements (File 25-0802); and
- An ordinance that would approve an amended and restated conditional property exchange agreement between the City and the Developer for the exchange of 530 Sansome Street and 447 Battery Street and waive appraisal requirements of Chapter 23 of the Administrative Code. The revised CPEA includes a requirement that the fire station be completed within 2.5 years of the start of construction of the tower project. (File 25-0804)

These items will be heard by the Land Use and Transportation Committee.

Development Agreement

The proposed Development Agreement between the City and the developer grants the developer entitlement to develop the project in exchange for providing public benefits that exceed those required under existing City policies and regulations, consistent with Chapter 56 of the City's

Administrative Code. According to the proposed agreement, these benefits include: (a) construction of the new fire station (at the sole cost of the Developer); (b) construction and maintenance of Merchant Street improvements; (c) earlier payment of a portion (\$2.15 million) of the project's affordable housing fees compared to what would be required without a development agreement; and (d) workforce requirements.

Project Description

Under the proposed Development Agreement, the Developer would construct a new four-story fire station at 447 Battery Street and a 41-story commercial tower at 530 Sansome Street (both on the same block). The new fire station would include a four-door apparatus bay, day rooms, dormitories, officer suites, locker rooms, a kitchen and dining area, a fitness room, a library, and outdoor terraces. It would also include one level of below-grade parking with 18 parking spaces. The commercial tower would include approximately 345,000-390,000 square feet of office space, 27,000 square feet of office amenity space, 128,000-189,000 square feet of hotel space (approximately 100-200 hotel rooms), 10,100 square feet of event space, and 7,400 square feet of restaurant/retail space. The tower would also include three levels of below-grade parking with approximately 74 parking spaces, 77 bicycle spaces, and utility rooms. Merchant Alley, between Sansome and Battery Streets, would be converted into a pedestrian-oriented alley with widened sidewalks, special paving, raised crosswalks, and street trees and would be maintained by the Developer for the life of the tower.

According to Jonathan Cherry, OEWD Project Manager, if the proposed Development Agreement is approved, the Developer intends to seek building permits in 2026 and potentially break ground in Spring 2027, with a targeted completion date of Spring 2030. The Developer has not secured financing for the project.

Community Benefits Sequencing

The Developer is required to obtain a Temporary Certificate of Occupancy for the new fire station before the tower receives a Temporary Certificate of Occupancy. The tower cannot receive a Final Certificate of Occupancy until the new fire station and Merchant Street improvements are complete.

The Developer would pay half of an additional affordable housing payment (\$2.15 million) to the city within six months of approval of the Development Agreement, regardless of whether the project proceeds, and the remaining half (\$2.15 million) on or before the issuance of the first construction document for the tower.

City Code Waivers

Exhibit F to the Development Agreement contains a Workforce Agreement, which includes a first source hiring program for construction and operations of the tower, local hiring requirements for the new fire station, a Local Business Enterprise (LBE) utilization program for the tower and fire station and prevailing wages and working conditions for construction. This agreement supersedes Administrative Code sections 14B.20 (LBE requirements in development agreements) and 56.7(c) (non-discrimination/affirmative action requirements in development agreements). In addition, the proposed ordinance waives the following sections related to the construction of the

new fire station and construction and maintenance of the Merchant Alley improvements: Administrative Code Sections 1.51 (procedures for public works improvements), 6 (public works contracting policies and procedures), 82 (local hiring policy for construction), and 83 (first source hiring program), Labor and Employment Code Sections 103.1, 103.3(a)-(d), 103.3 (f), 104.1, 104.2, 104.3, 106.1, 106.2, 106.4, and 106.6 (prevailing wage and apprenticeship requirements), Health Code Article 12C (alternative water sources for non-potable applications), Planning Code Section 138 (privately-owned public open space requirements), and Public Works Code Section 724.1 (fees for temporary occupancy of streets).

Hotel and Fire Station Development Incentive Agreement

According to Jonathan Cherry, OEWD Project Manager, the estimated cost for the new fire station is approximately \$44.2 million and subject to further escalation. To help finance the construction, the City has agreed to calculate actual General Fund Transient Occupancy Tax (TOT) revenues from the proposed new hotel and provide quarterly incentive payments to the Developer for a period of up to 25 years, equal to 12.5 percent of hotel room revenues, or approximately 89.3 percent of actual collected TOT revenues (the remaining 10.7 percent of TOT revenues dedicated to arts and culture programming would be unaffected by the agreement).¹ Once the City has paid the Developer a total of \$68,871,356 in net present value of incentive payments (using a nine percent annual discount rate), the payment would be reduced in half, or to an amount equal to 6.25 percent of hotel room revenues (44.6 percent of TOT revenues), until the total incentive payments equal a maximum of \$86,089,195 in net present value. After paying that amount, or after 25 years, the City would no longer pay the developer incentive payments.

The \$86.1 million cap on total payments to the Developer is based on the anticipated project design of between 10 and 12 floors of hotel rooms, for between 100 and 200 rooms. If the number of floors is reduced to be less than 10, the cap would be reduced proportionally.

Conditional Property Exchange Agreement

The proposed amended and restated CPEA allows for the construction of the new fire station on 447 Battery Street, rather than a portion of 425-439 Washington Street. The amended agreement also removes maximum cost provisions which capped the Developer's contribution to the cost of constructing the new fire station at \$25.5 million. The 447 Battery Street will be solely owned and controlled by the City and used for the fire station.

Due to the size of the two properties, the 530 Sansome property (8,939 square feet) is of greater value than the 447 Battery Street property (7,178 square feet), as confirmed by appraisals conducted by R. Blum and Associates in April 2025. According to OEWD staff, the ordinance in File 25-0804 waives the appraisal requirements of Chapter 23 of the Administrative Code to avoid costs for appraisal reviews. In addition, the property exchange was negotiated in the context of the proposed development agreement and other project approvals, and RED did not consider a direct comparison of the property values to be necessary.

¹ Per Article 7 of the Business Tax & Regulations Code, the City's transient occupancy tax rate is 14%, including 12.5% for the General Fund and 1.5% for arts and cultural programming.

FISCAL IMPACT**New Fire Station**

One of the primary benefits to the City is the construction of a new fire station. According to Mark Corso, Fire Department Deputy Director, the existing Fire Station 13 is over 50 years old and seismically unsafe in the event of an earthquake. Additionally, the floor is inadequate for current apparatus weights, and certain building systems (such as HVAC and electrical) are in need of upgrade or replacement. The new station, which is valued at approximately \$44.2 million to construct, would be built to modern safety and energy efficiency standards and provide infrastructure for modern fire service tools and equipment.

General Fund Fiscal Impact

According to a May 2025 fiscal impact report conducted by Economic & Planning Systems, Inc. (EPS) on behalf of the Developer, the proposed development is projected to provide net General Fund revenues of approximately \$8 million per year compared to the existing land use. This projection excludes TOT revenues, since incentive payments calculated based on those revenues would be paid to the Developer for up to 25 years to finance the fire station construction and support the feasibility of the new hotel. An overview of General Fund revenues and expenditures is shown in Exhibit 1 below.

Exhibit 1: Annual General Fund Fiscal Impact Estimates, EPS Report

Projected General Fund Revenues	Existing Development	Proposed Project	Net Revenues
Gross Receipts Tax	\$0	\$6,238,000	\$6,238,000
Property Tax	309,000	4,347,000	4,037,000
Property Transfer Tax ²	144,000	2,019,000	1,875,000
Property Tax in Lieu of VLF	51,000	717,000	666,000
Commercial Rents Tax	12,000	279,000	267,000
Gas, Electric, and Steam Users Tax	14,000	144,000	130,000
Other Taxes ³	91,000	344,000	253,000
<i>General Fund Revenue Subtotal</i>	<i>\$621,000</i>	<i>\$14,088,000</i>	<i>\$13,468,000</i>
General Fund Baseline Requirements	(178,000)	(4,039,000)	(3,861,000)
General Fund Revenue After Baseline Requirements	\$443,000	\$10,049,000	\$9,606,000

Projected General Fund Expenditures	Existing Development	Proposed Project	Net Expenditures
Police	\$52,000	\$521,000	\$470,000
Fire	35,000	348,000	314,000
Human Welfare & Neighborhood Development	30,000	299,000	270,000
Community Health	21,000	209,000	188,000
Public Works, Transportation, & Commerce	15,000	153,000	138,000
Other Public Protection	12,000	118,000	106,000
Other Expenditures ⁴	13,000	135,000	121,000
Total General Fund Expenditures	\$177,000	\$1,782,000	\$1,606,000

Net Annual General Fund Revenues	\$266,000	\$8,267,000	\$8,001,000
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Source: EPS fiscal impact report. Some totals may not add due to rounding.

In addition to the General Fund impact, the EPS report estimates that the project would annually generate approximately \$881,000 in net revenue to the Municipal Transportation Agency (MTA) Fund and \$609,778 in TOT for arts and culture purposes.

TOT Revenue Incentive Payments

The report also estimates that the hotel would generate approximately \$5.1 million annually in General Fund TOT, and that incentive payments in an equal amount would be provided to the Developer for 25 years after hotel occupancy to finance the fire station and support the feasibility of the new hotel. This estimate assumes 198 hotel rooms with an average daily room rate of \$750 and 75 percent average occupancy. Once the incentive payments expire, the development would

² Property Transfer Tax estimates assume that the properties would be sold every 20 years. Annual estimates are equal to five percent of the estimated one-time revenue from the properties being sold at the current and projected assessed valuations.

³ Other Taxes include Sales Tax, Telephone Users Tax, Water Users Tax, Access Line Tax, Parking Tax, and Business Registration fees.

⁴ Other Expenditures include Culture and Recreation, General Administration and Finance, and General City Responsibilities.

provide \$11.6 million in net General Fund revenues, including the \$5.1 million in annual TOT revenues net of General Fund baseline requirements, plus an additional \$1.4 million in net revenue to the MTA Fund.

The report estimates that the resulting incentive payments would total a net present value of \$68.9 million at the end of 25 years. If the hotel generates more TOT revenue than projected in the report, then subsequent incentive payments would be reduced by half and net General Fund revenues would increase. The incentive payments calculated based on TOT revenue would expire early if the total cap on the payments (net present value of \$86.1 million) is reached. If the hotel generates less than \$68.9 million in TOT revenue, the incentive payments would expire 25 years after hotel occupancy, regardless of the amount of incentive payments.

Peer Review

The City contracted with BAE Urban Economics, Inc. to conduct a peer review of the EPS report. BAE found that the EPS report was generally reasonable, but that the Gross Receipts Tax and TOT revenue estimates were speculative. Specifically, the Developer is proposing to target the top end of the office market with Class AA office space, and the Gross Receipts Tax is sensitive to the tenants' industry categories, sizes, and percentage of gross receipts generated in San Francisco. EPS reduced its Gross Receipts Tax estimates from an earlier draft report that BAE had reviewed and provided comments. BAE noted that TOT projections were at the high end of the five-star market and dependent on continued tourism recovery. BAE also found that the project would not be feasible without the TOT incentive, as it would not generate an acceptable rate of return.

Impact Fees

Under the proposed Development Agreement, the Developer would pay required City impact fees, including the Transportation Sustainability Fee, Downtown Park Fee, Jobs-Housing Linkage Fee, and Childcare Impact Fee. The Developer would also pay affordable housing fees that were negotiated with the City, consisting of a negotiated Jobs-Housing Linkage fee that is reduced by 50 percent plus an additional affordable housing payment of \$4,310,710, half of which (\$2,155,355) would be paid to the City within six months of the effective date of the ordinance approving the development agreement, regardless of whether the project proceeds. Assuming the project creates a net increase of approximately 373,500 square feet of office space compared to the existing land use, the estimated impact fees are shown in Exhibit 2 below.⁵

⁵ Under Planning Code Section 406(h), impact fees are temporarily waived for hotel and restaurant developments in certain downtown commercial districts, so the impact fees only apply to the office component of the proposed development.

Exhibit 2: Estimated Development Impact Fees Paid to City

Fee	Amount without DA	Amount under DA	Difference under DA
Transportation Sustainability Fee	\$7,679,160	\$7,679,160	\$0
Downtown Parks Fee	959,895	959,895	0
Jobs-Housing Linkage Fee	21,072,870	10,536,435	(10,536,435)
Child Care Impact Fee	593,865	593,865	0
Additional Affordable Housing Payment	0	4,310,710	4,310,710
Total	\$30,305,790	\$24,080,065	(\$6,225,725)

Source: OEWD and BLA estimates using Development Agreement fee schedule.

The amount of the impact fees noted above that would apply without the development agreement includes the 33 percent temporary, three-year fee reduction program approved by the Board of Supervisors in 2023 (File 23-0769). The Development Agreement reduces the Jobs-Housing Linkage Fee, which supports affordable housing production, by an additional 50 percent due to negotiations with the City. In addition to the impact fees, the Developer is required to dedicate 0.67 percent of its construction cost on public art. Assuming an estimated project budget of \$700 million, the Developer would contribute approximately \$4.7 million to public art.

As shown above, the Developer will pay the City \$6.2 million less in fees under the Development Agreement than what would be paid without a Development Agreement. However, \$2,155,355 in affordable housing fees would be paid to the City regardless of whether the project proceeds. The Developer would also pay the City more fees (including a \$10 million increase in affordable housing fees) under the Development Agreement that would be collected from the 19-story tower that the Developer already has entitled on the site.

General Economic Impact

In addition to the fiscal impact report, EPS conducted an economic impact report in May 2025 on behalf of the developer. The report estimated that the project, when fully built out, would create approximately 1,608 jobs (including part-time) on an ongoing basis and generate \$816 million annually in economic output compared to the existing land use. When including indirect effects, such as increased spending at local businesses, the project would create approximately 2,440 jobs and generate \$1.12 billion in annual economic output. The report also estimated that development of the project would create approximately 390 jobs annually over a four-year period and generate approximately \$520 million in economic output, including multiplier effects. The City did not commission a peer review of this report.

POLICY CONSIDERATION

The terms of the proposed agreements are consistent with the term sheet approved by the Board of Supervisors in November 2024. As provided by the proposed ordinances, the benefits of the project to the City include: (a) construction of a new fire station for the City at an estimated cost of \$44.2 million; (b) \$2.15 million of the project's affordable housing fees paid to the City within six months of the effective date of the legislation, regardless of whether the project proceeds;

(c) improvements to Merchant Alley, between Sansome and Battery Streets, and ongoing maintenance at an estimated value of \$2 million; (d) compliance with City workforce requirements and prevailing wages for all project construction; and (e) \$8 million in annual net new General Fund revenue (after accounting for the TOT incentive payments to the Developer). In exchange, the City would: (a) reduce the overall affordable housing fees assessed to the project by \$6.2 million; (b) transfer an estimated \$68.9 million, and up to a total of \$86.1 million, equal to TOT revenues generated by the project to the Developer to finance the project; and (c) exchange a City owned parcel with a Developer owned parcel to facilitate the project.

We note that the maximum value of the TOT incentive payments (up to \$86.1 million) and the reduction in the affordable housing fees (\$6.2 million) is greater than the cost of the new fire station (\$44.2 million), the value of receiving \$2.15 million in affordable housing fees in advance regardless of project construction, and the estimated value of the Merchant Street improvements and maintenance (\$2 million). Therefore, up to approximately \$46 million of the incentive payments will finance a portion of the hotel and office market rate development. However, no TOT revenues will accrue to the City from the project if it is not developed, and the project is not feasible without the revenue transfer (according to the peer review by BAE Urban Economics). The project will generate additional net revenue to the General Fund of \$8 million annually, or approximately \$200 million⁶ over the 25-year period of the incentive payments (in current dollars). In addition, the somewhat smaller 447 Battery Street property the City is receiving in exchange for 530 Sansome is not of equal value to 530 Sansome, as originally intended. Instead, the 447 Battery Street property has a lower appraised value than the 530 Sansome.

Uncertainty of Market Conditions

The proposed ordinances contemplate incentive payments calculated based on actual TOT revenues to ensure delivery of the proposed project, including a commercial tower of office space, hotel space, and other commercial uses. According to the peer review of the project pro forma, the project is financially feasible with the TOT incentive payments and impact fee adjustments and is not financially feasible with private sources alone under current market conditions. However, current market conditions may be temporary. For example, interest rates could decrease to such an extent that the project is feasible without TOT incentive payments. On the other hand, the General Fund impact may be overstated if the project does not attract and retain commercial office tenants and the City's hotel sector does not continue to recover.

Alternative

We estimate that the City could finance the construction of the \$44.2 million fire station using general obligation bonds, with total debt service of \$72.3 million in nominal dollars (or \$53.8 million in 2025 dollars). This is less than the up to \$86.1 million the City would pay for the station in TOT incentive payments. However, the City would need to adjust its capital plan to make room for the construction of the new fire station and would not have the other fiscal benefits of the

⁶ Approximately \$237 million including the estimated additional net MTA revenue and TOT revenue dedicated to arts and culture purposes.

tower projects, such as increased General Fund revenues of \$8 million per year and the \$24 million development impact fee payments.

Prior Board of Supervisors Actions

In December 2024, the Board of Supervisors approved a resolution that endorsed the key terms of the proposed project, including an incentive payment to the developer based on transit occupancy tax revenues (File 24-1141). Because the agreements and deal terms are consistent with this endorsement from the Board, we recommend approval of both ordinances.

RECOMMENDATION

Approve the proposed ordinances.